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Research Update:

Nordic Debt Collector Intrum Downgraded To 'BB-' On Higher-Than-Expected Leverage Metrics; Outlook Stable

February 5, 2024

Rating Action Overview

- As Intrum AB (publ) shifts toward a balance-sheet light business model, it has announced the sale of part of its back book to Cerberus for Swedish krona (SEK) 11.5 billion. Although the transaction will lower Intrum's gross debt, it will also weaken leverage by depressing EBITDA generation.
- We now expect Intrum's gross debt to cash-adjusted EBITDA to increase to just above 5.0x in 2024 and only gradually decrease in 2025. Intrum's performance metrics could be further hampered if the execution risks associated with the shift in strategy materialize.
- As a result, we are lowering to 'BB-' from 'BB' our long-term ratings on Intrum and its senior notes and affirming at 'B' our short-term rating on Intrum. The recovery rating on the senior notes is unchanged at '4', indicating our expectation of average recovery (30%-50%, rounded average 40%) in the event of a payment default.
- The stable outlook indicates that we expect the company to continue to implement its revised business strategy and that its financial profile will stabilize after the transaction.

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Rating Action Rationale

The recently announced back book sale offers a short-term boost to revenue, but lasting returns from the new strategy could take time to emerge. Intrum is selling about 30% of its total investment portfolio to Cerberus for SEK11.5 billion as it accelerates its shift toward a lighter balance sheet. We anticipate that Intrum's financial leverage will increase in the short term as the reduction in gross debt will be insufficient to offset the loss of EBITDA. The company has already announced that it does not expect to meet its target of reducing leverage to 3.5x net debt to EBITDA by 2025. It now aims to meet the target during 2026. We forecast that Intrum's gross debt to cash-adjusted EBITDA will be slightly above 5.0x during 2024 and will start to decrease gradually in 2025. We also expect interest coverage to cash-adjusted EBITDA to remain slightly below 3x for the next 12 months, recovering only when the company begins to reduce its leverage.

Based on our revised projections for the company's gross debt to cash-adjusted EBITDA, we now consider Intrum's leverage to be higher than its 'BB' rated peers. Therefore, we revised our assessment of its financial risk profile down to highly leveraged. However, it generates a higher proportion of its income from servicing than its highly leveraged peers, which gives it a competitive advantage and more stable EBITDA, even if it reduces its investment in new portfolios. At the end of 2023, about half of its revenue came from investment income and half from servicing income. Servicing income tends to be more stable and consistent, but less profitable than investment income.

Intrum plans to shift further toward servicing revenue, which will lighten its balance sheet. In recent years, Intrum's annual investment budget has been close to SEK5 billion and it now plans to reduce this to SEK2 billion for 2024 and 2025. We anticipate that the company will need time to amass enough assets under management under its servicing business line to compensate for the resulting reduction in revenue from its investment business lines. Until it can implement its revised strategy, we predict that its cash EBITDA will be lower. Intrum's performance metrics could be further hampered if the execution risks associated with the shift in strategy materialize.

Refinancing risks in 2024 will abate following the sale of the portfolio to Cerberus, but Intrum's maturity concentrations in 2025 will remain a concern. We expect refinancing risk to play a key role over this period. Intrum has SEK7.9 billion of debt due to mature in 2024 and SEK13.5 billion due to mature in 2025; in aggregate, these represent 37% of Intrum's total interest-bearing liabilities. The company has SEK9 billion in available liquidity, including its capacity under the revolving credit facility (RCF) due 2026, and we estimate that it will generate SEK20 billion in cash over the next 24 months. Nevertheless, we expect it to be proactive in seeking to refinance this debt in order to ease the refinancing risk. We will closely monitor its efforts and the impact they could have on its capital structure.

Outlook

The stable outlook on Intrum reflects our opinion that the company will be able to maintain relatively stable EBITDA generation, despite gradually moving to a lighter balance sheet and focusing on servicing income. We expect Intrum to gradually reduce its leverage over the next 24 months, in line with management's target of achieving 3.5x net debt as a share of cash-adjusted EBITDA by the end of 2026. The stable outlook also factors our view that Intrum is likely to actively manage its refinancing needs.

Downside scenario

We could lower the ratings if Intrum's:

- Revenue generation falls materially below our expectations, so that gross debt to adjusted cash EBITDA is above our base case; or
- Performance and market position deteriorate to the point that they no longer represent a competitive advantage over its peers.

Although we see this as less likely, we could downgrade Intrum if its liquidity position deteriorated because it was unable to actively refinance its considerable maturities in 2024-2026.

Upside scenario

We don't see upside for the rating over the next 12 months. Over the longer term, we could raise the rating if Intrum successfully repositions its business as more asset-light and reduces leverage toward management's target.

Company Description

Intrum is a Nordic debt-collection services company and one of the European leaders in this sector. The company operates across 20 countries in Europe. Swedish private-equity firm Nordic Capital held a 32% stake in Intrum as of year-end 2023.

The company benefits from its long-term relationships with many of the largest European banks and generates about half of its revenue from its third-party debt-servicing business. The other half comes from more profitable, but riskier, investments in distressed debt.

Some of Intrum's activities, especially in Italy and Greece, take the form of joint ventures with third parties. Intrum also actively cooperates with telecommunications companies and utilities. The rating reflects our view of Intrum and its consolidated subsidiaries. We do not perceive any material barriers to cash flows within the group or any significant issues regarding the fungibility of capital.

Our Base-Case Scenario

Assumptions

- Eurozone GDP growth of 0.6% for 2023 and 0.8% in 2024; U.K. growth of 0.5% in 2023 and 0.4% in 2024. Collection management service inflows and nonperforming loan acquisitions are expected to pick up across the debt-purchasing industry in 2024.
- The Cerberus back book deal to close in the first half of 2024, and the net proceeds (about SEK8 billion; roughly €800 million) to be used to prepay debt.
- Intrum's revenue to decrease by about 17% for 2024 because of the Cerberus transaction, followed by a 6.8% increase in 2025.
- Cash EBITDA margins to remain broadly stable at 50% in 2024-2025, below the three-year average of 52.5%.
- The budget for new investments to be SEK2 billion as the company shifts toward a lighter balance sheet strategy.
- Debt to decline by just shy of SEK8 billion, which will take up most of the cash generated through the Cerberus deal. The company's funding needs will reflect its limited investment appetite but it will remain active in the markets as it seeks to refinance upcoming debt without substantially increasing its total gross debt.

Key metrics

Intrum AB (publ)--Forecast Summary

	--Fiscal year ended Dec. 31--				
	2022a	2023e	2024f	2025f	2026f
Debt to EBITDA (x)	4.4	4.7	5.5	4.1	3.5
Debt to EBITDA (x)*	7.4	8.1	8.2	5.7	4.3
EBITDA interest coverage (x)	5.0	3.1	2.6	3.2	4.1
EBITDA interest coverage (x)*	3.0	1.8	1.8	2.3	2.9

Note: All figures adjusted by S&P Global Ratings. *EBITDA excluding the add-back for portfolio amortization. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Intrum's liquidity as adequate because we estimate that its sources will exceed uses by 2.5x in 2024 and 1.6x for 2025. We consider the Cerberus income as cash because the company is not forced to repay any debt, even though we assume that it will in our base-case scenario. We do not treat Intrum's commercial paper program as a liquidity source because it matures in less than one year.

Principal liquidity sources over the next 12 months include:

- Cash and liquid assets of SEK5.6 billion;
- Undrawn capacity of SEK3 billion under a SEK21 billion RCF;
- Cash funds from operations of SEK6.2 billion; and
- Asset sales with proceeds of about SEK8.2 billion.

Principal liquidity uses for the same period include:

- Debt maturities of about SEK6.7 billion;
- Capital expenditure and portfolio acquisitions of about SEK2 billion;
- Working capital outflows of about SEK100 million; and
- No dividend payments because these now depend on reaching net debt to EBITDA of 3.5x.

Covenants

We expect Intrum to maintain significant headroom under the following maintenance covenants in its bond and RCF documentation:

- Fixed-charge coverage greater than 2.0x;
- Drawn super-senior leverage less than 2.0x; and
- Outstanding super-senior debt lower than €1.1 billion or 35% of 84 months of consolidated estimated remaining collections.

Additional covenants apply as long as the issuer credit rating is 'BB+' or lower. These include covenants limiting dividends, liens, encumbrance, and asset sales.

Issue Ratings--Recovery Analysis

Key analytical factors

- We downgraded the senior unsecured notes issued by Intrum to 'BB-' from 'BB' following a similar action on its issuer credit rating. The recovery rating is unchanged at '4', indicating our expectation of average recovery in the event of a default.
- We round our expectation of recovery to 40% and assume 85% of the senior RCF will be drawn in an event of default.
- We value Intrum as a going concern, given its established position as a European distressed debt purchaser, which supports recovery prospects. However, our recovery estimate is somewhat constrained by the structural subordination of debt instruments to the SEK21 billion (€1.8 billion) senior RCF.
- In our default scenario, we contemplate a default in 2028, reflecting a significant decline in cash flow, difficult collection conditions, or greater competitive pressures leading to the mispricing of portfolio purchases.
- For the recovery calculations, we use a combined approach based on an EBITDA multiple and discrete asset valuation.
- We take Intrum's portfolio size as of Dec. 31, 2023, assume 70% of the undrawn RCF balance is used for portfolio purchases, and apply a 25% haircut to the total expected book value as an estimate of the resale value at liquidation. We also assume that there would likely be an RCF add-on after 85% of the RCF is drawn and that 60% of the amount available on the RCF will be used for portfolio purchases. This amount is then subject to a 25% haircut.
- We expect Intrum would be able to sell its third-party collections business, given its long-term contracts with trade and financial services clients. It has also gathered significant intangible assets in the form of historical behavioral data.

Simulated default assumptions

- Year of default: 2028
- EBITDA multiple: 5x
- EBITDA value at emergence: SEK2.4 billion
- Jurisdiction: Sweden

Simplified waterfall

- Gross enterprise value (EV) at default: SEK44.2 billion
- Admin. costs: 5%
- Net EV after admin. costs: about SEK42 billion
- Priority claims: about SEK0.14 billion

- Collateral value available to secured creditors: SEK41.9 billion
- Super-senior RCF debt claims: SEK18.5 billion
- Collateral value available to senior unsecured creditors: SEK23.3 billion
- Senior unsecured debt claims: SEK49.6 billion
- --Recovery expectations: 30%-50% (rounded estimate: 40%)

Note: All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Issuer credit rating	BB-/Stable/B
Business risk:	Satisfactory (3)
Country risk	3
Industry risk	4
Competitive position	Satisfactory (3)
Financial risk:	Highly leveraged (6)
Cash flow/leverage	Highly leveraged (6)
Anchor	b+
Modifiers:	
Diversification/Portfolio effect	Neutral (0)
Capital structure	Neutral (0)
Financial policy	Neutral (0)
Liquidity	Adequate (0)
Management and governance	Neutral (0)
Comparable rating analysis	Positive (1)
Stand-alone credit profile:	bb-

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016

- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sweden-Based Debt Collector Intrum 'BB/B' Ratings Affirmed; Outlook Remains Negative, Sept. 28, 2023
- Sweden-Based Debt Collector Intrum Outlook Revised To Negative On Financial Leverage Headwinds; 'BB/B' Ratings Affirmed, April 12, 2023

Ratings List

Downgraded

	To	From
Intrum AB (publ)		
Senior Unsecured	BB-	BB

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Intrum AB (publ)		
Issuer Credit Rating	BB-/Stable/B	BB/Negative/B

Ratings Affirmed		
Intrum AB (publ)		
Senior Unsecured		
EUR400 mil 3.125% callable nts due 2028	BB-	
Recovery Rating	4(40%)	
EUR800 mil 3.50% callable nts due 07/15/2026	BB-	
Recovery Rating	4(40%)	
EUR850 mil 3.00% nts due 09/15/2027	BB-	
Recovery Rating	4(40%)	
EUR850 mil 4.875% Callable nts due 08/15/2025	BB-	
Recovery Rating	4(40%)	
EUR900 mil 3.125% nts due 07/15/2024	BB-	
Recovery Rating	4(40%)	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such