

Summary of the
Rating Report

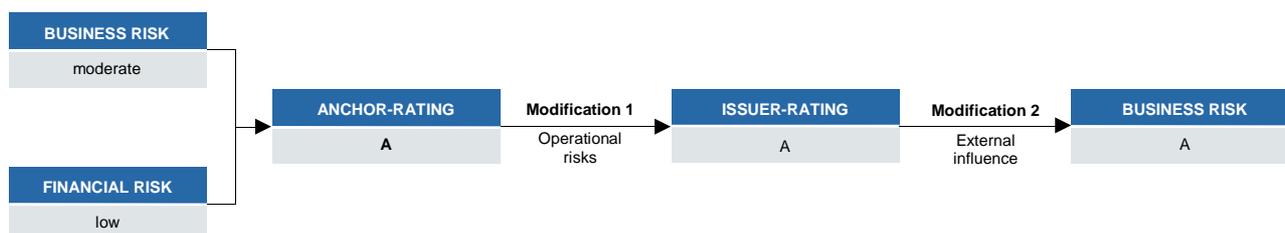
EOS Holding GmbH

21 June 2017



Issuer Rating

EOS Holding GmbH		21 June 2017	A
		Issuer rating	
		Outlook	stable
Industry	Debt collection services	Revenue 2016/17	€ 663.8m
		Employees 2016/17	6,227



BUSINESS RISK	moderate
<ul style="list-style-type: none"> Strong market position in Germany, good market position in Western and Eastern Europe Many years of experience in acquiring and collecting receivables Earnings heavily exposed to debt purchasing Increasing investments in properties and debts secured by real estate Intense competition 	

OPERATIONAL RISKS	- 0
<ul style="list-style-type: none"> Appropriate management of operational risks Low operating risks remain 	

FINANCIAL RISK	low
<ul style="list-style-type: none"> Very strong and stable profitability Very good capital structure and degearing capability Improvable matching of maturities and diversification of financing 	

EXTERNAL INFLUENCE	± 0
<ul style="list-style-type: none"> External influence of shareholder neutral 	

Key financial ratios*	2014/15	2015/16	2016/17
EBITDA margin (%)	29.5	30.8	33.5
Return on capital employed (ROCE) (%)	17.9	18.6	17.0
Equity ratio (%)	32.2	33.6	29.3
Debt to equity ratio (%)	59.5	58.1	63.7
Total liabilities / EBITDA	1.9	1.8	2.3
Net financial liabilities / EBITDA	1.3	1.3	1.7
EBIT interest coverage	6.0	8.7	9.7
EBITDA interest coverage	15.1	21.1	21.8

* adjusted based on the principals of analysis of EHRG

Rating rationale

Euler Hermes Rating continues to rate EOS Holding GmbH A for its creditworthiness. We expect the rating to remain stable over the next twelve months.

Moderate business risk due to good market position in Europe and increasing competition

We rate EOS Holding GmbH's **business risk** as **moderate**. Its rating strengths include its extensive experience in evaluating, acquiring and recovering non-performing debt, its strong market positioning in Germany and its good market positioning in various Western and Eastern European countries. We view the dependence of its earnings power on the German market and debt purchasing as a weakness. Opportunities include the expansion of its service range, rising consumption and increasing debt volumes in growing international markets. It faces risks such as high prices commanded by non-performing debt amid rising competition and changes in laws and regulations governing debt collection services. Given the elevated prices for unsecured debt, we expect to see an additional increase in investments in debt secured by real estate as well as direct investments in real properties in need of rehabilitation. We feel that these investments pose generally greater risk due to the significant increase in the size of individual receivables and investment packages. One positive rating factor is the company's relationships with highly regarded valuers and experienced co-investors. Overall, we believe the proportion of real estate and the adaptability of the portfolio as a whole are still appropriate.

Low financial risk regarding very high and stable earnings and very good capital structure

In our view, EOS Holding GmbH is exposed to a low **financial risk**. This view is based on the very high earnings achieved over many years and the strong stability of the cash flows it generates. We consider the capital structure and the degearing capability to be very good. We assume that earnings will develop on a stable level and expect the financial ratios to remain on a very good level.

No modifications of the anchor rating

We consider the group's structures, processes and systems to be appropriate for the management of its operational risks. In our view remaining operational risks are in line with the anchor rating. With regard to EOS' independent operational business as well as the setup of the financing and liability relationship between EOS and its shareholder, we assess the external influence as neutral. Therefore we left the anchor rating unmodified.

Rating history

	19.08.2005	2006 – 2016	21.06.2017
Rating	A	A	A
Outlook	stable	stable	stable

Company

Leading position as a debt service provider in Europe

EOS Holding GmbH (the “Group” or “EOS”) is one of Europe’s leading debt collection providers with consolidated sales of € 663.8 million in the 2016/2017 financial year. The Group’s service portfolio mainly consists of debt collection and the purchase and recovery of non-performing debt. The purchase and recovery of debt secured by real estate as well as the real estate itself is gaining importance in Germany and other European countries. In business process outsourcing (BPO), EOS takes over customers’ debt management operations and staff. Its main target industries are banks, insurance companies, utilities and telecommunications companies.

Germany is the most important market

The Group has a regional structure with segments for Germany, Western Europe, Eastern Europe and North America. One cross-regional segment is responsible for finance, debt purchasing and risk management. Germany remains the Group’s largest market, generating 46.0% of its consolidated sales. The rest of Western Europe accounts for 24.7%. The Group has no operations in Italy, the Baltic states or Scandinavia, except Denmark. It strengthened its market positioning in France and Belgium by acquiring the CONTENTIA Group on 1 July 2016. Eastern Europe makes up 19.8% of consolidated sales. The North American debt collection market contributes 9.0% to the top line. The average headcount dropped from 7,134 to 6,227 in the 2016/2017 financial year. The main driver of the decline was the May 2016 sale of all the company’s shares in its previously majority owned Brazilian subsidiaries.

Management succession implemented according to plan

The senior management team includes Klaus Engberding, Chairman (since 1 November 2016, previously Head of German Market); Justus Hecking-Veltman, Head of Finance; Andreas Kropp, Head of German Market (as of 1 November 2016, previously Managing Director of EOS Deutschland GmbH); Dr. Andreas Witzig, Head of Western Europe and North America; and Marwin Ramcke, Head of Eastern Europe (since 1 January 2017, previously Head of Division Management Eastern Europe).

EOS Holding GmbH is the rating object

The EOS Group originated as Deutscher Inkasso-Dienst, the debt collection unit that Otto GmbH & Co. KG (henceforth “OTTO”) spun off in 1974. OTTO still holds 100% of the equity in EOS Holding GmbH. Today, debt collection for the OTTO Group still accounts for 5.1% of the EOS Group’s consolidated sales. EOS’s business activities are largely independent of the OTTO Group, in our estimation. Significant portions of its financing are provided by the OTTO Group. However, we believe the EOS Group is capable of tapping alternative financing sources outside of OTTO. EOS has no significant receivables from the OTTO Group or liability obligations toward it. The rating object is EOS Holding GmbH of Hamburg, the parent company of the sub-group.

Disclaimer

EOS Holding GmbH (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 11 November 2014. The company was visited on 31 May 2017.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 21 June 2017. This rating report was given to the client on 29 June 2017, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a rating subject. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website (www.eulerhermes-rating.com) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Euler Hermes Rating GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Euler Hermes Rating GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Euler Hermes Rating GmbH

Hamburg, 29 June 2017

Analysts

Holger Ludewig, director and project manager
Katia Winkler, rating analyst

Rating committee

Dörte Mählmann, director
Kai Gerdes, director

Principal sources of information

- Consolidated financial statements for 2014/2015, 2015/2016 and 2016/2017
- Extracts from internal reports
(e. g. business development 2016/2017, list of bank liabilities, etc.)
- Market analysis
- Strategy documentation and corporate planning
- Documents on corporate structure
- Interviews with management

Rating methodology

Issuer rating of Euler Hermes Rating GmbH of May 2016
(<http://www.ehrg.de/seiten/Methodik2016.pdf>)

Appendix 1: Rating categories

Category	Explanation
AAA	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

Appendix 2: Definition of ratios

Earnings potential and profitability

EBITDA margin

EBITDA margin	
Numerator	
EBITDA	
Denominator	
Total revenues	

Returns

ROCE	
Numerator	
Adjusted operating result (= EBIT)	
Denominator	
Net financial liabilities + economic equity (= capital employed)	

Total return on capital	
Numerator	
Adjusted operating and financial result + interest expense	
Denominator	
Adjusted capital	

Cash flow return on investment

Cash flow return on investment (cash flow ROI)	
Numerator	
EBITDA	
Denominator	
Adjusted total capital	

Capital structure and debt to equity ratio

Debt

Equity ratio
Numerator
Adjusted equity (=economic capital)
Denominator
Adjusted total capital

Debt to equity ratio
Numerator
Net financial liabilities
Denominator
Net financial liabilities + economic equity (= capital employed)

Net financial liabilities

Net financial liabilities
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS / factoring transactions
- Cash and cash equivalents

Degearing periods

Total liabilities / EBITDA
Numerator
Total capital - economic capital (=total liabilities)
Denominator
EBITDA

Net financial liabilities / EBITDA
Numerator
Net financial liabilities
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expense

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expense