

Summary of the  
Rating Report

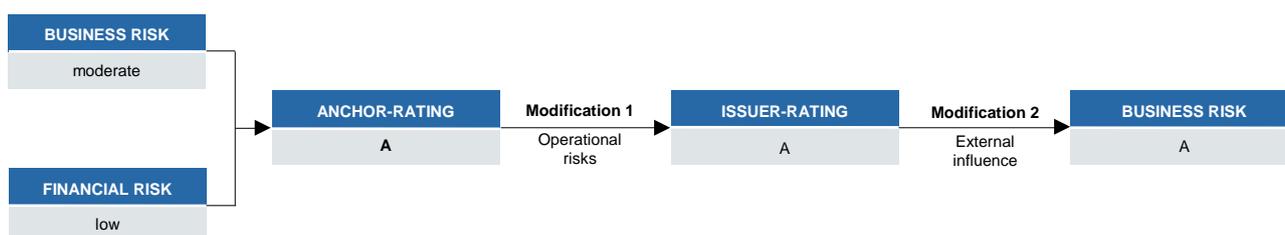
**EOS Holding GmbH**

23 May 2019



# Issuer Rating

<b>EOS Holding GmbH</b>		<b>23 May 2019</b>	<b>A</b>
		<b>Issuer rating</b>	
		<b>Outlook</b>	<b>stable</b>
Industry	Debt collection services	Revenue 2018/19	€ 813.7m
		Employees 2018/19	6,480



<b>BUSINESS RISK</b>	<b>moderate</b>
<ul style="list-style-type: none"> <li>Leading market position in Germany, strong market position in Western and Eastern Europe</li> <li>Many years of experience in acquiring and collecting receivables</li> <li>Earnings heavily exposed to the German market and debt purchasing</li> <li>Increasing risks related to the rising share of properties acquired and debts secured by real estate</li> <li>Intense competition and moderate cyclicity</li> </ul>	

<b>OPERATIONAL RISKS</b>	<b>- 0</b>
<ul style="list-style-type: none"> <li>Appropriate management of operational risks</li> </ul>	

<b>FINANCIAL RISK</b>	<b>low</b>
<ul style="list-style-type: none"> <li>Still very strong and stable profitability</li> <li>Good to very good capital structure, interest coverage and degearing capability</li> <li>Improvable matching of maturities and diversification of financing</li> </ul>	

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

Key financial ratios*	2016/17	2017/18	2018/19
EBITDA margin (%)	33.5	35.9	32.4
Return on capital employed (ROCE) (%)	17.0	19.2	13.4
Equity ratio (%)	29.3	30.0	28.7
Debt to equity ratio (%)	63.7	63.1	65.9
Total liabilities / EBITDA	2.3	2.2	2.6
Net financial liabilities / EBITDA	1.7	1.6	2.0
EBIT interest coverage	9.7	11.6	10.0
EBITDA interest coverage	21.8	24.0	24.5

\* 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 market leadership in Germany and a strong market position in Europe with increasingly aggressive price competition**

In our view, EOS Holding GmbH has a **moderate business risk** overall due to its extensive experience in evaluating, acquiring and recovering non-performing debt, its market leadership in Germany and its strong market position in Europe. Its weaknesses relate to the dependence of its earnings power on debt purchasing and the German market. The shift in profits to Eastern and Western Europe is a favourable strength. We believe the company's opportunities include an expansion of its service range, rising consumption and rising debt levels in growing international markets. Its risks include high prices commanded by non-performing debt amid rising competition and possible changes in the laws and regulations that govern debt collection services. We therefore expect EOS to increase its investments in rehab properties and property-backed debt. The company does not yet have through-the-cycle experience for these assets, in our view. We see increased dependence on specific employees in this area. We consider investments in property and property-backed debt to carry an elevated risk due in large part to the larger amounts involved in each collectible debt and property investment. Rating strengths include the company's relationships with valuers and co-investors and the high barrier to market entry presented by the need to have a certain level of knowledge and financial strength. Overall, we believe the portfolio has an appropriate proportion of real estate and is reasonably adaptable overall.

**Low financial risk due to very high, stable earnings and a very good capital structure**

We view the **financial risk** of EOS Holding GmbH as **low** overall. This is largely due to its very stable cash flow and continued high earnings. Its capital structure and deleveraging capability had weakened slightly by 28 February 2019 but are expected to improve and stabilize at a very good level in connection with an increase in the capital reserve this financial year. Based on the conservative plan assumptions and assuming a consistently stable distribution policy, we believe that the income figures, capital structure, deleveraging capacity and interest coverage ratios will still reach a good to very good level.

**No modifications to the anchor rating**

In our assessment, EOS **adequately** handles its **operational risks**, which we believe are in line with our anchor rating. Due to the independent operational business and the structure of the financing and liability relationships between EOS and the shareholder, we rate the **external influence** exerted by the shareholder as **neutral**. This assessment assumes that the current structure of the financing and liability relationships between EOS and the shareholder will remain unchanged in the future and that the shareholder will not take any action at EOS that would harm EOS's creditworthiness.

## Rating history

	19.08.2005	2006 – 2018	23.05.2019
<b>Rating</b>	A	A	A
<b>Outlook</b>	stable	stable	stable

# Company

***Leader in the European market for debt collection services***

EOS Holding GmbH (the “Group” or “EOS”) is one of Europe’s leading debt collection providers with consolidated sales of € 813.7 million in the 2018/19 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 property-backed debt and the real estate itself is gaining importance for EOS 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 makes up large portion of consolidated sales***

The Group has a regional structure with segments for Germany, Western Europe, Eastern Europe and North America (United States and Canada). One cross-regional segment is responsible for finance, debt purchasing and risk management. Germany remains the Group’s largest market, generating 41.9 % of its consolidated sales (previous year: 41.2 %). The rest of Western Europe accounts for 27.1 % of consolidated sales (previous year: 30.2 %). The company’s Western European subsidiaries are located in Belgium, France, Great Britain, Ireland, Austria, Switzerland, Spain and Denmark. All told, 25.0 % (previous year: 23.0 %) of consolidated sales are generated in Eastern Europe (Poland, Romania, Slovakia, Slovenia, Czech Republic and Hungary as well as in Bulgaria, Greece, North Macedonia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and Russia). The North American debt collection market contributes 6.0 % (previous year: 5.5 %) to the top line. The average headcount increased from 6,298 to 6,480 in the 2018/19 financial year.

***EOS is part of the Otto Group***

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 3.3 % (previous year: 4.4 %) 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 subject is EOS Holding GmbH of Hamburg, the parent company of the sub-group.

***Management of the EOS Group***

The senior management team includes Klaus Engberding, Chairman; Justus Hecking-Veltman, Chief Financial Officer; Andreas Kropp, Head of German Market; Dr. Andreas Witzig, Head of Western Europe and North America; and Marwin Ramcke, Head of Eastern Europe.

## Appendix 1: Execution

### Notice

This report represents a highly abridged summary of the complete rating report issued on 23 May 2019. The full rationale for the rating notation is given in the complete rating report that was presented to the company and has not been published by Euler Hermes Rating GmbH.

### Analysts

- Katia Winkler, rating analyst/ project manager
- Holger Ludewig, director
- Robin Rabe, rating analyst

### Rating committee

- Dörte Mählmann, director
- Kai Gerdes, director

### Principal sources of information

- Consolidated financial statements for 2016/17, 2017/18, 2018/19
- Internal reporting  
(z. B. business development 2018/19, financing overview, etc.)
- Market analyses
- Information on strategy and company planning
- Documents on the corporate structure
- Interviews with the management

### Rating methodology

- Issuer rating of Euler Hermes Rating GmbH of May 2016  
(<http://www.ehrg.de/seiten/Methodology2016.pdf>)

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## Appendix 2: Rating categories

Category	Explanation
<b>AAA</b>	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
<b>D</b> / <b>SD</b>	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.
<b>PLUS</b> <b>(+)</b> <b>MINUS</b> <b>(-)</b>	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 3: Definition of ratios

### Earnings potential and profitability

#### EBITDA margin

EBITDA margin	
<b>Numerator</b>	
EBITDA	
<b>Denominator</b>	
Total revenues	

#### Returns

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

Total return on capital	
<b>Numerator</b>	
Adjusted operating and financial result + interest expense	
<b>Denominator</b>	
Adjusted capital	

#### Cash flow return on investment

Cash flow return on investment (cash flow ROI)	
<b>Numerator</b>	
EBITDA	
<b>Denominator</b>	
Adjusted total capital	

## Capital structure and debt to equity ratio

### Debt

Equity ratio
<b>Numerator</b>
Adjusted equity (=economic capital)
<b>Denominator</b>
Adjusted total capital

Debt to equity ratio
<b>Numerator</b>
Net financial liabilities
<b>Denominator</b>
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
<b>Numerator</b>
Total capital - economic capital (=total liabilities)
<b>Denominator</b>
EBITDA

Net financial liabilities / EBITDA
<b>Numerator</b>
Net financial liabilities
<b>Denominator</b>
EBITDA

### Interest coverage

EBIT interest coverage
<b>Numerator</b>
Adjusted operating result (= EBIT)
<b>Denominator</b>
Interest expense

EBITDA interest coverage
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Interest expense

## 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 9 May 2019.

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 23 May 2019. This rating report was given to the client on 2 July 2019, thereby concluding the rating process.

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Hamburg, 2 July 2019