

Summary of the  
Rating Report

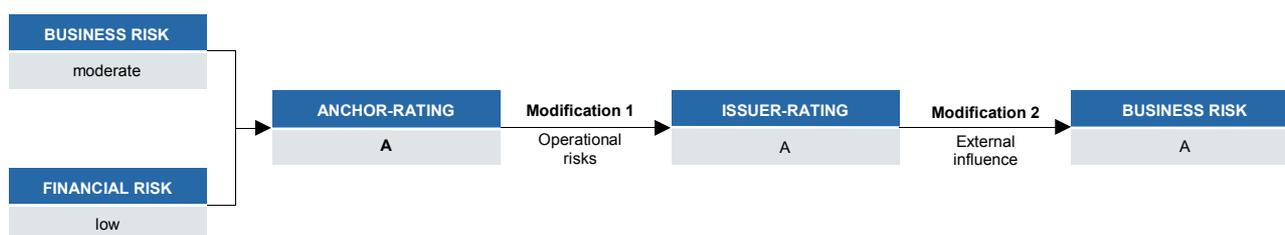
**EOS Holding GmbH**

18 June 2020



# Issuer Rating

EOS Holding GmbH		18 June 2020	A
		Issuer rating	
		Outlook	stable
Industry	Debt collection services	Revenue 2019/20	€ 853.1m
		Employees 2019/20	6,523



BUSINESS RISK	moderate
<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 debt purchasing</li> <li>High share of real estate-secured loans and real estate</li> <li>Intense competition and moderate cyclicality</li> </ul>	

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

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

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

Key financial ratios*	2017/18	2018/19	2019/20
EBITDA margin (%)	35.9	32.4	38.6
Return on capital employed (ROCE) (%)	19.2	13.4	15.9
Equity ratio (%)	30.0	28.7	33.6
Debt to equity ratio (%)	63.1	65.9	61.2
Total liabilities / EBITDA	2.2	2.6	1.8
Net financial liabilities / EBITDA	1.6	2.0	1.4
EBIT interest coverage	11.6	10.0	10.5
EBITDA interest coverage	24.0	24.5	28.2

\* 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 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. The regional distribution of earnings, which was traditionally centered on Germany, improved in recent years. We believe the company's medium to long term opportunities include 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. We consider investments in property and property-backed debt to carry an elevated risk due to the larger amounts involved in each collectible debt and property investment as well as EOS' less extensive through-the-cycle experience in this area. 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. In 2019/20, EOS achieved EBT of € 305.7 million, thereby reaching the highest level of earnings since the company's founding. Earnings ratios, capital structure, deleveraging potential and interest coverage ratios improved in 2019/20 compared to the previous year, reaching a good to very good level. In the short to medium term, we expect EOS' revenue and profit to decline as a result of lower collections resulting from COVID-19 protective measures. In our estimation, EOS will continue to achieve good earnings and good financial ratios overall in the recessionary market environment caused by the pandemic. We assess as plausible the company's view that loan offerings will recover in a few months' time, enabling EOS to buy new assets at an attractive price.

***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.

# Upgrade / Downgrade Factors

**Factors that could lead to an Upgrade**

- Stronger diversification of earnings through development of new, profitable business segments and regions

**Factors that could lead to a Downgrade**

- Deterioration in the risk structure of acquired loans
- Sustainable decline of the equity ratio to below 25 %
- Sustainable deterioration of the deleveraging potential (Net financial liabilities / EBITDA > 1.8x)
- Material negative changes in laws and regulations governing debt collection services

## Rating history

	19.08.2005	2006 – 2019	18.06.2020
<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 € 853.1 million in the 2019/20 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.

## ***Regional group structure***

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. Group revenues are generated in Germany (35.6 % of group revenues, PY: 41.9 %), remaining Western Europe (27.2 %, PY: 27.2 %), Eastern Europe (31.3 %, PY: 25.0 %) and North America (6.0 %, PY: 6.0 %). The average headcount increased from 6,480 to 6,523 in the 2019/20 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 3.2 % (previous year: 3.3 %) 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 18 June 2020. 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

- Holger Ludewig, director / project manager
- Robin Rabe, rating analyst
- Nils Weinhold, senior analyst

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### Rating committee

- Dörte Mählmann, director
- Kai Gerdes, director

### Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

Solicited Rating

Unsolicited Rating

No participation of the rated entity or related third party

With participation of the rated entity or related third party

Access to internal documents

Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Consolidated financial statements for 2017/18, 2018/19, 2019/20
  - Internal reporting (e .g. business development 2020/21, financing overview, etc.)
  - Market analyses
  - Information on strategy and company planning
  - Documents on the corporate structure
  - Interviews with the management

### Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016 ([https://www.ehrq.de/seiten/Methodology\\_Issuer%20Rating\\_20171114.pdf](https://www.ehrq.de/seiten/Methodology_Issuer%20Rating_20171114.pdf))
- Basic principles for Assigning Credit Ratings and Other Services as of March 2020 ([https://www.ehrq.de/seiten/Principles\\_2020.pdf](https://www.ehrq.de/seiten/Principles_2020.pdf))
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020 ([https://www.ehrq.de/seiten/ESG\\_2020.pdf](https://www.ehrq.de/seiten/ESG_2020.pdf))

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## Appendix 2: Rating categories\*

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

\* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services ([https://www.ehrg.de/seiten/Principles\\_2020.pdf](https://www.ehrg.de/seiten/Principles_2020.pdf))

## Appendix 3: Definition of financial ratios

### Earnings power

#### 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 debt + economic equity (= capital employed)

Return on total assets	
<b>Numerator</b>	
	Adjusted operating and financial result + interest expense
<b>Denominator</b>	
	Adjusted total assets

#### Cash flow return on investment

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

## Capital structure

### Indebtedness

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

Leverage
<b>Numerator</b>
Net debt
<b>Denominator</b>
Net debt + economic equity (= capital employed)

### Net debt

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

### Deleveraging potential

Total liabilities / EBITDA
<b>Numerator</b>
Total assets - economic capital (= total liabilities)
<b>Denominator</b>
EBITDA

Net debt / EBITDA
<b>Numerator</b>
Net debt
<b>Denominator</b>
EBITDA

### Interest coverage

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

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

## Disclaimer

EOS Holding GmbH (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 11 November 2014. Management interviews were conducted on 26 and 28 May 2020. 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 18 June 2020. This rating report was given to the client on 29 June 2020, thereby concluding the rating process.

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Hamburg, 29 June 2020