

Rating Update: EOS Holding GmbH

Rating of 9th July 2014	
Company Rating*	Outlook
A	Stable

* see rating notation

Rating history	24.07.2009	23.07.2010	22.07.2011	17.07.2012	17.07.2013
Notation/outlook	A / stable	A / stable	A / stable	A / stable	A / stable

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

EOS Holding GmbH (Group, EOS) is one of the leaders in the European market for debt collection services. The company's range of services primarily entails the collection of arrears on a fiduciary basis as well as the purchase and liquidation of delinquent debt. Via business process outsourcing (BPO), EOS takes over receivables management for its customers complete with the customers' staff previously responsible for these activities. These services are particularly being targeted at banks and telecommunications companies.

The primary rationale for the rating awarded to EOS Holding GmbH is its consistently very high earnings over many years and the strong stability of the cash flows which it generates. The company has regularly been awarded an A rating ever since it was first rated in 2005. In our view, the company owes its successful business performance to its many years of experience in measuring, acquiring and collecting non-performing receivables, its strong market position in Germany and the extension of its international market position.

Over the last few years, EOS has been able to substantially boost revenues and earnings. Key driver of this development was the increase in debt purchasing and international expansion. Overall the company is characterised by positive revenue growth and high sustained profitability. With regard to the evaluation of capital structure ratios it should be taken into account that the high stocks of non-performing receivables are acquired for a tiny fraction of its nominal value and include hidden reserves. Furthermore the EOS Group has very high internal funding potential and very strong financial flexibility.

In its strategic orientation, EOS wants to focus on its core receivables management business and continue growing in this segment. The most important driver for this is to be the profitable purchase and liquidation of non-performing receivables. In our view, the evaluation of receivables is a critical determinant of success and one in which EOS can claim considerable mastery as a core skill. We think that the less profitable fiduciary collection business offers an important and low-risk opportunity for building up customer and seller relations and data histories for harnessing economies of scale in the organisation of collection activities and the development of efficient collection systems. BPO offers opportunities for profitable growth. Given the high complexity and capital-intensity of outsourcing services, we think that EOS is able to effectively set itself apart from competitors and utilise its strategic strengths. We consider EOS's strategic orientation to be plausible.

Medium to long-term opportunities will arise from the expansion of the range of services, e. g. via complex and capital-intensive business process outsourcing services, growing consumption and debt volumes in foreign markets as well as development of new markets through the acquisition or establishment of collection companies. Weaknesses include the dependence on the German market and debt purchasing for profitability. Risks include the mounting competition for delinquent debt, the resultant increase in price levels and changes to the legal environment for collection services. Risks additionally arise from mounting competition for management staff and trained specialists as this may result in higher collection costs and reduced processing capacities in the longer term.

RATING UPDATE
EOS Holding GmbH
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Principal sources of information

- Consolidated financial statements for 2011/2012, 2012/2013, 2013/2014
- Extracts from internal reports
- Analysis of bank liabilities
- Market information
- Strategy documentation and corporate planning
- Conversations with management

Rating method

Issuer rating, company rating manual of Euler Hermes Rating GmbH, March 2012 version

Rating Notations

category	explanation
AAA	AAA rated companies demonstrate an excellent credit quality. Such companies are characterized by an extremely positive future outlook and are viewed as being "first class" business partners. Although the various security elements can certainly change, such changes – to the extent this can be assessed - are highly unlikely to adversely affect the fundamentally strong position of such companies.
AA	AA rated companies demonstrate very high quality with respect to future security. Along with the AAA rated companies, this group forms the so-called "quality class." Security margins may, however, be comparatively thinner, the solidity of the security elements may fluctuate more or individual assessment components may indicate a greater long-term risk than is the case for AAA rated companies.
A	A rated companies demonstrate high quality with respect to future security. They show many favourable features which secure their future. Nevertheless, there may be isolated factors which reveal a slightly increased susceptibility to the worsening of circum-stances and general economic conditions in the future.
BBB	BBB rated companies demonstrate reasonable quality with respect to future security. Compared to A rated companies, however, it is more likely that worsening of general economic conditions could weaken the capability of fulfilling financial obligations.
BB	BB rated companies still have structures adequate to secure their future. Yet they are subject to greater insecurities. Negative business developments or changes in the general financial and economic conditions can make it impossible for them to fulfil their financial obligations in a suitable manner.
B	B rated companies lack the usual structures to secure their future. Negative business developments or changes in the general financial and economic conditions will most likely make it impossible for them to fulfil their financial obligations in a suitable manner.
CCC	CCC rated companies have structures which greatly endanger the security of their future. Capital service is in jeopardy. Such a company is dependent on a favourable development of general economic conditions if it is to be able to meet its financial obligations in the long term.
CC	Companies receiving a CC rating have very little security for their future. Capital service is in great jeopardy.
C	C rated companies have the least future security of all. The basic conditions enabling such debtors to fulfil their financial obligations are extremely poor. Default is imminent.
D	Companies with a D rating are already in default of payment or have filed for bankruptcy. The D rating is irrelevant for the future; it documents solely the bankruptcy of the company.
SD	If an issuer defaults with respect to a certain financial liability or class of liabilities but is still able to honour its payment obligations under other financial liabilities or classes of liabilities within the requisite period, it is assigned SD (selective default) status.
NR	A debtor or an issuer not rated by Euler Hermes Rating is classified as NR (Not Rated).
PLUS (+) MINUS (-)	Rating notations from AA to CCC may be complemented by a PLUS (+) or MINUS (-) if required, in order to show their relative position within the respective rating category.

In November 2010, Euler Hermes Rating Deutschland GmbH was the first rating agency to be registered and approved in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and Council.