

Summary of the
Rating Report

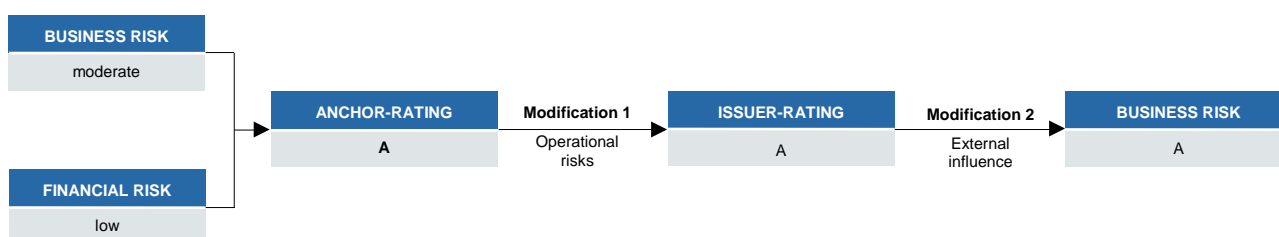
EOS Holding GmbH

21 June 2018



Issuer Rating

| EOS Holding GmbH | | 21 June 2018 | | |
|------------------|--------------------------|-------------------|----------|---------------|
| | | Issuer rating | | A |
| | | Outlook | | stable |
| Industry | Debt collection services | Revenue 2017/18 | € 795.0m | |
| | | Employees 2017/18 | 6,298 | |



| BUSINESS RISK | moderate |
|--|----------|
| <ul style="list-style-type: none"> Leading 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 and moderate cyclicity | |

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

| 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* | 2015/16 | 2016/17 | 2017/18 |
|---------------------------------------|---------|---------|---------|
| EBITDA margin (%) | 30.8 | 33.5 | 35.9 |
| Return on capital employed (ROCE) (%) | 18.6 | 17.0 | 19.2 |
| Equity ratio (%) | 33.6 | 29.3 | 30.0 |
| Debt to equity ratio (%) | 58.1 | 63.7 | 63.1 |
| Total liabilities / EBITDA | 1.8 | 2.3 | 2.2 |
| Net financial liabilities / EBITDA | 1.3 | 1.7 | 1.6 |
| EBIT interest coverage | 8.7 | 9.7 | 11.6 |
| EBITDA interest coverage | 21.1 | 21.8 | 24.0 |

* 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 its leading market position in Germany as well as a strong market position in Europe and increasing competition

Due to its extensive experience in evaluating, acquiring and recovering non-performing debt, its leading market position in Germany and its strong market position in Europe we rate EOS Holding GmbH's **business risk** as **moderate**. We view the dependence of its earnings power on the German market and debt purchasing as a weakness. The slight shift of the earnings towards the Eastern and Western European regions we view as positive. Opportunities include the expansion of the service range, rising consumption and increasing debt volumes in growing international markets. EOS 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 generally pose greater risk due to the significant increase in the size of individual receivables and investment packages. One positive rating factor is the company's relationship with highly regarded valuers and experienced co-investors as well as the continuous gain in and expansion of know-how regarding real estate evaluation, development and recovery. 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 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 EOS' handling of the **operational risks** to be **appropriate** and the operational risks to be 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**. The anchor rating has therefore **not been modified**.

Rating history

| | 19.08.2005 | 2006 – 2017 | 21.06.2018 |
|---------|------------|-------------|------------|
| 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 € 795.0 million in the 2017/2018 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 41.2% of its consolidated sales. The rest of Western Europe accounts for 30.2%. The Group has operations in Belgium, France, Great Britain, Ireland, Austria, Switzerland, Spain and Denmark. Eastern Europe (Poland, Romania, Slovakia, Slovenia, Czech Republic, Hungary, Bulgaria, Greece, Macedonia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and Russia) makes up 23.0% of consolidated sales. The North American debt collection market contributes 5.5% to the top line. The average headcount increased from 6,227 to 6,298 in the 2017/18 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 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.

EOS Holding GmbH is the rating object

Senior management of EOS

The senior management team includes Klaus Engberding, Chairman; Justus Hecking-Veltman, Head of Finance; 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 May 2018. 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

Rating committee

- Dörte Mählmann, director
- Kai Gerdes, director

Principal sources of information

- Consolidated financial statements for 2015/16, 2016/17, 2017/18
- Internal reporting
(z. B. business development 2017/18, 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 |
|---|---|
| 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 3: 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 |

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 2018.

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 2018. This rating report was given to the client on 10 July 2018, thereby concluding the rating process.

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Euler Hermes Rating GmbH

Hamburg, 10 July 2018