Issuer rating

EOS Holding GmbH		14 June 2021	A
		Issuer rating	
		Outlook	stable
Industry	Receivables management	Revenue 2020/21	€ 792.5m
		Employees 2020/21	6,239

BUSINESS RISK		ANCHOR RATING	Modification 1	STANDALONE RATING	Modification 2	ISSUER RATING
Moderate	→	A	Operational risks →	A	External influences →	A
FINANCIAL RISK						
Low						

BUSINESS RISK	Moderate

- Leading market position in Germany, strong presence in Western and Eastern Europe
- Many years of experience in acquiring and collecting receivables
- Earnings heavily exposed to debt purchasing
- High share of real estate-secured loans and real estate
- Intense competition and moderate cyclicality

OPERATIONAL RISKS	- 0

- Operational risks are generally managed in a manner commensurate with the rating

FINANCIAL RISK	Low

- Very strong, stable profitability
- Good to very good capital structure, interest coverage ratios and deleveraging potential
- Improvable matching of maturities and diversification of financing

EXTERNAL INFLUENCES	- 0

- External influence of shareholder is neutral

Key financial ratios *	Actual 2018/19	Actual 2019/20	Actual 2020/21
EBITDA margin (%)	32.4	38.6	38.1
Return on capital employed (ROCE) (%)	13.4	15.9	13.9
Equity ratio (%)	28.7	33.6	35.6
Debt to equity ratio (%)	65.9	61.2	59.2
Total liabilities / EBITDA	2.6	1.8	2.0
Net financial liabilities / EBITDA	2.0	1.4	1.6
EBIT interest coverage	10.0	10.5	10.6
EBITDA interest coverage	24.5	28.2	28.7

* Adjusted based on the principles of analysis of Scope Hamburg

Rating rationale

Scope Hamburg GmbH assigns EOS Holding GmbH an A credit rating. The rating outlook is stable.

Moderate business risk due to leading position in the German market and strong market position in Europe with fierce competition and good growth prospects

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-leading position in Germany and its strong market position in Europe. We view the dependence of its earnings power on debt purchasing as a weakness. The regional distribution of earnings, traditionally centred on Germany, has become more diversified in recent years. Eastern Europe in particular has gained considerable importance in this context. We believe the company's medium- to long-term opportunities include the increase in private and non-performing debt, partly due to the COVID-19 pandemic, particularly in growing international markets. The persistently high cost pressure faced by banks will also likely increase the supply of NPL portfolios. In the short term, we expect catch-up effects and an increase in the supply of receivables. Risks include, without limitation, rising prices commanded by non-performing unsecured debt amid rising competition and possible changes in the legal framework that governs debt collection services. EOS is therefore increasingly investing in property-backed debt and properties with a need for restructuring. 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 its high earnings over the years. While revenue unsurprisingly decreased from the previous year's record level due to the pandemic, the decline in revenue was partially offset by cost savings. As a result, EOS was able to increase earning power compared to the planned figures despite the challenging year. We rate its capital structure, deleveraging potential and interest coverage ratios as good to very good. We assume that earnings will return to positive territory in the current business year. Our assumption is based on the gradual lifting of COVID-19 restrictions and the economic recovery in individual countries as well as likely catch-up effects that will lead to a renewed increase in loan offerings as well as improved collections. A possible re-acceleration of the pandemic harbours the risk that earning power will weaken in the short term.

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. Additional operational measures were initiated in connection with the COVID-19 pandemic, which allowed the company to perform well in the recessionary environment caused by the pandemic. Due to the independent operational business, independent management 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

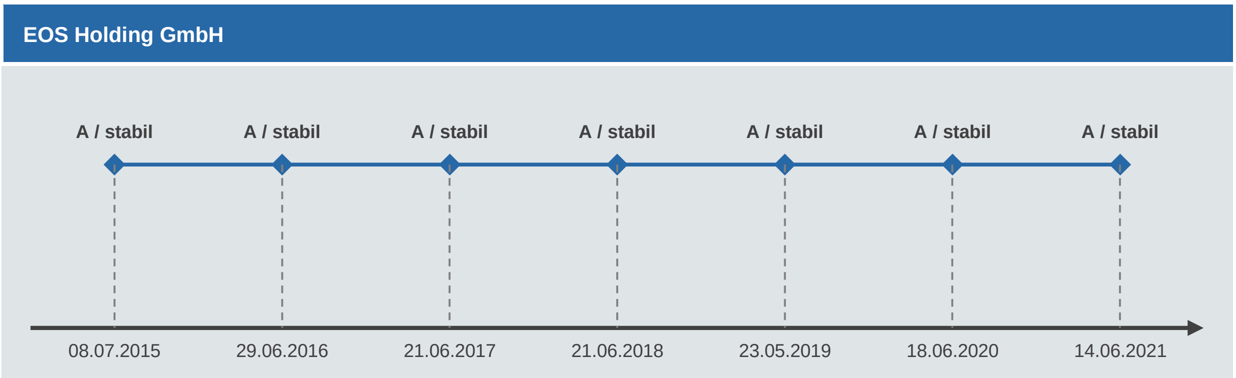
Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

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

Rating history



Company

Market-leading position as debt collection provider in Europe

EOS Holding GmbH (the "Group" or "EOS") is one of Europe's leading debt collection providers with consolidated sales of € 792.5 million in the 2020/21 financial year. The Group's service portfolio mainly consists of fiduciary 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 (36.5% of Group revenues, PY: 35.6%), remaining Western Europe (26.1% (PY: 27.2%), Eastern Europe (31.5%, PY: 31.3%) and North America (5.9%, PY: 6.0%). The average headcount dropped from 6,523 to 6,239 in the 2020/21 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 only accounts for 2.3% (PY: 3.2%) 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

Analysts

- Katia Winkler, analyst (lead analyst)
- Nils Weinhold, senior Analyst

Contact:

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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.

[x] Solicited Rating

[ ] Unsolicited Rating
- [ ] No participation of the rated entity or related third party
- [x] With participation of the rated entity or related third party
  - [x] Access to internal documents
  - [x] 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 2018/19, 2019/20, 2020/21
- Internal reporting (e .g. business development 2021/22, 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
- Basic Principles for Assigning Credit Ratings and Other Services as of July 2020
- Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is immi-nent.
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.

* For more explanations and definitions please refer to:
Basic Principles for Assigning Credit Ratings and Other Services as of July 2020

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

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

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

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

Capital structure

Indebtedness

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

Leverage
Numerator
Net debt
Denominator
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
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

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

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

EOS Holding GmbH (client and rated entity) engaged Scope Hamburg GmbH to conduct a rating on 11 November 214. The company was visited on 18 May 2021.

The Rating Committee of Scope Hamburg GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 14 June 2021. This rating report was given to the client on 30 June 2021, thereby concluding the rating process.

The rating is Scope Hamburg GmbH's opinion of the creditworthiness of a rating subject. It is not a statement of fact. Scope Hamburg 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 Scope Hamburg 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. Scope Hamburg 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 Scope Hamburg GmbH's website (www.scopehamburg.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 Scope Hamburg 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.

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Scope Hamburg GmbH

Hamburg, 30 June 2021