FitchRatings

RATING ACTION COMMENTARY

Fitch Places Debt Purchaser DDM on Rating Watch Negative

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Fitch Ratings - Frankfurt am Main - 23 Feb 2022: Fitch Ratings has placed DDM Holding AG's (DDM) and DDM Debt AB's (DDM Debt) 'B' Long-Term Issuer Default Ratings (IDR) on Rating Watch Negative (RWN). Fitch has also placed DDM Debt's EUR200 million senior secured bonds' (SE0015797683) 'B' long-term rating on RWN.

The rating actions follow lower-than-expected capital deployment in 2021, which led to sharply lower gross collections, a material reduction in EBITDA and consequently an increase in DDM's gross debt/EBITDA ratio to around 5.3x at end-2021, exceeding Fitch's previously identified negative rating trigger of 4.5x. Net leverage also increased, albeit less pronounced (to around 3.6x).

The rating actions also consider DDM's planned acquisition of a small Swiss-based specialist bank (Swiss Bankers Prepaid Services AG), which was announced in December 2021 and subject to customary approvals is expected to close by 2Q22. Swiss Bankers is focused primarily on prepaid credit card services and in our view, the planned Swiss Bankers transaction could negatively affect the generally cash-generative nature of DDM's business profile and increase its exposure to strategic and integration risks. Fitch expects to resolve the RWN within six months.

DDM is a small Switzerland-domiciled and Stockholm-listed debt purchaser with operations largely in south-eastern Europe (notably Croatia). Sweden-domiciled DDM Debt is fully-owned by DDM.

KEY RATING DRIVERS

The RWN on DDM's and DDM Debt's Long-Term IDRs primarily reflects Fitch's view that DDM's current gross leverage ratio is no longer commensurate with its rating. Fitch has placed the ratings on RWN rather than downgraded them because DDM's credit profile remains supported by materially better net leverage and likely improvements in its quarterly run-rate EBITDA in 1H22, due to revenue contribution from sizeable non-performing loan (NPL) portfolios acquired in late 2021.

In 2021, gross collections were EUR60.7 million compared with EUR123.3 million in 2020. While collections in 2020 were inflated by around EUR60 million due to DDM's accelerated exit from Greece, collections in 2021 were negatively affected by lower-than-forecast capital deployment and delays in scheduled collections on already deployed capital. DDM's EBITDA (adjusted for portfolio amortisations) improved towards the end of 2021 but its 4Q21 "cash" EBITDA of EUR10.8 million remained considerably lower yoy (EUR15.3 million in 4Q20). As a result of lower revenue on invested assets and higher finance expenses due to an increase in outstanding debt, DDM reported a modest net loss for 2021 (EUR6.8 million, EUR2.9 million if adjusted for one-off refinancing expenses).

DDM's gross debt/adjusted EBITDA ratio increased sharply to around 5.3x at end-2021, up from around 1.4x at end-2020, as a result of both lower adjusted EBITDA and a material increase in outstanding debt (to EUR200 million from around EUR138 million at end-2020). DDM's net leverage ratio (3.6x at end-2021) benefited from a higher-than-anticipated cash buffer at end-2021 (around EUR65 million). Based on DDM's run-rate adjusted EBITDA, Fitch expects DDM's gross leverage ratio to improve in 1H22 but to remain close to its negative rating trigger of 4.5x. We expect DDM's net leverage ratio to increase materially as a result of cash deployed to fund the Swiss Bankers acquisition, which will not materially contribute to DDM's consolidated EBITDA in 2022.

Fitch views the planned acquisition of Swiss Bankers, primarily a provider of prepaid credit cards, as opportunistic, with limited synergies with the existing debt purchasing core business. DDM's management expects the EBITDA contribution of Swiss Bankers to be low in 2022 before improving to pre-pandemic levels (EBITA of around CHF10 million in 2019) in 2023.

DDM's Long-Term IDR reflects its small size versus rated peers and more volatile performance and more concentrated business model. Compared with higher-rated peers, DDM's franchise is small (120 months estimated remaining collections (ERC) of EUR299 million at end-2021) and concentrated by geography (Croatia accounted for

57% of ERC for the next three years at end-2021) and type (81% secured NPL based on end-2021 ERC to be received within the next three years).

DDM relies on third-party servicers for the collection of unsecured NPLs and uses a related company (Ax Financial Holding S.A.) for the collection of some of the secured debt. In Fitch's view, the reliance on external collection services limits the value of DDM's own franchise. DDM's risk controls are adequate but controls will likely be stretched by ambitious growth expectations, in Fitch's view.

DDM's liquidity position is acceptable, with around EUR65 million in unencumbered cash and EUR27 million draw-down capacity under the company's revolving credit facility (RCF). However, DDM's cash position will quickly normalise (to around EUR16 million-EUR18 million over the business plan horizon plus EUR27 million RCF), partly due to the acquisition of Swiss Bankers. DDM's funding profile is long-term but concentrated, with virtually all its funding due in 2026.

The rating on DDM Debt's senior secured notes reflect Fitch's expectation of average recoveries, resulting in an equalisation of the bonds' ratings with DDM's Long-Term IDR. This is largely because despite their secured nature, the notes are junior to DDM's EUR27 million RCF and represent DDM's main outstanding debt.

DDM has an ESG Relevance Score of '4' for financial transparency, in view of the significance of internal modelling to portfolio valuations and associated metrics such as estimated remaining collections. This has a moderately negative influence on the rating, but is a feature of the debt purchasing sector as a whole, and not specific to DDM.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Inability to reduce DDM's trailing 12-months gross debt/EBITDA ratio to below 4.5x within the six-month RWN horizon and in the absence of a clear deleveraging strategy to sustainably maintain cash flow leverage below this threshold would lead to a downgrade of DDM's ratings, likely by one notch.

-Inability to improve DDM's trailing 12-month EBITDA/interest expense ratio (around 1.9x at end-2021) to above 2x on a sustained basis could also lead to negative rating action.

-An indication that the planned Swiss Bankers acquisition materially increases DDM's exposure to operational, regulatory, or liquidity risks, weighing on our assessment of

DDM's risk profile, would also be rating-negative.

-In addition to these issuer rating-specific considerations, worsening recovery expectations, for instance as a result of a layer of more senior debt, could lead Fitch to notch the secured notes' rating down from DDM Debt's Long-Term IDR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The RWN on DDM's issuer and issue ratings reflects that upside potential for the ratings is limited in the short to medium term.

-An improvement of DDM's gross debt/EBITDA ratio to comfortably below 4.5x could lead to an affirmation of DDM's ratings within six months.

-In the long-term, materially larger, more diversified franchise supporting a more stable company profile, in conjunction with maintained or improved financial metrics, could lead to an upgrade of DDM's Long-Term IDR.

-The secured notes' rating is principally sensitive to changes in DDM Debt's Long-Term IDR. In addition, improved recovery expectations, for instance, as a result of a layer of more junior debt, could lead Fitch to notch up the notes' rating up from DDM Debt's Long-Term IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

DDM Debt AB (publ) has an ESG Relevance Score of '4' for Financial Transparency ' due to the significance of internal modelling to portfolio valuations and associated metrics such as estimated remaining collections. However, this is a feature of the debt-purchasing sector as a whole, and not specific to DDM. This has a moderately negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

DDM Holding AG has an ESG Relevance Score of '4' for Financial Transparency due to ' due to the significance of internal modelling to portfolio valuations and associated metrics such as estimated remaining collections. However, this is a feature of the debt-purchasing sector as a whole, and not specific to DDM. This has a moderately negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
DDM Holding AG	LT IDR	B Rating Watch Negative	Rating Watch On		B Rating Outlook Stable
DDM Debt AB (publ)	LT IDR	B Rating Watch Negative	Rating Watch On		B Rating Outlook Stable

senior secured	LT	B Rating Watch Negative	RR4	B
		Rating Watch On		

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 31 Jan 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

DDM Debt AB (publ)	EU Issued, UK Endorsed
DDM Holding AG	EU Issued, UK Endorsed

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Non-Bank Financial Institutions Europe Sweden Switzerland