

RATING ACTION COMMENTARY

Fitch Downgrades DDM Holding AG to 'B-'; Maintains Rating Watch Negative

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Fitch Ratings - Frankfurt am Main - 11 Jul 2022: Fitch Ratings has downgraded DDM Holding AG's (DDM) and DDM Debt AB's (DDM Debt) Long-Term Issuer Default Ratings (IDRs) to 'B-' from 'B' and maintained them on Rating Watch Negative (RWN). Fitch has also downgraded DDM Debt's EUR200 million senior secured bonds' (SE0015797683) long-term rating to 'B-' from 'B', and maintained it on RWN.

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 downgrade reflects Fitch's view that DDM's gross debt/adjusted EBITDA (5.3x at end-1Q22) will remain above Fitch's previously stated downgrade trigger of 4.5x in the medium term because of lower-than-expected capital deployment in EBITDA-generating assets and is no longer commensurate with its previous 'B' rating. The rating action also considers a material erosion in DDM's liquidity buffer following a number of investments outside its core debt purchasing business and the absence of contingent liquidity following the expiry of its revolving credit facility (RCF).

The RWN reflects pressure on DDM's liquidity profile in the short term with the company principally relying on continued sound collection performance to service an upcoming coupon payment in 4Q22.

DDM's Long-Term IDR reflects its small size versus rated peers', 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 EUR298 million at end-1Q22). It is also concentrated by geography (Croatia accounted for 74% of core ERC for the next three years as at end-1Q22) and type (80% secured non-performing loans (NPL)).

Since 2021, DDM has announced several investments outside its core debt purchasing business line, partly funded with proceeds from a bond issue in 2021. These include the planned acquisitions of Swiss Bankers Prepaid Services AG (Swiss Bankers) and AxFina Holding SA (AxFina), but also a recent investment in Omnio S.A (Omnio). Swiss Bankers is a Swiss-based specialist bank, focused primarily on prepaid credit card services. AxFina is a related-party debt servicing company, while Omnio is a UK-based company, which develops a digital platform for financial institutions and is controlled by DDM's ultimate owners.

We view investments in Swiss Bankers and Omnio as negative for DDM's credit profile because these companies have limited synergies with DDM's core debt purchasing business model and could undermine its cash-generating capacity. Although the acquisition of AxFina, announced on 6 July 2022, is likely to improve our assessment of DDM's business and risk profiles, the acquisition weighs further on DDM's already diminished liquidity position.

While the Omnio and Axfina transactions were conducted at arm's length and were subject to external valuations, the transactions involved a related party (DDM's ultimate owners).

At end-1Q22, DDM's liquidity position was acceptable, with EUR63 million in unencumbered cash. However, the planned acquisitions will lead to a its material erosion. DDM's funding profile is mainly long-term, consisting of a EUR200 million secured bond maturing in 2026 and a smaller EUR18 million notes with maturity on 30 June 2022. DDM has reached an agreement to restructure the EUR18 million notes, including a repayment of EUR12.5 million in 3Q22 and the remainder in 1Q23. The next coupon for the EUR200 million notes is due on 19 October 2022. DDM did not have an RCF at end-2Q22, while its EBITDA/interest expense metric was a low 1.5x in the trailing 12-month (TTM) to end-1Q22.

In the TTM to end-1Q22, gross collections were EUR61 million compared with EUR123 million in 2020. While collections in 2020 were inflated by around EUR60 million due to DDM's accelerated exit from Greece, collections in 2021 and 1Q22 were negatively affected

by lower-than-forecast capital deployment and delays in scheduled collections on already deployed capital.

DDM's TTM EBITDA (adjusted for portfolio amortisations) was EUR38 million at end-1Q22; down from EUR101 million in 2020 and EUR51 million in 2019. As a result of lower revenue from invested assets and higher finance expenses due to an increase in outstanding debt, DDM reported a modest net loss in 2021. In 1Q22 DDM remained loss-making (reporting a net loss of EUR1.7 million), which was partly attributable to a negative mark-to-market revaluation of financial investments.

DDM's gross debt/EBITDA ratio was a high 5.3x at end-1Q22, up from 1.3x at end-2020. The increase was driven by a material reduction in EBITDA, but also a significant increase in outstanding debt (to EUR202 million at end-1Q22 from EUR138 million at end-2020) following bond issuance in 2021.

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.

DDM has an ESG Relevance Score of '4' for governance structure, primarily reflecting the recent material increase in related-party transactions.

DDM has an ESG Relevance Score of '4' for management strategy reflecting DDM's more opportunistic strategy when compared to other debt purchasing peers.

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 ERC. 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:

- Prolonged liquidity shortage, jeopardising DDM's ability to service its debt obligations or execute its strategy
- Further marked deterioration in profitability and leverage, including from negative results on financial investments

- Signs that planned acquisitions are materially increasing DDM's exposure to operational or legal risks
- A downgrade of DDM's Long-Term IDR would likely be mirrored on the company's senior secured bond rating
- 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 for the ratings is limited in the short-to- medium term
- The affirmation of the rating would require a material improvement in DDM's liquidity position and a stabilisation of its leverage ratio
- An upgrade in the medium term would require stabilisation of DDM's business model and improvement in profitability and leverage, chiefly maintaining gross debt/EBITDA comfortably below 4.5x
- 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 and DDM each 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 ERC. This has a moderately negative influence on the rating in conjunction with other factors, but is a feature of the debt purchasing sector as a whole, and not specific to DDM.

DDM Debt and DDM each has an ESG Relevance Score of '4' for management strategy due to DDM's opportunistic strategy, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

DDM Debt and DDM each has an ESG Relevance Score of '4' for governance structure due to the recent material increase in related-party transactions, which has a negative impact on the credit profile, and is relevant to the ratings 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
	B- Rating Watch Negative		
	Downgrade		

DDM Debt AB
(publ)

LT IDR

B- Rating Watch Negative

Downgrade

B Rating
Watch
Negative

senior secured

LT B- Rating Watch Negative

RR4

B Rating
Watch
Negative

Downgrade

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Ben Schmidt

Director

Primary Rating Analyst

+49 69 768076 115

ben.schmidt@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Christian Kuendig

Managing Director

Secondary Rating Analyst

+44 20 3530 1399

christian.kuendig@fitchratings.com

Aslan Tavitov

Senior Director

Committee Chairperson

+44 20 3530 1788

aslan.tavitov@fitchratings.com

MEDIA CONTACTS

Matthew Pearson

London

+44 20 3530 2682

matthew.pearson@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

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

ADDITIONAL DISCLOSURES

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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
