

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades Axactor ASA's Corporate Family Rating to B2 and senior unsecured debt ratings to Caa1; places ratings on review for downgrade

17 May 2024

London, May 17, 2024 -- Moody's Ratings (Moody's) has today downgraded Axactor ASA's (Axactor) Corporate Family Rating (CFR) to B2 from B1 and its senior unsecured ratings to Caa1 from B3 and placed the ratings on review for downgrade. Previously, the issuer outlook was positive.

RATINGS RATIONALE

The downgrade reflects Axactor's weakened financial performance in the currently challenging macroeconomic environment for debt purchasers, characterized by reduced collections in certain regions and further exacerbated by the increased cost of funding. Contrary to the rating agency's expectations, the firm's gross debt/EBITDA metric has deteriorated as a result of lower-than-expected recoveries and higher funding cost. The decline in EBITDA in 1Q 2024 has put Axactor at the risk of the covenant breach for leverage and interest coverage for next quarter, which would result in the event of default under its bond loan agreements and cross-default with its revolving credit facility, unless the company obtains an amendment of its financial covenant thresholds from the bondholders in advance of a potential breach or requests a waiver following the breach.

By the end of 1Q 2024, Axactor's leverage ratio, calculated as net Debt/EBITDA on the last twelve-month basis, was approximately 4x, right below the covenant threshold of 4.0x, as defined in the bond loan agreements. In addition, the company's interest coverage declined to 3.2x in the same period, leaving little headroom relative to the covenant level of 3.0x.

Moody's deems Axactor's lack of proactive measures taken to minimize the risk of the event of default by addressing the proximity of its covenant metrics to their thresholds as a risk management weakness, reflecting it in a lowering of the governance issuer profile score (IPS) to G-4 from G-3 under the rating agency's environmental, social

and governance (ESG) framework. As such, Moody's views Axactor's exposure to governance risk as high, which is now also reflected in a one-notch negative adjustment for corporate behaviour and risk management included in the B2 CFR. Consequently, Axactor's Credit Impact Score was lowered to CIS-4 from CIS-3, indicating that the company's risk management weaknesses have a material impact on the ratings.

During the review, Moody's will assess Axactor's strategy for addressing the risk of the covenant violation in the next quarter and beyond, in light of the company's weakened financial performance.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely given that Axactor's ratings are on review for downgrade. Axactor's ratings could be confirmed if Moody's concludes that the risk of default stemming from a potential covenant breach in the coming quarter and beyond will likely to be successfully addressed by the company, and if the rating agency comes to believe that there will be no further deterioration in the company's financial performance, including cash collections, leverage, interest coverage and liquidity.

Axactor's ratings will be downgraded if Moody's concludes that there is a high risk of default associated with a potential covenant breach. Axactor's ratings could also be downgraded if Moody's concludes that company will be likely to operate with higher leverage (above 4x gross Debt/EBITDA) and reduced interest coverage (EBITDA/Interest Expense below 3x) for an extended period of time, even if the covenant levels are successfully amended.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at <https://ratings.moodys.com/rmc-documents/65543>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

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