FitchRatings

Corporates
Technology
France

IDEMIA Group S.A.S.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	B	Negative	Affirmed 13 Nov 20

Click here for full list of ratings

The revised Outlook on IDEMIA Group S.A.S.'s Issuer Default Rating (IDR) reflects Fitch Ratings' expectation that the company's funds from operations (FFO) gross leverage will remain above its downgrade threshold of 7.0x in 2020-2021. IDEMIA's performance was under pressure in 2020 due to coronavirus pandemic-related restrictions and an overall slowdown of activities by government bodies and corporations.

Fitch expects a healthy recovery in revenue and EBITDA from 2021, albeit not sufficient to reduce leverage to below 7.0x in 2021. Revenue prospects are supported by a strong order book, but we see less visibility over the pace of the EBITDA margin improvement from 2022. We also expect IDEMIA's free cash flow (FCF) to turn positive only in 2022 compared with our previous expectation for 2020. This will be supported by improving EBITDA, lower restructuring costs and working capital and capex normalisation.

The ratings are supported by IDEMIA's strong global market positions in identification, authentication, payment and connectivity solutions. High leverage is the main constraint for the rating and the company's ability to reduce it organically with stronger EBITDA and FCF will be key for the ratings.

Key Rating Drivers

COVID-19 Impact Contained: The pandemic and associated lockdowns had an adverse impact on some of IDEMIA's segments, particularly around identification solutions related to travel (Transportation Security Administration PreCheck) and those requiring the physical presence of customers (identification documents and enrollments).

IDEMIA was able to contain the negative impact due to its timely reaction and good geographical and business diversification. As a result, revenue declined only 2.8% yoy in 9M20 on a like-for-like basis. Revenue in government solutions (GS) declined 5.7% yoy while secured enterprise transactions (SET) demonstrated better resilience with flat revenues for the same period.

EBITDA Under Pressure: IDEMIA's 15% yoy EBITDA decline in 9M20 led to a spike in FFO gross leverage to 9.1x. Deleveraging below the downgrade threshold of 7.0x depends on continuing improvement of revenues and the success of the company's efforts in sustaining profitability. We project its Fitch-defined EBITDA margin to improve to historical levels of 15%-16% in 2022-2023 from an estimated 12.5% in 2020. We have limited visibility on EBITDA development post-2021 and the evolving pandemic remains an uncertainty that also may delay recovery.

Healthy Backlog: We expect a recovery in revenue in 2021 following improved performance in 3Q20 and, in particular, positive momentum in the GS segment after it was hit hard in 1H20. IDEMIA had a healthy order backlog at end-3Q20, which was 5% lower than at end-2019 but 8% higher than at end-2Q20 and 12% higher than at end-3Q19.

We expect further improvement towards end-2020. IDEMIA and its customers have adapted to social distancing and other restrictions and we expect that the impact of COVID-19 will be less pronounced in 2021 than in 1H20, even if the pandemic worsens.

Decreased Non-Recurring Costs: We expect non-recurring costs to fall to around EUR40 million in 2020 and EUR20 million in 2021 from EUR74 million in 2019 and EUR100 million in 2018. We treat a portion of 2020 one-off costs and all 2021 one-offs costs related to

Applicable Criteria

Corporate Rating Criteria (May 2020)
Corporates Notching and Recovery Ratings Criteria (October 2019)
Country-Specific Treatment of Recovery Ratings Rating Criteria (February 2020)

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transformation and cost-cutting projects as recurring and include them in EBITDA. This is because we see them as part of IDEMIA's continuing efforts to improve operational efficiency.

Positive FCF Likely in 2022: We expect IDEMIA to start generating moderately positive FCF from 2022. The main drivers will be revenue growth, EBITDA margin improvement, stable capex and a lack of large non-recurring expenses, which were the main drag on FCF in 2017-2019. We expect capex to normalise at around 8% of revenues in 2021-2023.

COVID Long-Term Impact: The current crisis highlights the importance of data digitalisation, identity management, facial recognition, traffic control and other technologies for government bodies and corporates alike. With its strong market shares in key sectors, IDEMIA is well-positioned to benefit from rising demand for these technologies in the long term. Slow adoption of innovative products by customers is a main challenge for the industry rather than technological risk, in our view.

Financial Summary

(EURm)	Dec 18	Dec 19	Dec 20F	Dec 21F
Gross revenue	2,156	2,339	2,211	2,320
Operating EBITDA margin (%)	16.7	13.8	12.5	14.2
FCF margin (%)	-7.0	-3.0	-3.2	-0.7
FFO leverage (x)	7.2	7.9	9.1	7.4
FFO interest coverage (x)	3.0	3.1	2.7	3.3

F – Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

IDEMIA's technology peers, such as Nokia Corporation (BBB-/Stable), Telefonaktiebolaget LM Ericsson (BBB-/Stable) and STMicroelectronics N.V. (BBB/Stable), are rated in the investment-grade category. Despite higher volatility in both revenue and margins than IDEMIA, they have greater scale and stronger cash flows as well as no or very low net leverage.

While IDEMIA has a strong business position and technology leadership within its chosen markets, its smaller scale and high leverage place its rating in the 'B' category. Higher-rated financial technology (fintech) companies such as Nets Topco Lux 3 Sarl (Nets; B+/Rating Watch Positive, or RWP) and Nexi S.p.A. (BB-/RWP) benefit from leadership in their markets, strong growth prospects and healthy cash flow generation. Similarly rated European software companies such as Dedalus SpA (B/Stable) and TeamSystem Holding S.p.A (B/Stable) exhibit higher margins and better deleveraging prospects than IDEMIA so have higher leverage allowances for their rating category.

IDEMIA is broadly comparable with the other peers that Fitch covers in its technology and Credit Opinion portfolios. It has slightly higher leverage but benefits from market leadership in its core operating segments, as well as healthy liquidity and global diversification.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
IDEMIA Group S.A.S.	B/Neg	aa-	bbb	bb+	bbb	bbb	bbb	bb+	ccc+	bb
Nokia Corporation	BBB-/Sta	aa-	a-	bb+	bbb-	bbb	bbb-	bbb-	bbb-	bbb+
STMicroelectronics N.V.	BBB/Sta	aa	a-	bbb+	bbb	bbb	bbb	bbb+	bbb	a
TeamSystem Holding S.p.A.	B/Sta	bbb	bb+	bbb-	bbb+	bbb	b+	bbb+	b-	bb-
Telefonaktiebolaget LM Ericsson	BBB-/Sta	aa-	a-	bb+	bbb-	bbb	bbb-	bbb-	bbb-	bbb+
Dedalus SpA	B/Sta	a-	bbb-	bbb	bbb+	bbb+	bbb	bbb+	b-	bb
ASML Holding N.V.	A-/Sta	aa	a	a	bbb+	a	bbb-	a-	a+	a

Source: Fitch Ratings.

Importance | Higher | Moderate | Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
IDEMIA Group S.A.S.	B/Neg	11.0	6.0	4.0	6.0	6.0	6.0	4.0	-2.0	3.0
Nokia Corporation	BBB-/Sta	6.0	3.0	-1.0	0.0	1.0	0.0	0.0	0.0	2.0
STMicroelectronics N.V.	BBB/Sta	6.0	2.0	1.0	0.0	0.0	0.0	1.0	0.0	3.0
TeamSystem Holding S.p.A.	B/Sta	6.0	4.0	5.0	7.0	6.0	1.0	7.0	-1.0	2.0
Telefonaktiebolaget LM Ericsson	BBB-/Sta	6.0	3.0	-1.0	0.0	1.0	0.0	0.0	0.0	2.0
Dedalus SpA	B/Sta	8.0	5.0	6.0	7.0	7.0	6.0	7.0	-1.0	3.0
ASML Holding N.V.	A-/Sta	4.0	1.0	1.0	-1.0	1.0	-3.0	0.0	2.0	1.0

Source: Fitch Ratings.

Worse positioned than IDR | In line with IDR | Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- FFO gross leverage below 7.0x combined with FFO interest coverage of 3x and positive FCF could lead to revision of the Outlook to Stable
- FFO gross leverage below 5.0x combined with profitability improvement and sustained positive FCF generation would lead to an upgrade to 'B+'

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- FFO gross leverage sustained above 7.0x, without a clear path for deleveraging, combined with negative FCF
- A material loss of market share or other evidence of significant erosion of business or technology leadership in core operations

Liquidity and Debt Structure

Satisfactory Liquidity: At end-3Q20, IDEMIA had long-dated debt maturities, with no material obligation due before 2024. It had EUR164 million of cash and a EUR300 million revolving credit facility (RCF), of which EUR225 million was undrawn at end-3Q20, and its overall liquidity is adequate. We expect liquidity to remain satisfactory as we forecast largely neutral FCF in 2020 (after including disposals) and modest negative FCF in 2021.

ESG Considerations

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.

Liquidity and Debt Maturity Scenario with No Refinancing

Liquidity Analysis

(EURm)	2020F	2021F	2022F	2023F
Available liquidity				
Beginning cash balance	181	147	93	122
Rating-case FCF after acquisitions and divestitures	-3	-17	36	69
Total available liquidity (A)	**178**	**130**	**129**	**191**
Liquidity uses				
Debt maturities	-31	-37	-7	-7
Total liquidity uses (B)	**-31**	**-37**	**-7**	**-7**
Liquidity calculation				
Ending cash balance (A+B)	147	93	122	184
Revolver availability	225	300	300	0
Ending liquidity	**372**	**393**	**422**	**184**
Liquidity score (x)	13.0	11.6	61.3	27.3

Source: Fitch Ratings, Fitch Solutions, IDEMIA Group S.A.S.

Scheduled debt maturities (EURm)	Original 31 December 2019
2020	105
2021	37
2022	7
2023	7
2024	2,016
Thereafter	0
Total	**2,172**

Source: Fitch Ratings, Fitch Solutions, IDEMIA Group S.A.S.

Key Assumptions

Fitch's Key Assumptions Within its Rating Case for the Issuer

- Reported revenue to decline by 5.5% in 2020 followed by low-to-mid single-digit growth in 2021-2023
- Fitch-defined EBITDA margin at 12.5% in 2020 (pre-IFRS 16), improving towards 16% by 2023, reflecting the impact of efficiency measures and a better business mix
- Capex at around 8% of revenues on average in 2020-2023
- A portion of non-recurring costs treated as recurring in 2020 and all transformation programme costs are reflected above FFO in 2021-2023
- No M&A from 2021

Financial Data

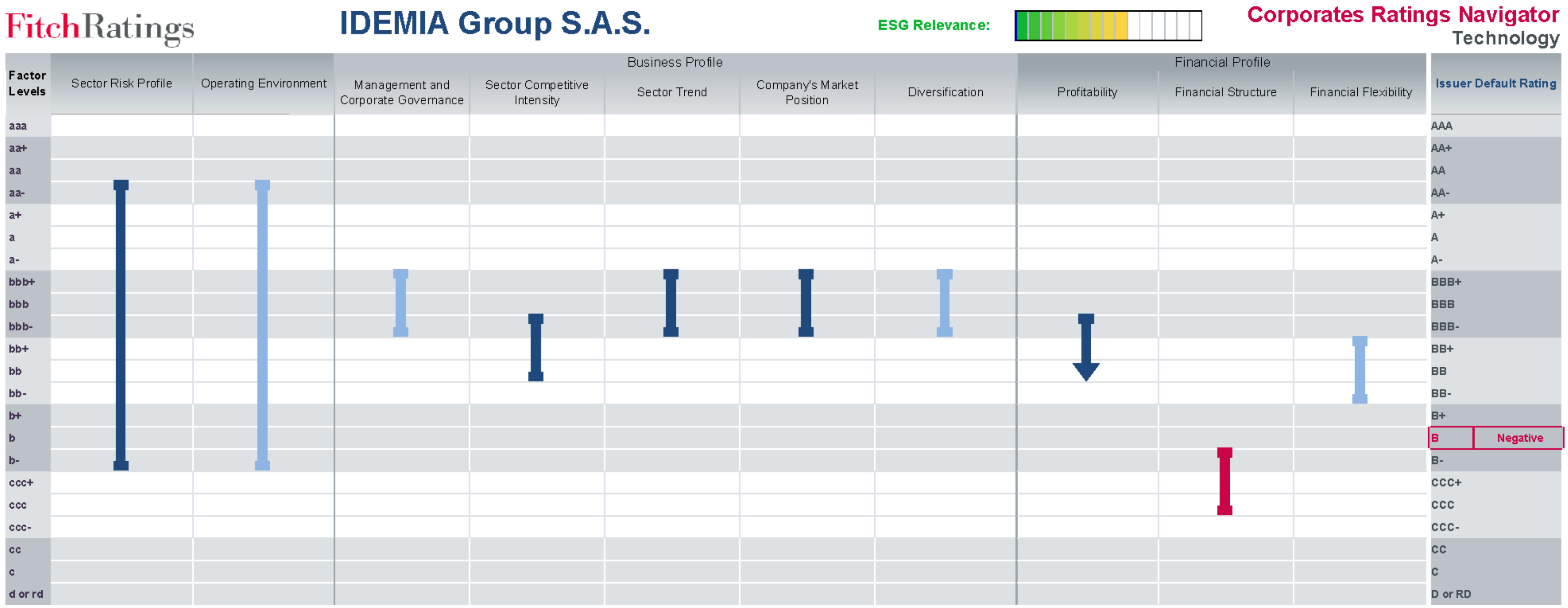
	Historical			Forecast		
(EURm)	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22
Summary income statement						
Gross revenue	1,795	2,156	2,339	2,211	2,320	2,412
Revenue growth (%)	59.4	20.1	8.5	-5.5	4.9	4.0
Operating EBITDA (before income from associates)	264	361	322	276	329	362
Operating EBITDA margin (%)	14.7	16.7	13.8	12.5	14.2	15.0
Operating EBITDAR	294	399	362	316	369	402
Operating EBITDAR margin (%)	16.4	18.5	15.5	14.3	15.9	16.7
Operating EBIT	66	123	111	70	130	166
Operating EBIT margin (%)	3.7	5.7	4.8	3.2	5.6	6.9
Gross interest expense	-109	-119	-125	-115	-119	-121
Pretax income (including associate income/loss)	-508	-189	-46	-45	11	44
Summary balance sheet						
Readily available cash and equivalents	230	192	181	155	101	130
Total debt with equity credit	2,022	2,149	2,171	2,140	2,103	2,096
Total adjusted debt with equity credit	2,262	2,453	2,491	2,460	2,423	2,416
Net debt	1,792	1,958	1,991	1,985	2,002	1,966
Summary cash flow statement						
Operating EBITDA	264	361	322	276	329	362
Cash interest paid	-95	-102	-89	-86	-86	-85
Cash tax	-44	-46	-45	-41	-46	-51
Dividends received less dividends paid to minorities (inflow/(out)flow)	1	2	0	0	0	0
Other items before FFO	-11	-13	-2	0	0	0
Funds flow from operations	114	201	186	149	197	226
FFO margin (%)	6.4	9.3	7.9	6.8	8.5	9.4
Change in working capital	35	-89	30	-20	-25	0
Cash flow from operations (Fitch defined)	150	113	216	129	172	226
Total non-operating/non-recurring cash flow	-210	-100	-74			
Capital expenditure	-109	-163	-211			
Capital intensity (capex/revenue) (%)	6.1	7.6	9.0			
Common dividends	0	-1	-2			
FCF	-169	-151	-70			
Net acquisitions and divestitures	-1,604	9	51			
Other investing and financing cash flow items	-77	14	20	8	0	0
Net debt proceeds	452	49	-17	-31	-37	-7
Net equity proceeds	1,605	0	5	0	0	0
Total change in cash	206	-78	-11	-26	-54	29
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	6.8	5.4	6.2	7.2	6.1	5.4
Total adjusted debt/operating EBITDAR (x)	7.7	6.1	6.9	7.8	6.6	6.0
Total adjusted net debt/operating EBITDAR (x)	6.9	5.6	6.4	7.3	6.3	5.7
Total debt with equity credit/operating EBITDA (x)	7.7	5.9	6.7	7.7	6.4	5.8
FFO adjusted leverage (x)	9.5	7.3	7.9	8.9	7.5	6.9
FFO adjusted net leverage (x)	8.5	6.7	7.4	8.4	7.2	6.5
FFO leverage (x)	9.7	7.2	7.9	9.1	7.4	6.7
FFO net leverage (x)	8.6	6.5	7.3	8.4	7.1	6.3
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-1,923	-255	-236	-132	-189	-190
FCF after acquisitions and divestitures	-1,774	-142	-20	-3	-17	36
FCF margin (after net acquisitions) (%)	-98.8	-6.6	-0.8	-0.1	-0.7	1.5
Coverage ratios						
FFO interest coverage (x)	2.2	3.0	3.1	2.7	3.3	3.7
FFO fixed-charge coverage (x)	1.9	2.4	2.4	2.2	2.6	2.8
Operating EBITDAR/interest paid + rents (x)	2.4	2.9	2.8	2.5	2.9	3.2
Operating EBITDA/interest paid (x)	2.8	3.6	3.6	3.2	3.8	4.2
Additional metrics						
CFO-capex/total debt with equity credit (%)	2.0	-2.3	0.3	-2.4	-0.8	1.7
CFO-capex/total net debt with equity credit (%)	2.3	-2.6	0.3	-2.6	-0.8	1.8

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	□	Stable

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IDEMIA Group S.A.S.

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Technology

Operating Environment

aa	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
aa-	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+			

Sector Competitive Intensity

bbb	Industry Structure	bb	Highly competitive industry with several companies of comparable size.
bbb-	Barriers to Entry/Exit	bbb	Moderate barriers to entry. Incumbents are generally strongly established but successful new entrants have emerged over time.
bb+	Relative Power in the Value Chain	bbb	Relative bargaining power balanced with suppliers and customers.
bb			
bb-			

Sector Trend

a-	Long-Term Growth Potential	bbb	Mature industry. Traditional markets may be under some pressure but opportunities arise in new markets.
bbb+	Volatility of Demand	bbb	Demand fluctuates with economic cycles
bbb	Threat of Substitutes	bbb	Technology risk present, viable alternative technology available in market, moderate switching cost.
bbb-			
bb+			

Company's Market Position

a-	Market Share	bbb	Top-five player in most markets or defensible leader of a niche.
bbb+	Competitive Advantage	bbb	Some competitive advantages with reasonably good sustainability.
bbb			
bbb-			
bb+			

Diversification

a-	End-Market Diversification	bbb	Exposure to at least three business lines or markets but with some performance correlation
bbb+	Customer Concentration	bbb	Modestly diversified customer base, but no customers representing 10% or more of total revenue.
bbb			
bbb-			
bb+			

Profitability

bbb	FFO margin	bbb	9%
bbb-	EBIT margin	bbb	7.5%
bb+	FCF margin	bb	1%
bb	Volatility of Profitability	bbb	Volatility of profits in line with industry average.
bb-			

Financial Structure

b	FFO Leverage	ccc	>6.0x
b-	FFO Net Leverage	ccc	>5.5x
ccc+	(CFO-Capex)/Total Debt With Equity Credit	b	5%
ccc	Total Debt With Equity Credit/FCF	ccc	Negative
ccc-	Total Debt With Equity Credit/Op. EBITDA	ccc	>6.0x

Financial Flexibility

bbb-	Financial Discipline	bb	Financial policies in place but flexibility in applying them could lead to temporarily exceeding downgrade guidelines.
bb+	Liquidity	bbb	One year liquidity ratio above 1.25x. Staggered debt maturity schedule but funding may be less diversified.
bb	FFO Interest Coverage	b	3.0x
bb-	FX Exposure	bb	FX exposure on profitability and/or debt/cash flow match. Some hedging in place but only partly effective.
b+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

IDEMIA Group S.A.S. has 10 ESG potential rating drivers

- Energy consumption in operations
- Water usage in semiconductor fabrication process
- Waste usage in the fabrication and manufacturing process
- Data security
- Impact of labor negotiations and employee (dis)satisfaction; employee recruitment and retention
- Shift in consumer preferences and social trends

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	10	issues	3
not a rating driver	1	issues	2
	3	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

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Credit-Relevant ESG Derivation

IDEMIA Group S.A.S. has 10 ESG potential rating drivers

- IDEMIA Group S.A.S. has exposure to energy productivity risk but this has very low impact on the rating.
- IDEMIA Group S.A.S. has exposure to water management risk but this has very low impact on the rating.
- IDEMIA Group S.A.S. has exposure to waste & impact management risk but this has very low impact on the rating.
- IDEMIA Group S.A.S. has exposure to customer accountability risk but this has very low impact on the rating.
- IDEMIA Group S.A.S. has exposure to labor relations & practices risk and employee recruitment & retention risk but this has very low impact on the rating.
- IDEMIA Group S.A.S. has exposure to shifting consumer preferences but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	10	issues	3
not a rating driver	1	issues	2
	3	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Emissions from the fabrication process	Profitability	5
Energy Management	3	Energy consumption in operations	Profitability	4
Water & Wastewater Management	3	Water usage in semiconductor fabrication process	Profitability	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste usage in the fabrication and manufacturing process	Profitability	2
Exposure to Environmental Impacts	1	n.a.	n.a.	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security	Sector Trend; Company's Market Position; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction; employee recruitment and retention	Sector Trend; Company's Market Position; Sector Competitive Intensity; Profitability	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in consumer preferences and social trends	Diversification; Sector Trend; Company's Market Position; Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

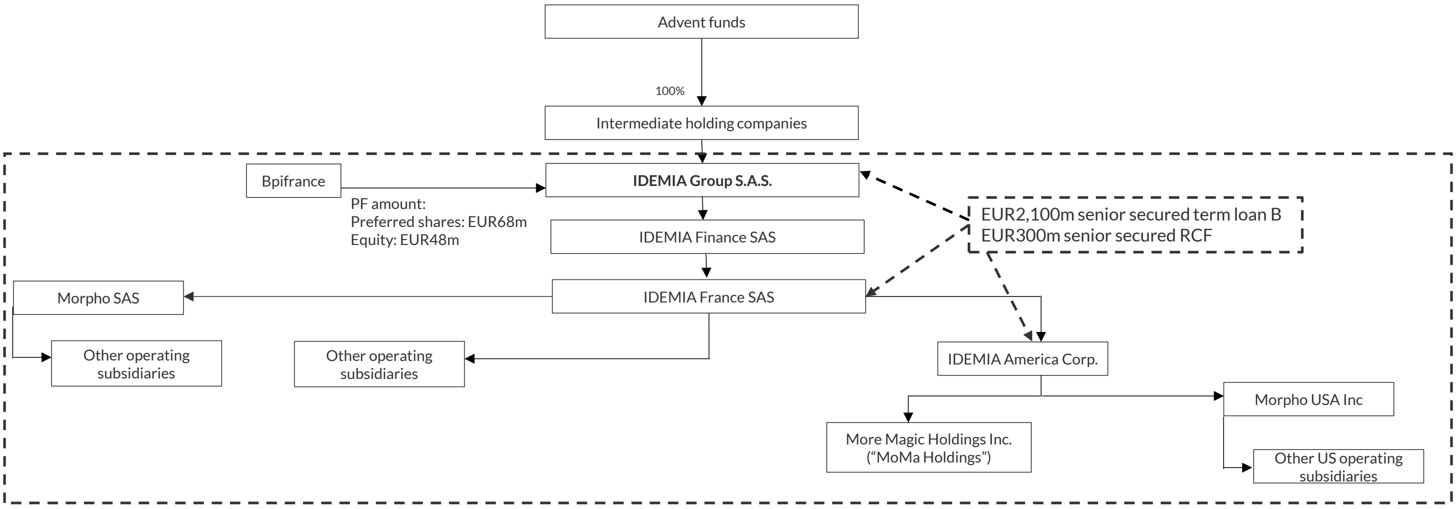
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Note: IDEMIA is owned by private equity fund Advent and state-owned bank Bpifrance.
Source: Fitch Ratings, Fitch Solutions, IDEMIA Group S.A.S., as of November 2020

Peer Financial Summary

Company	IDR	Financial statement date	Gross revenue (EURm)	Operating EBITDA margin (%)	FCF margin (%)	FFO leverage (x)	FFO interest coverage (x)
IDEMIA Group S.A.S.	B						
	B	2019	2,339	13.8	-3.0	7.9	3.1
	B	2018	2,156	16.7	-7.0	7.2	3.0
	B	2017	1,795	14.7	-9.4	9.7	2.2
Nokia Corporation	BBB-						
	BBB-	2019	23,344	10.6	-4.7	2.4	-74.8
	BBB-	2018	22,580	11.9	-6.2	2.0	14.4
	BB+	2017	23,223	13.5	1.0	2.0	5.3
STMicroelectronics N.V.	BBB						
	BBB	2019	8,537	21.6	4.2	1.2	148.0
	BBB	2018	8,191	22.9	3.2	1.0	178.2
	BBB-	2017	7,401	20.2	1.4	1.2	129.0
Dedalus SpA	B						
		2019	199	18.2	-3.0	5.7	5.0
		2018	167	16.5	4.3	6.7	4.1
		2017	147	14.4	-6.0	10.7	2.8
TeamSystem Holding S.p.A.	B						
	B	2019	376	33.0	6.8	6.5	3.6
	B	2018	334	35.7	0.2	7.5	1.9
		2017	314	34.7	-5.7	9.3	1.5
Telefonaktiebolaget LM Ericsson	BBB-						
	BBB-	2019	21,450	11.0	1.2	1.6	22.2
	BBB-	2018	20,548	8.4	0.5	5.0	8.1
	BBB-	2017	20,924	6.2	0.4	11.3	3.7

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(EURm)		31 December 2019
Debt & Cash Summary		
TLB	as reported	2043
RCF	as reported	35
Other debt	as reported	50
Interest-bearing loans and borrowings		**2,128**
Factoring	32.7	43
Total debt with equity credit		**2,171**
Total off-balance sheet debt (8x long-term lease expense)	(f x 8)	320
Total lease-adjusted debt		**2,491**
Reported cash		206
Restricted cash	Fitch estimate	25
Cash and cash equivalents	as reported	**181**
Net debt with equity credit	(a)	**1,990**
Net lease-adjusted debt	(b)	**2,310**
Revenue	as reported	**2,339**
Revenue growth %		
Operating profit		101
Add back: Amortisation in P&L		-96.0
Add back: Impairment of goodwill and identified intangible assets		-
Add back: Non-recurring income and expenses in P&L		-14.0
Operating margin		**211.0**
Depreciation		76.7
Amortisation		104.3
Share-based payments		5.1
Reported EBITDA		**397**
Reported CFO		186
Lease adjustment		-31
Add back: Non-recurring items		74
Factoring adjustment		-13
Fitch CFO		**216**
FITCH EBITDA		
Operating profit		101
Add back: share-based payments		-5
Add back: Non-recurring income and expenses	from P&L	-14
Add back: DD&A	from cash flow statement	**-242**
Fitch EBITDA, post IFRS16		**362**

IFRS16 adjustment	presentation		**-40.0**
Lease interest expense	as reported		-9.0
D&A related to leases	assumption		-31.0
EBITDA (Fitch)	Calculated		**322.2**
EBITDA Margin %			13.8%
			2019
Operating EBITDA (Fitch)	as above		**322.2**
Gross interest paid	as reported	(c)	-89.2
Interest received	as reported		-
Net interest paid	Calculated	(d)	-89.2
Cash tax paid	as reported		-45.4
Dividends to minorities net of dividends received	as reported		-
Other items before FFO	Calculated		-1.8
Funds flow from operations (FFO)	As below	(e)	**185.80**
FFO Margin %			7.9%
Change in working capital	as reported		43.3
Factoring adjustment			-13.1
Change in working capital (Fitch)			30.2
Cash flow from operations (Fitch)	Calculated		**216**
Tangible and intangible assets	as reported		-146.7
Capitalised R&D	as reported		-63.8
Capital expenditure	Calculated		-210.5
As % of revenue			
CFO less Capex	Calculated		**5.5**
			0.2%
CFO - Capex / Gross debt			**0.3%**
Non-recurring costs	FY19 presentation		**-74.0**
Pre-dividend FCF	company		**-68.5**
Pre-dividend FCF margin, %			
Dividends			**-1.6**
FCF			**-70.1**
FCF margin, %			
Total debt/FCF			
Long-term (LT) lease expense	as reported	(f)	40.0
			2%
FFO Interest Coverage (x)			**3.08**
(FFO + net interest paid) / gross interest paid		(e - d) /(-c)	
FFO fixed-charge coverage (x)			
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases)		(e-d+f) / (-c+f)	
Total debt / EBITDA (x)			
Net debt / EBITDA (x)			**6.2**
FFO adjusted net leverage (x)			
Net lease-adjusted debt / (FFO + net interest paid + LT leases)		b / (e-d+f)	**7.3**
FFO gross leverage (x)			
Gross debt / (FFO + net interest paid)		b / (e-d)	**7.9**

Source: Fitch Ratings, Fitch Solutions, IDEMIA Group S.A.S.

Fitch Adjustment and Reconciliation Table

(EURm) 31 December 2019	Notes and Formulas	Reported Values	Sum of Adjustments	CORP - Lease Treatment	Other Adjustments	Adjusted Values
Income Statement Summary						
Revenue		2,339				2,339
Operating EBITDAR		362				362
Operating EBITDAR After Associates and Minorities	(a)	362				362
Operating Lease Expense	(b)	0	40	40		40
Operating EBITDA	(c)	362	-40	-40		322
Operating EBITDA After Associates and Minorities	(d) = (a-b)	362	-40	-40		322
Operating EBIT	(e)	120	-9	-9		111
Debt and Cash Summary						
Total Debt with Equity Credit	(f)	2,129				2,129
Lease-Equivalent Debt	(g)	0	320	320		320
Other Off-Balance-Sheet Debt	(h)	0				0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	2,129	320	320		2,449
Readily Available Cash and Equivalents	(j)	206	-25		-25	181
Not Readily Available Cash and Equivalents		8	25		25	33
Cash Flow Summary						
Operating EBITDA After Associates and Minorities	(d) = (a-b)	362	-40	-40		322
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	1				1
Interest (Paid)	(m)	-98	9	9		-89
Cash Tax (Paid)		-45				-45
Other Items Before FFO		-77	74		74	-3
Funds from Operations (FFO)	(n)	143	43	-31	74	186
Change in Working Capital (Fitch-Defined)		43				43
Cash Flow from Operations (CFO)	(o)	186	43	-31	74	229
Non-Operating/Nonrecurring Cash Flow		0	-74		-74	-74
Capital (Expenditures)	(p)	-211				-211
Common Dividends (Paid)		-2				-2
Free Cash Flow (FCF)		-26	-31	-31		-57
Gross Leverage (x)						
Total Adjusted Debt/Operating EBITDAR[a]	(i/a)	5.9				6.8
FFO Adjusted Leverage	(i/(n-m-l-k+b))	8.9				7.8
FFO Leverage	(i-g)/(n-m-l-k)	8.9				7.8
Total Debt with Equity Credit/Operating EBITDA[a]	(i-g)/d	5.9				6.6
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	-1.1%				0.9%
Net Leverage (x)						
Total Adjusted Net Debt/Operating EBITDAR[a]	(i-j)/a	5.3				6.3
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	8.0				7.2
FFO Net Leverage	(i-g-j)/(n-m-l-k)	8.0				7.1
Total Net Debt with Equity Credit/Operating EBITDA[a]	(i-g-j)/d	5.3				6.0
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	-1.3%				1.0%
Coverage (x)						
Operating EBITDA/(Interest Paid + Lease Expense)[a]	a/(-m+b)	3.7				2.8
Operating EBITDA/Interest Paid[a]	d/(-m)	3.7				3.6
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	2.4				2.4
FFO Interest Coverage	(n-l-m-k)/(-m-k)	2.4				3.1

[a] EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, IDEMIA Group S.A.S.

Recovery Worksheet

Issuer Name	IDEMIA Group S.A.S.
Issuer Default Rating	B
Statement Date	30 June 2020
Currency	EURm

Going Concern Enterprise Value	
Going Concern EBITDA	300
EBITDA Multiple (x)	6.0
Additional Value from Affiliates, Minority Interest, Other	-
Going Concern Enterprise Value	**1,800**

Liquidation Value (LV)	Book Value	Advance Rate (%)	Available to Creditors
Cash	307	0	-
Accounts Receivable	456	75	305
Inventory	237	50	118
Net Property, Plant and Equipment	348	50	174
LV of Off Balance Sheet Assets	-	100	-
Additional Value from Affiliates, Minority Interest, Other	-	100	-
Total Liquidation Value			**597**

Enterprise Value for Claims Distribution	
Greater of Going Concern Enterprise or Liquidation Value	1,760
Less Administrative Claims	0
Total Enterprise Value	**1,584**

Distribution of Value

Priority	Amount	Concession Allocation	Value Recovered	Recovery (%)	Recovery Rating	Notching	Rating
Local facilities	40	0	40	100	RR1	+3	BB
Senior secured debt	2,343	0	1,543	66	RR3	+1	B+

Source: Fitch Ratings, Fitch Solutions, IDEMIA Group S.A.S.

Key Recovery Rating Assumptions

In conducting its bespoke recovery analysis, Fitch estimates that IDEMIA's intellectual property, patents and recurring contracts, in case of default, would generate more value in a going-concern restructuring than a liquidation of the business.

- We estimate that post-restructuring EBITDA would be around EUR300 million. We would expect a default to come from either a fall in revenue and EBITDA from the loss of major contracts following reputational damage, for example as a result of compromised technology (leading to sustained high leverage and negative cash flow) or from a major shift in technology usage that can make IDEMIA's products obsolete.
- We have applied a 6x distressed multiple to post-restructuring EBITDA to account for IDEMIA's scale, customer and geographical diversification as well as exposure to secular growth in biometric-enabled identification technology. The 6x multiple is also around half the valuation paid for Morpho (12.4x), which, in our view, reflects an appropriate distressed valuation.
- 10% of administrative claims have been taken off the enterprise valuation to account for bankruptcy and associated costs, and we assume the company's revolving credit facility is fully drawn, as per our criteria
- EUR40 million of prior-ranking debt at operating subsidiaries included in recovery analysis as IDEMIA's senior secured term loan B (TLB) and RCF are structurally subordinated to debt at its operating subsidiary
- Our recovery expectation for senior secured lenders of the TLB and the RCF is 66% (in line with an 'RR3' recovery rating), leading to a one-notch uplift for the senior secured debt rating at 'B+'.

B+/B/B-/CCC Table

Considerations	B+	B	B-	CCC+	CCC	Trend	Fitch's view
Business model	Robust	Sustainable	Intact	Redeemable	Compromised	◀▶	IDEMIA's business profile benefits from structural growth in demand for trusted identities, offsetting softness in more traditional markets (such as SIM cards and bank cards). The business has large scale, geographical diversification and some pricing power due to high barriers to entry. The group has around 50% revenue exposure to public sector contracts, which should provide a more sustainable stream of revenue.
Strategy/ execution risk	Limited	Moderate	Meaningful	Challenging yet achievable	Uncertain	◀▶	IDEMIA is constantly investing in product innovation to maintain technology leadership. They are not chasing market share at the expense of profitability in difficult markets. The synergies plan is credible and should be largely achieved.
Cash flow	Consistently positive	Neutral to positive	Volatile	Mostly negative	Constantly negative	▼	IDEMIA had volatile FCF in the past three years, mainly due to restructuring items. We expect FCF to return to positive on a sustained basis from FY21 (year-end December) onwards as synergies from the integration of Morpho as well as cost-optimisation efforts materialise.
Leverage profile	Clear deleveraging path	Deleveraging capacity	High but sustainable	Significant outlier	Unsustainable	▼	Current leverage is high but likely to reduce over time from better operating performance. According to our rating case, FFO leverage should decrease to below the downgrade threshold by 2022.
Governance and financial policy	Committed	Some commitment to deleveraging	Aggressive	Ineffective	Uncommitted	◀▶	At the initial transaction, Advent signaled a willingness to delever towards 4x. No historical dividends have been paid and there is no intention to pay dividends in the near term. M&A, if any, should be disciplined.
Refinancing risk	Limited	Manageable	High	Off-market options	Excessive	◀▶	According to our rating case, FFO leverage should be around 6.7x by 2022, one year before the reimbursement of the TLB, making refinancing risk manageable.
Liquidity	Comfortable	Satisfactory	Limited	Minimal headroom	Poor/partly funded	◀▶	IDEMIA has minimal short-term debt requirements, so cash on balance sheet is adequate. Liquidity is enhanced by a EUR300 million committed RCF, of which EUR225 million was undrawn at end-3Q20.
Conclusion	**B/Negative**						

Source: Fitch Ratings

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.