



RATING ACTION COMMENTARY

Fitch Affirms IDEMIA's Term Loan B at 'B+' on Final TLB Increase

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Fitch Ratings - Warsaw - 19 Dec 2023: Fitch Ratings has affirmed IDEMIA Group S.A.S.'s aggregate EUR1,800 million and USD750 million term loan facilities due in 2028 at 'B+' with a Recovery Rating of 'RR3'. The borrowers are IDEMIA Group S.A.S., IDEMIA France S.A.S. and IDEMIA America Corp.

The EUR300 million increase of the existing EUR1,500 million term loan B (TLB) will be used together with available cash to fund a EUR350 million preferred equity repayment to shareholders. The additional debt delays deleveraging, with debt service and cash flow metrics adequately positioned at the 'B' rating through to 2025. The rating gives the company flexibility to execute its growth strategy or accommodate additional shareholder distributions, which we would view as event risk.

The 'B' IDR reflects IDEMIA's underlying earnings volatility, high leverage and thin free cash flow (FCF) margins, owing to large capex to remain technology-competitive. This is balanced by its strong market position with global scale and diversification.

KEY RATING DRIVERS

Debt-Funded Dividend: Pro-forma for the EUR300 million TLB add-on, we forecast EBITDA leverage at around 4.8x in 2024 before it slightly reduces towards 4.6x in 2025. The extension of IDEMIA's TLBs and revolving credit facility (RCF) earlier this year into 2028 is credit-positive for prudent liabilities management. However, higher interest rates and gross debt, including the EUR300 million TLB add-on, weighs on FCF and interest coverage metrics. Following the expiry of existing interest-rate hedges, we forecast EBITDA interest cover at around 2.5x-3.0x in 2024-2025.

Reduced Recovery on TLB: The upsized EUR300 million add-on slightly reduces our recovery estimates on the TLB. Based on current metrics and assumptions, pro-forma for

the additional EUR300 million TLB, our recovery analysis generates a ranked recovery at 53% in the 'RR3' band for senior secured debt. This indicates a 'B+' instrument rating for the TLB. Further debt incurrence without corresponding increases in EBITDA may lead to negative action on the instrument rating.

Strong 9M23 Performance: Revenues for 9M23 were up 11.4% yoy at constant currency, with enterprise and government businesses up 9.9% and 7%, respectively. However, normalisation of volumes in enterprise and, in particular, payment services, caused enterprise revenue to fall 4% yoy in 3Q23 at constant currency, which was counterbalanced by a high value product mix (personalisation, eSIM, etc). Solid growth in the company's government business raised revenues in 3Q23 by 11.3% yoy, with strong momentum in border control, civil ID and transportation (TSA enrollment).

For further information on the key rating drivers, see our recently published commentary:

<https://www.fitchratings.com/research/corporate-finance/fitch-revises-idemia-outlook-to-stable-affirms-idr-at-b-05-12-2023>

DERIVATION SUMMARY

IDEMIA's ratings are supported by strong global market positions in identification, authentication, payment and connectivity solutions. IDEMIA's broader 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's, they have greater scale and stronger cash flows as well as no or very low net leverage.

Fitch recognises IDEMIA's strong business position and technology leadership within its chosen markets, but its smaller scale and high leverage place its rating in the 'B' category. Higher-rated fintech companies such as Nexi S.p.A. (BB+/Stable) benefit from market leadership, strong growth prospects and healthy cash flow generation.

Similarly-rated European software companies such as Dedalus SpA (B-/Negative) and TeamSystem S.p.A (B/Stable) have subscription-based recurring revenue platforms and demonstrate better deleveraging prospects than IDEMIA and therefore have higher leverage tolerance for their rating category.

IDEMIA is broadly comparable with the 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, healthy liquidity and global diversification.

KEY ASSUMPTIONS

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

- Revenue growth of 8% in 2023, followed by low-to-mid single-digit growth in 2024-2025
- Fitch-defined EBITDA margin at around 19.5% in 2023 and around 18.5%-19.0% in 2024
- Capex at around EUR165 million-EUR170 million per year in 2023-2025
- All restructuring charges are reflected in EBITDA and FFO
- A EUR350 million dividend by end-2023, followed by no M&A or dividends to 2025

RECOVERY ANALYSIS

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

We have assumed a 10% administrative claim in the recovery analysis.

Our analysis assumes post-restructuring going-concern EBITDA of around EUR300 million. This reflects stress assumptions of a 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 a major shift in technology usage making IDEMIA's products obsolete.

We have applied a 6x distressed multiple, reflecting IDEMIA's scale, customer and geographical diversification as well as exposure to secular growth in biometric-enabled identification technology. We also assume a fully drawn EUR300 million RCF.

We deduct administrative claims, EUR85 million of factoring, and EUR65 million of senior debt at operating subsidiaries as prior-ranking claims ahead of the RCF and TLB in the liability waterfall. Based on current metrics and assumptions, the waterfall analysis generates expected recoveries for the senior secured TLBs at 53%, hence in the 'RR3' band, indicating a 'B+' instrument rating.

RATING SENSITIVITIES

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

- Structurally improved profitability with sustained mid-single-digit FCF margins
- EBITDA gross leverage below 4.5x on a sustained basis, including additional clarity around capital allocation and leverage targets
- EBITDA interest coverage above 3.0x

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

- A material loss of market share or significant erosion of business or technology leadership in core operations
- EBITDA gross leverage above 6.0x on a sustained basis without a clear path for deleveraging
- Sustained neutral to negative FCF
- EBITDA interest coverage below 2.5x

LIQUIDITY AND DEBT STRUCTURE

Satisfactory Liquidity: IDEMIA had a reported cash position of around EUR350 million as of September 2023, and so around EUR300 million of available cash pro-forma for the anticipated dividend payment. We forecast positive FCF in 2023 and 2024, further supported by an undrawn EUR300 million RCF, yielding satisfactory liquidity.

Manageable Refinancing Risks: We assess refinancing risks as manageable owing to some forecast deleveraging, and interest cover metrics sustained within the 'b' level through to 2025. The RCF and TLB maturities have been extended into 2028. We expect increased interest costs after expiry of interest hedging by end-2023 and reduced but still positive FCF in 2024 and 2025.

ISSUER PROFILE

IDEMIA, headquartered in France, develops, manufactures and markets specialised security technology products and services worldwide, mainly for the payments,

telecommunications, public security and identity markets.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			RECOVERY ⇅	PRIOR ⇅
IDEMIA Group S.A.S.	LT IDR	B Rating Outlook Stable			B Rating Outlook Stable
	Affirmed				
senior secured	LT	B+	Affirmed	RR3	B+
IDEMIA America Corp.					
senior secured	LT	B+	Affirmed	RR3	B+
IDEMIA France S.A.S.					

senior secured

LT

B+

Affirmed

RR3

B+

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APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 14 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub. 04 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 04 Nov 2023\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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IDEMIA America Corp.	EU Issued, UK Endorsed
IDEMIA France S.A.S.	EU Issued, UK Endorsed
IDEMIA Group S.A.S.	EU Issued, UK Endorsed

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