



## RATING ACTION COMMENTARY

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

Tue 19 Dec, 2023 - 11:07 AM ET

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+

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Dorian Czapla**

Senior Analyst

Primary Rating Analyst

+48 22 103 3039

dorian.czapla@fitchratings.com

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce

Marszalkowska 107, 00-110 Warsaw

**Elin Lanneström**

Director

Secondary Rating Analyst

+46 85051 7808

elin.lannestrom@fitchratings.com

**Pablo Mazzini**

Senior Director

Committee Chairperson

+44 20 3530 1021

pablo.mazzini@fitchratings.com

**MEDIA CONTACTS****Isobel Burke**

London

+44 20 3530 1499

isobel.burke@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## 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](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

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

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other

relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and

distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO’s credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

## **SOLICITATION STATUS**

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

## **ENDORSEMENT POLICY**

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s [Regulatory Affairs](#) page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

