INTRUM

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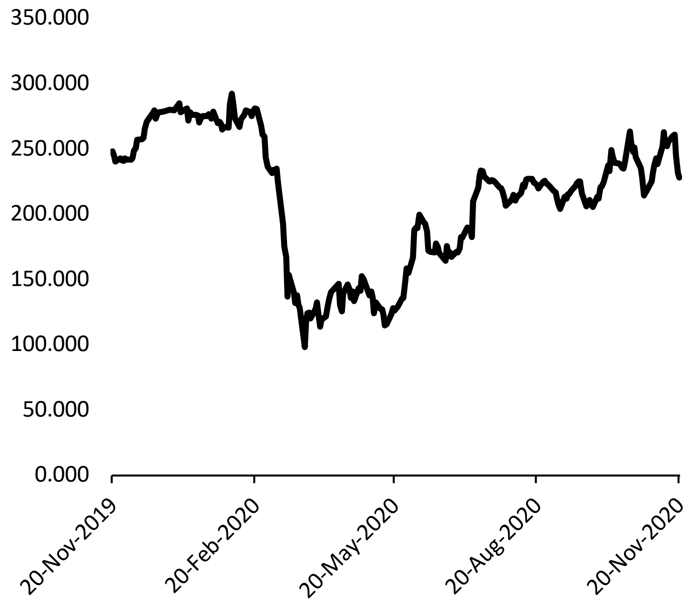
INTRUM: MAINTAINING RECOVERY AFTER DIP IN MARCH AND WELL-POSITIONED TO ACCELERATE IN A POST-COVID CLIMATE

Company Overview:

Company Name:	Intrum AB
Exchange:	Nasdaq Stockholm
Ticker:	INTRUM.ST
Country:	Sweden
Sector:	Corporate Financial Services

Company Data:

Price Rating:	Buy
Price Target:	SEK 300
Implied Upside from Current Price:	29.2%
Current Price:	SEK 228
Price Date:	22/11/20
52 Week High (22-Sep-2020):	SEK 292
Market Cap:	SEK 27.71 (bn)
Enterprise Value:	SEK 80.05 (bn)



Company Overview

- Intrum is a Sweden-Based Credit Management Services (CMS) and debt buying company offering credit optimisation services such as credit decisions, credit monitoring and credit information as well as acquisitions of debt portfolios.
- In brief, Intrum has a simplified structure with three business areas; CMS, Portfolio Investments (PI) and Strategic Markets (Greece, Italy and Spain), where the latter reflects Intrum's impressive growth in these geographical regions in the last years.
- By providing a credit market in which companies can efficiently provide and receive credit, Intrum makes sure that economies and business are functioning in its operating markets.
- With approx. 80,000 clients in 25 countries, Intrum is the European market leader in overdue debt service management.
- Perhaps Intrum's greatest competitive advantage lies in their collection management platform, controlling the entire process.
- By having issued bonds and increased credit facilities in 2019, Intrum's financial profile was strong as the Covid-19 pandemic hit, which has helped Intrum cope with delays in cash flows due to general restrictions and reduced activity in legal systems.

Figure 1: Sales by Product Area

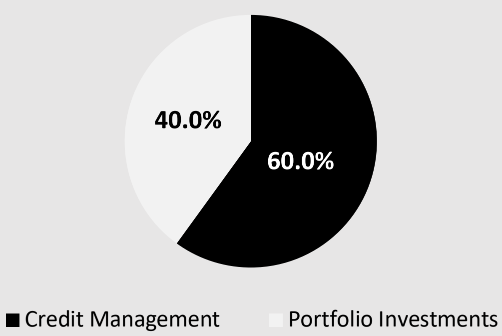
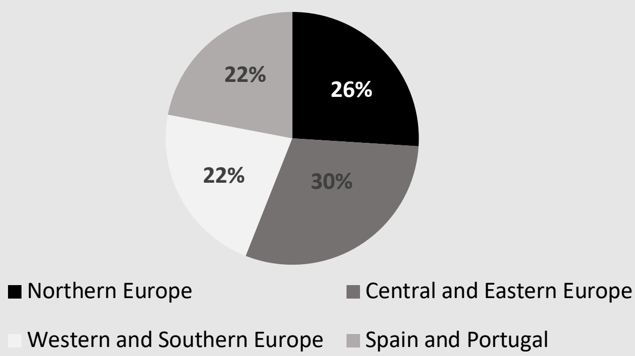


Figure 2: Sales by Region



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Reasons to Invest in Intrum

Intrum's primary strengths lies in being the largest player among CMS- and purchased debt companies as well as its large geographical footprint that reduces the dependence on individual markets. Furthermore, trends shaping the industry such as increasing NPL portfolios and higher pressure on banks to address overdue receivables benefit Intrum. In addition, Intrum's refinancing in 2019 has placed the company in a strong financial position, where leverage ratios are expected to decrease going forward and operational margin increase, following its optimistic trend in the last few years.

1. Market Leader and Tailwinds from Trends Shaping the Industry

- Intrum covers 98% of the European market for NPL portfolios, bringing significant opportunities in the PI segment.
- After the financial crisis in 2008, significant regulatory changes have been implemented to encourage banks to address their overdue receivables at early stages in order to reduce balance sheet risks, forcing selloffs of debt portfolios.
- From being the market-leading CMS company, Intrum is also participating in discussions as the European Commission prepares legislative proposals and new regulations to build a functioning market for overdue loans.
- By having a diverse business model of CMS (approx. 60% of sales) and PI (approx. 40% of sales), along with a large geographical footprint in the PI segment, Intrum stands out against its main competitors.
- According to the ECP 2019 Report, 24% of Europe's customers need to borrow to pay invoices (20% in 2018).

Figure 3: European Banks' NPL portfolios (€B, 2019)

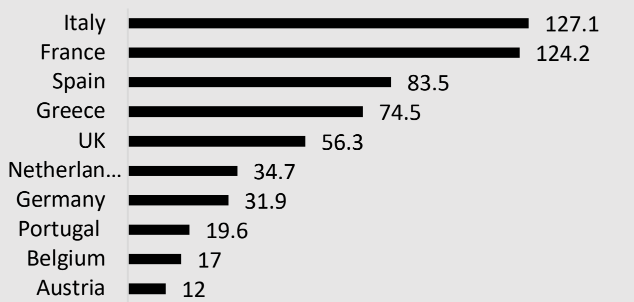
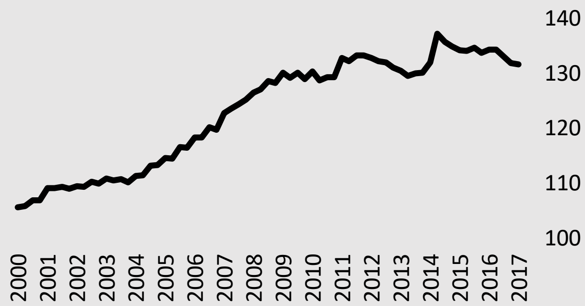


Figure 4: Corporate Debt Ratio Euro Area (% of GDP)



2. Strong Financial Position and Improving Leverage Ratios and Margins

- In 2019, Intrum was refinanced by issuing new bonds with maturities of 7-8 years with beneficial interest rates of < 5%.
- As a result of the refinancing, Intrum entered the Covid-19 crisis in a strong financial position and thus its performance in 2020 has been above expectations under the circumstances, especially for operating in such a debt-heavy industry.
- EBITDA and Operating Margin in positive trend and we believe this will continue to increase into 2025.
- Assuming that a Covid-19 vaccine is in place in early 2021, Intrum's EBITDA ought to increase and thus improve leverage.

Figure 5: Intrum EBITDA Margin and Operating Margin

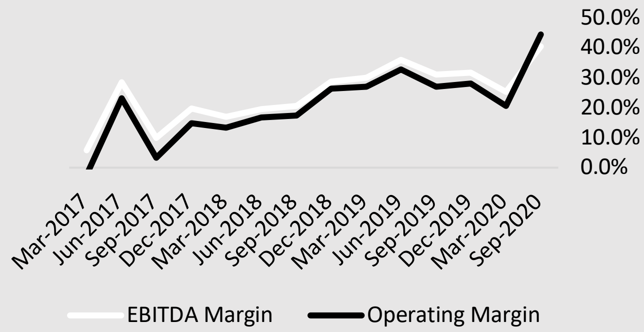
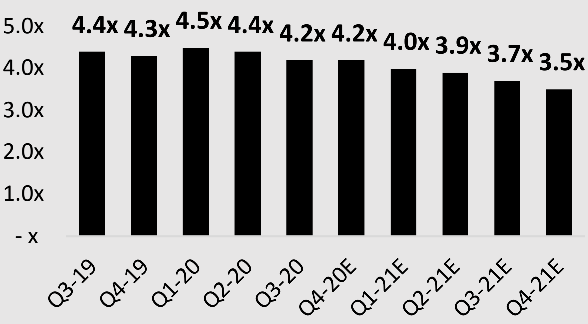


Figure 6: Net Debt/RTM Cash EBITDA



Evolution Methodology

We made usage of a discounted cash flow (DCF) analysis, combined with an estimated exit multiple 12.2x from a trading comps analysis with Axactor, B2Holding and Hoist Finance to reach our valuation and price target of 300 SEK per share, implying an upside of 29.2% from the closing price at 22/11/2020 and an EV/EBIT 21E of 17.3x (see underlying assumptions in model below).

- Since Intrum's business structure consist of both CMS and PI segments, it was tough to find a truly comparable companies' universe. Thus, we have weighted the multiples from our comps based on the specific segments of our comps to reach an EV/EBIT 20e of 14.2x. Note that although Intrum operates within the corporate financial services industry, its business and financial profile differ substantially to that sector due to its unique structure and hence, EV/EBIT multiples might be misleading.
- We believe that in 2025, EBIT margins are expected to have reached a steady 33% and sales growth 2% going forward.

Figure 7: Intrum Group Discounted Cash Flow Model

DCF Analysis Intrum

	Historical Period				Projection Period					Perpetuity Projection Period				
	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	6088.0	9434.0	13442.0	15808.0	15017.6	16519.4	17345.3	18039.1	18580.3	18951.9	19331.0	19717.6	20111.9	20514.2
% Growth		55%	42%	18%	-5.0%	10.0%	5.0%	4.0%	3.0%	2%	2%	2%	2%	2%
EBIT	1978.0	3490.0	3978.0	2060.0	4204.9	4955.8	5377.1	5772.5	6038.6	6254.1	6379.2	6506.8	6636.9	6769.7
% Growth		76.44%	13.98%	-48.22%	104.12%	17.86%	8.50%	7.35%	4.61%	3.57%	2.00%	2.00%	2.00%	2.00%
% Margin	32.49%	36.99%	29.59%	13.03%	28.00%	30.00%	31.00%	32.00%	32.50%	33.00%	33.00%	33.00%	33.00%	33.00%
Less: Taxes	342.0	389.0	599.0	424.0	1051.2	1239.0	1344.3	1443.1	1509.7	1563.5	1594.8	1626.7	1659.2	1692.4
Marginal Tax Rate	17%	11%	15%	21%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
NOPAT	1636.0	3101.0	3379.0	1636.0	3153.7	3716.9	4032.8	4329.4	4529.0	4690.6	4784.4	4880.1	4977.7	5077.3
% Growth		90%	9%	-52%	93%	18%	9%	7%	5%	4%	2%	2%	2%	2%
Plus: Depreciation and Amortisation	171.0	436.0	900.0	4284.0	450.5	495.6	520.4	541.2	557.4	568.6	579.9	591.5	603.4	615.4
% Sales	2.81%	4.62%	6.70%	27.10%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Less: Acquisititons of PP&E	26.0	56.0	74.0	452.0	150.18	165.19	173.45	180.39	185.80	189.52	193.31	197.18	201.12	205.14
% Sales	0.4%	0.6%	0.6%	2.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Less: Acquisitions of Intangibles	117.0	116.0	232.0	247.0	300.4	330.4	346.9	360.8	371.6	379.0	386.6	394.4	402.2	410.3
% Sales	1.92%	1.23%	1.73%	1.56%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Less: Net Change in Working Capital	95.0	209.7	173.6	(41.4)	43.1	41.3	22.7	19.1	14.9	10.2	10.4	10.6	10.8	11.1
NWC	28.0	238.0	411.0	371.0	413.0	454.3	477.0	496.1	511.0	521.2	531.6	542.2	553.1	564.1
NWC (% Sales)	0.46%	2.52%	3.06%	2.34%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Unlevered Free Cash Flow	1,569.0	3,155.3	3,799.4	5,262.4	3,110.6	3,675.6	4,010.1	4,310.3	4,514.1	4,680.4	4,774.0	4,869.5	4,966.9	5,066.2
% Growth		50%	17%	28%	-69%	15%	8%	7%	5%	4%	2%	2%	2%	2%
Discount Period					0.917	1.917	2.917	3.917	4.917	5.917	6.917	7.917	8.917	9.917
Discount Rate					0.95	0.89	0.84	0.79	0.74	0.70	0.66	0.62	0.58	0.55
Present Value of Free Cash Flow					2,942.8	3,273.2	3,361.4	3,401.0	3,352.7	3,272.1	3,141.7	3,016.4	2,896.1	2,780.6

Implied Exit Multiple using PGM	
Terminal Year FCF (2029E)	5,066
Perpetuity Growth Rate	1.50%
Terminal Value	*108,568*
Terminal Year EBITDA (2029E)	7385.1
Implied Exit Multiple	15.2x

Implied Perpetuity Growth Rate using EMM	
Terminal Year EBITDA (2029E)	7,385
Exit Multiple (EV/EBIT 21e)	12.2x
Terminal Value	*90,098*
Terminal Year FCF (2029E)	5,066
Implied Perpetuity Growth Rate	0.42%

Enterprise Value	
Cumulative Present Value of FCF	31,438
Avg. Terminal Value (EMM & PGM)	99,333
Discount Factor Terminal Year	0.55
Present Value of Terminal Value	54,245
% of Implied Enterprise Value	63%
Implied Enterprise Value	85,683

Implied EV/EBITDA	
Enterprise Value	85,683
EBIT 2021E	4955.8
Implied EV/EBIT 21E	17.3x

Implied Equity Value	
Enterprise Value	85,683
Less: Total Debt	51,817
Less: Preferred Securities	
Less: Noncontrolling Interest	
Plus: Cash and Cash Equivalents	2417
Implied Equity Value	**36,283**

Implied Upside/ (Downside)	
Diluted Shares Outstanding	121.1
Implied Share Price	300
Current Share Price (Close on Nov 22)	232
Upside/(Downside)	29.2%

WACC Schedule	
Market Value of Equity	27707
Market Value of Debt	51817
Debt-to-Total Cap.	65.2%
Equity-to-Total Cap.	34.8%
Cost of Debt	4.92%
Tax Rate	25%
After-tax Cost of Debt	3.7%
Risk-free Rate	0.8%
Market Risk Premium	5.23%
Levered Beta	1.95
Cost of Equity	11.0%
WACC	6.2%

Future Catalysts:

- **Post Covid-19:** as restrictions and closure of legal institutions will be released, Intrum may shift its focus to normal again.
- **Increased Digital Interaction:** as with other sectors, the CMS industry is becoming increasingly digital, and Intrum's current development of leading-edge digital systems and services will affect their scalability and cost structure going forward.
- **Response to a Cash-less Society:** as payments with credits increases, Intrum's customers will do the same.

Investment Risks:

- **Macroeconomic climate:** CMS industry negatively correlated with a weaker economy.
- **Liquidity:** since Intrum is dependent on access to loan credits, high liquidity is crucial to meet contractual obligations.
- **Epidemics and pandemics:** although we now seem to be moving towards a vaccine, Covid-19 turned out devastating for Intrum, especially in Q1 and Q2 due to restrictions, closures of legal institutions and delayed cash payments.
- **Portfolio Investments:** as Intrum acquires debt portfolios, all the rights and risks associated with the receivables are assumed. An overestimation of the IRR of debt collection may harm Intrum's revenues in the PI segment.