BLS Beteiligungs GmbH
Germany, Business Services

SCOPE BB+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover (x)	20	9	13	17
Scope-adjusted debt/EBITDA (x)	2.0	0.7	0.7	0.4
Scope-adjusted funds from operations/debt (%)	28	120	92	183
Scope-adjusted free operating cash flow/debt (%)	27	114	87	171

Rating rationale

The issuer rating reflects BLS Beteiligungs GmbH's successful business model as a platform for bicycle leasing in Germany, a market that has rapidly grown in recent years and is still expected to do so during the rating horizon. BLS acts as an intermediary between companies that sign leasing contracts on behalf of their employees and bike manufacturers and dealers in the context of Dienstfahrrad leasing; it also provides financing for bike purchases on behalf of its customers. Key determinants of our business risk assessment are the company's market share of more than 20% only eight years after its founding and its very good profitability in its core segment of bike leasing brokerage. BLS' financial risk profile (assessed at A) is presently much stronger from a rating perspective than its business risk profile. This is due to the business model's low cash absorption in a non-capital-intensive industry.

Outlook and rating-change drivers

The Outlook is Stable and reflects our expectation that BLS' balance sheet will continue to reflect small amounts of financial debt and its ability to finance significant growth without jeopardising credit metrics.

A positive rating action could result from a successful execution of growth plans and no emergence of additional competitors. It could also be supported by improved diversification through BLS' expansion into other leasing products.

A negative rating action could result from a sustained increase in leverage to above 2.5x. This could be caused by BLS' inability to increase platform use to about a third of total refinancing volumes and to lessen its dependence on traditional financing via the forfaiting of receivables.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
26 Jun 2023	New	BB+/Stable

Ratings & Outlook

Issuer	BB+/Stable
Senior secured debt	BB+

Analyst

Olaf Toelke
+49 69 6677389 11
o.toelke@scoperatings.com

Related Methodology

General Corporate Rating Methodology; July 2022

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Significant growth and potential for further growth • Second largest provider of bike leasing services in Germany • Strong credit metrics • Avoiding traffic-related pollution and fostering health (ESG driver)	• Funding risk of future growth • Bike leasing demand dependent on maintained tax benefit

Positive rating-change drivers	Negative rating-change drivers
• Strong growth and diversification	• Leverage sustained at above 2.5x

Corporate profile

BLS is a B2B service company active in the brokerage of bike leasing contracts. It operates a platform for companies signing leasing contracts on behalf of their employees and bike manufacturers and dealers in the context of Dienstfahrrad leasing, a fiscally advantageous policy that allows employees to lease bikes over 36 months by deducting the monthly leasing rate from their gross salary. At the end of the leasing period, employees can either return the bike or purchase it for its residual value.

In 2021, BLS' acquisition of long-time leasing partner Hofmann Leasing (HL) marked its entry into the financing market. With about 118,000 bikes delivered in 2022, BLS is Germany's second-largest bike leasing platform after Jobrad. The segment has experienced very strong revenue growth in the last few years, as evidenced by its 45% YoY growth in the number of bikes leased in 2022. BLS provides a full service that includes insurance and services such as bike maintenance, which most competitors do not. In July 2021, BLS' two founders sold 60% of the company to financial investor Brockhaus Technologies AG (BKHT), having retained the remainder between themselves. BLS is BKHT's acquisition vehicle.

Financial overview

				Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover (x)	22	20	9	13	17
Scope-adjusted debt/EBITDA (x)	1.5	2.0	0.7	0.7	0.4
Scope-adjusted funds from operations/debt (%)	46	28	120	92	183
Scope-adjusted free operating cash flow/debt (%)	28	27	114	87	171
Scope-adjusted EBITDA in EUR m					
EBITDA	17.5	23.5	43.9	51.1	68.5
Other items	0	0	0	0	0
Scope-adjusted EBITDA	**17.5**	**23.5**	**43.9**	**51.1**	**68.5**
Funds from operations in EUR m					
Scope-adjusted EBITDA	17.5	23.5	43.9	51.1	68.5
less: (net) cash interest paid	-0.8	-1.2	-1.4	-3.0	0.0
less: cash tax paid per cash flow statement	-4.7	-9.0	-4.5	-15	-21
add: dividends from associates	0	0	0	0	0
Funds from operations	**12.0**	**13.3**	**38.0**	**33.1**	**47.5**
Free operating cash flow in EUR m					
Funds from operations	12.0	13.3	38.0	33.1	47.5
Change in working capital	0	0	0	0	0
Non-operating cash flow	-4.3	0.0	-0.7	0	0
less: capital expenditure (net)	-0.4	-0.5	-1.1	-2.1	-3.0
Free operating cash flow	**7.3**	**12.8**	**36.2**	**31.0**	**44.5**
Scope-adjusted debt in EUR m					
Reported gross financial debt	26.0	167.9	176.2	146.8	130.0
less: cash and cash equivalents	-14.1	-9.4	-23.7	-52.7	-86.2
add: non-accessible cash	14.1	9.4	23.7	52.7	86.2
less: Leasing receivables	0	-120.0	-144.5	-111.0	-104.0
Scope-adjusted debt	**26.0**	**47.9**	**31.7**	**35.8**	**26.0**

Table of Content

Environmental, social and governance (ESG) profile[1]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

Positive ESG driver

BLS promotes the use of bikes via its platform, thereby offering a substitute for traditional means of transportation such as cars and trains. It thereby fosters the reduction of environmental pollution and it contributes to wellbeing and personal health.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BB

Industry risk profile: BBB

We rate the overall business services industry at BBB.

The business services industry has medium cyclicality, though some sub-segments can be more volatile. Bike leasing has very low cyclicality, supported by favourable regulatory conditions and increased customer health awareness.

Entry barriers into the business services industry are medium. Entry barriers are lowered by the asset-light character of pure service-oriented companies like BLS, but increased by the need for skilled staff, broad networks and a strong reputation.

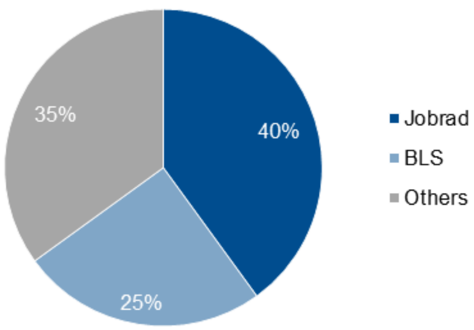
Substitution risks in business services are medium as some companies still consider the outsourcing of functions to external providers as too risky. Business service providers can be cost-efficient for companies. Providers seek to acquire more expertise to retain customers and expand coverage. The role of intermediation is hardly substitutable given companies' need to outsource and save costs, but competition is fierce.

Number two in Germany

Despite being a relatively young company, BLS is already Germany's second-largest bike leasing platform, a result of rapid growth in the last two years. In 2022, revenues increased by 46% to EUR 106m. We consider that this growth is due to two factors: i) a unique business model that offers a full service including insurance for both employees and employers; and ii) favourable demand trends stemming from regulatory and fiscal conditions such as tax benefits and employer advantages as well as the increased environmental and health focus of the general population, enhanced by the Covid-19 crisis. BLS had facilitated more than 250,000 leased bike contracts at end-2022 in Germany, which represents about a 25% market share. This is significant given that the company was founded only in 2015. Even so, Germany's market leader by far continues to be Jobrad, which holds about 40% of the market.

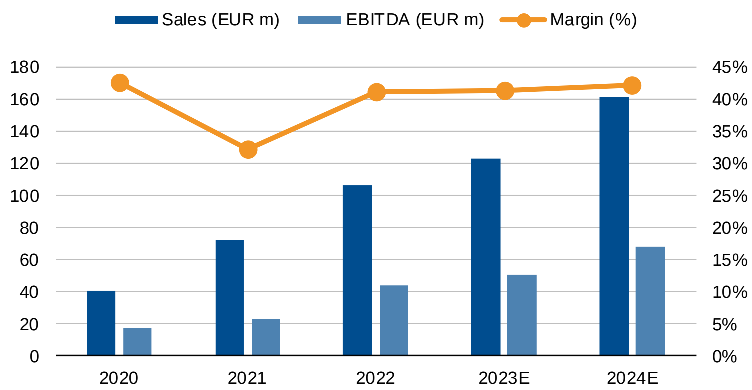
While BLS' management has so far focused only on bike leasing, its aims to expand its product range and trade outside Germany.

Figure 1: Solid market share in Germany



Sources: BLS, Scope (estimates)

Figure 2: Very strong growth and high EBITDA margin



Sources: BLS, Scope (estimates)

Weak diversification

Diversification continues to be the weak spot in BLS' competitive assessment as the company focuses on one segment and one geography. The underlying markets, while large, are increasingly competitive as new players like Volkswagen Financial Services also announced their entry into the bike leasing segment in 2021. Thus, while BLS' customer diversification (more than 45,000 corporate customers with about 2.5m employees) and the exposure to specialist bike retailers (about 6,500) are positive, overall diversification is held back by geographic and single-segment concentration.

HL acquisition neutral for ratings

The acquisition of leasing company HL allowed BLS to expand into other mobility-leasing categories such as personal computers, laptops or climate control equipment, as HL owns the relevant customer data. HL can thus also be seen as a facilitator of future enhanced diversification. In addition, BLS' recent market entry into Austria has enlarged geographical diversification, though only slightly so far. Given the very recent nature of the two changes, we have therefore not changed our assessment of diversification for the time being.

Funding had been diversified by the new financing platform set up with the help of CrossLend and BLS' insurance partner, ERGO (in charge of the securitisation of the leasing receivables and of selling them to investors). This partnership is unlikely to continue and might be replaced with another structure for asset-backed securities.

Excellent underlying profitability

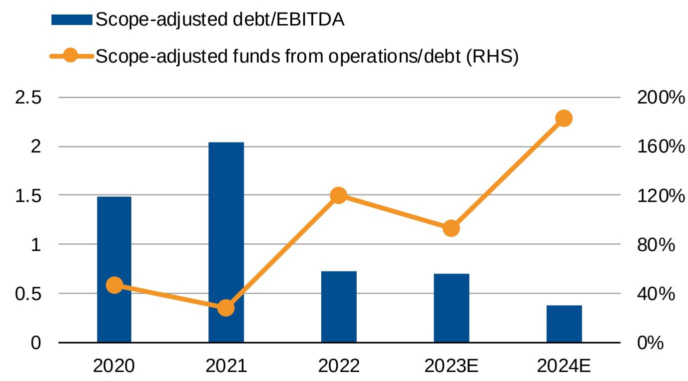
BLS' EBITDA margin is high for a business services company, at about 41% in 2022. This reflects i) high provision income from leasing and insurance companies; and ii) HL's margin, including income from the sale of leasing receivables via classic forfaiting or the investor platform. As most leasing contracts entail both insurance and bike maintenance elements, there is a EUR 300-400 consideration for each bike in the additional contractual services requested by the lessee. Given the projected growth in the bike leasing market, we believe current profitability is sustainable. The company also has high visibility on future commission income as a relatively fixed share of corporate customer employees (8%) lease a bike every year. This share has been significantly lower during the last 18 months due to supply chain bottlenecks in bike deliveries. However, this also means there is a strong potential for a catch-up in demand.

Financial risk profile: A

Strong financial risk profile

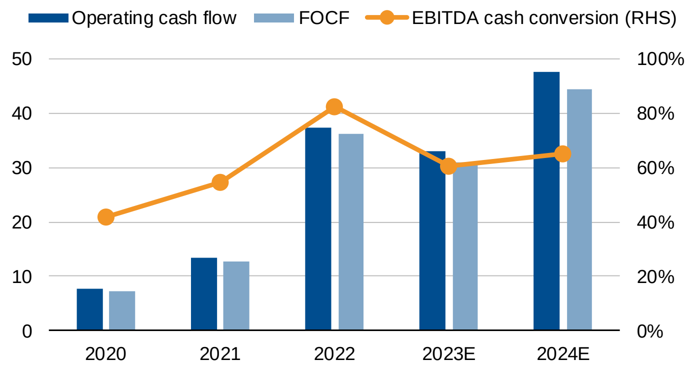
BLS' financial risk profile is characterised by very low financial debt as expressed by Scope-adjusted debt. Scope-adjusted debt consists of all financial debt on the balance sheet (comprising corporate financial obligations as well as the ones originating from the leasing and receivables refinancing business). Before the takeover by BKHT, BLS was even in a net cash position. The business can run with limited debt due to its asset-light nature as an agent/broker with no manufacturing or product exposure. The company also has no inventory as the bikes immediately get transferred to the customer after purchase and get reflected as a receivable on its balance sheet. BLS' main income on a standalone basis relates to provisions from leasing companies (13% of the bike price) and from its insurance partner, ERGO, which explains BLS' strong ability to generate cash. Capex and working capital changes do not greatly affect cash levels as leasing receivables and payables are broadly of similar value. Funding needs in a rapidly expanding environment can effectively be met with a combination of rising free cash generation and by refinancing via forfaiting, bank loans and asset-backed-security transactions.

Figure 3: Improving leverage



Sources: BLS, Scope (estimates)

Figure 4: Accelerating free cash generation (EUR m)



FOCF: free operating cash flow
Sources: BLS, Scope (estimates)

Strong expansion needs financing (and refinancing)

As growth expectations continue to be high, near-term financing demands are increasing. BLS has been able to fund and refinance the business adequately in its recent history. While the investor platform selling securitised receivables had been designed to diversify receivables refinancing, newly adopted IFRS accounting rules did not allow for the full deconsolidation of the transactions, leaving forfaiting as an option. Our rating assumes BLS will continue to be able to fund its business needs, now also supported by sizable free operating cash flow. Based on very good free operating cash flow of about EUR 37m in 2022, BLS was able to decrease corporate bank debt substantially in that year. Of BLS' EUR 30m acquisition loan incurred in 2021, about EUR 20m was paid back early in 2022. We continue to project very high cash flow cover (FOCF/SaD) relative to the ratings, even after more sizable taxes have to be paid from 2023. BLS' operational setup was originally funded without any financial debt and entirely with equity. We decided not to net cash against debt for the Scope-adjusted debt calculation based on i) limited cash amounts historically; and ii) more comfort with regard to the continuation of cash generation in a post-Covid-19 scenario.

Adequate liquidity

Liquidity is adequate based on very good free operating cash flow generation and ample cash on the balance sheet. For 2023 and 2024, we assume strongly decreasing and insignificant short-term debt, consisting of the remainder of i) the EUR 10m one-year bearer bond; and ii) the EUR 30m acquisition loan (already paid down to about EUR 9m at end-2022). The other reported debt on the balance sheet reflects the refinancing of the leasing receivables and is covered by leasing receivables. The rating assumes BLS can safeguard liquidity in the future through short-term measures to be adopted in line with rising demand for bikes.

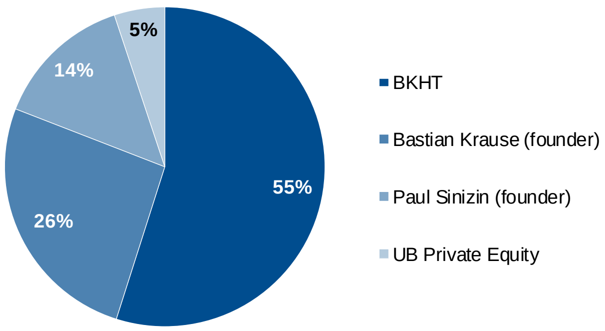
Balance in EUR m	2022	2023E	2024E
Unrestricted cash (t-1)	9.4	23.7	52.7
Open committed credit lines (t-1)	0	0	0
Free operating cash flow (t)	36.2	31.0	44.5
Short-term debt (t-1)	0	22.8	10.8
Coverage	**>200%**	**>200%**	**>200%**

Supplementary rating drivers: +/- 0 notches

Corporate governance neutral for rating

The change in ownership to BKHT raises no credit concerns as BKHT has financed the acquisition mainly from equity (90%), with the remaining 10% put onto BLS' balance sheet. We assume that BKHT will continue to apply a conservative dividend policy (none assumed until 2024), enabling it to finance growth from organic cash flow.

Figure 5: BLS ownership



Source: BLS

Long-term debt rating

Senior unsecured debt rating: BB+

We have assigned a senior secured debt rating of BB+, taking into account the issuance of a new EUR 10m bearer bond. Reflecting a conservative approach on the expected value of recoverable assets (mainly receivables) pledged to its loan exposure, recovery stands at the low end of the 'above-average recovery' category. However, given high uncertainty about the real volume of recoverable assets at the time of a default (one of the major potential reasons for a company default would be a significantly decreased volume of contracts and hence receivables or problems with the collection rates of trade receivables), we chose a debt category rating that signals average recovery expectations even for a senior secured debt position.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer