

Nordic Semiconductor ASA

Rating Action Report

Nordic Semiconductor ASA 'BBB' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB' long-term issuer rating on Norway-based semiconductor company Nordic Semiconductor ASA. The outlook is stable. The 'N3' short-term issuer rating was also affirmed.

Rationale

The long-term issuer rating reflects the company's strong balance sheet and low financial leverage. The rating also takes account of the company's strong position in growing niche markets within wireless communication technology, and the Internet of Things (IoT) in particular, including products that help monitor various kinds of environmental impact. Nordic Semiconductor has strong customer relationships with world-leading technology companies.

The rating is constrained by the semiconductor sector's historical earnings volatility. Demand for consumer products has declined since the end of the pandemic-induced boom. Moreover, inventory adjustments by customers are amplifying the current negative cycle. However, lower demand has meant that the period of supply constraints on silicon wafers has ended. The rating is also constrained by the need to invest heavily in research and development (R&D) to maintain market share and customer relationships. We adjust our indicative credit assessment down by one notch to reflect the company's small size relative to the major semiconductor companies, which could affect Nordic Semiconductor's ability to develop new technologies in an R&D-intensive sector.

We have revised our view of Nordic Semiconductor's diversification downward due to its higher reliance on the largest customers and on Bluetooth Low Energy (BLE) products, although we believe this is temporary. In addition, we have revised our view of operational efficiency, due to the high operational leverage amid weak market conditions.

Stable outlook

The stable outlook reflects our view that Nordic Semiconductor's financial leverage will remain low. The company has made a prepayment of USD 100m to a new supplier to reduce the risk of the long-term undersupply of wafers, without taking on new debt. We believe that the company's niche markets will continue to grow at least in line with the broader semiconductor market. We could raise the rating if secular growth of target markets leads to greater revenue diversity, or if increased economies of scale lead to EBITDA margins above 30%. We could lower the rating to reflect stronger competition leading to lower market share and revenues, an EBITDA margin below 10%, or net debt/EBITDA above 1.5x.

Rating list

	To	From
Long-term issuer credit rating:	BBB	BBB
Outlook:	Stable	Stable
Short-term issuer credit rating:	N3	N3

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Figure 1. Nordic Semiconductor rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bb+	bb+
Market position	10.0%	bbb-	bbb-
Size and diversification	10.0%	b+	bb-
Operating efficiency	10.0%	bb	bb+
Business risk assessment	50.0%	bb	bb+
Ratio analysis		aa	aa
Risk appetite		a	a
Financial risk assessment	50.0%	a+	a+
Indicative credit assessment		bbb+	bbb+
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		-1 notch	-1 notch
Stand-alone credit assessment		bbb	bbb
Support analysis		Neutral	Neutral
Issuer rating		BBB	BBB
Outlook		Stable	Stable
Short-term rating		N3	N3

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 13 Jun. 2022.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	<p>NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 NCR's Corporate Rating Methodology published on 8 May 2023</p> <p>The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).</p>
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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