Nordic Semiconductor ASA

Rating Action Report

LONG-TERM RATING

BBB

OUTLOOK

Negative

SHORT-TERM RATING

N3

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Nordic Semiconductor ASA outlook revised to negative; 'BBB' long-term issuer rating affirmed

Nordic Credit Rating said today that it had revised the outlook on its 'BBB' long-term issuer rating on Norway-based Nordic Semiconductor ASA to negative from stable. The long-term rating was affirmed, as was the 'N3' short-term rating.

Rating rationale

The outlook revision reflects continued weak demand and reduced predictability of market recovery. It also reflects the possibility that recent adverse trends could be more persistent than we previously expected. Nordic Semiconductor is facing reduced end-user demand and an increase in customer inventories as a result of previous supply chain issues. These factors have resulted in lower revenues and reduced market visibility beyond the next quarter. The company has been unable to cancel wafer orders for 2023 and is consequently building up working capital, which could force it to use a portion of a revolving credit facility. Management expects to be able to reduce working capital from early 2024, thereby lowering the need for external financing.

The recent fall in revenues has been largely driven by broad market customers. Conversely, large customers account for a growing share of revenues and underpin the company's market share. This effectively demonstrates Nordic Semiconductor's strong customer relationships with world-leading technology companies. While we expect the adverse conditions facing the company to prove temporary in the current downturn, a continued negative environment could increase business risk. Nordic Semiconductor has announced layoffs intended to reduce its cost base and improve future cash flow. The redundancies could negatively impact longer-term development, which in turn could pressure the company's role as a technological leader if the market downturn persists.

Positively, Nordic Semiconductor maintains an extremely strong balance sheet and low financial leverage. We expect the company to maintain a negative net debt position, even if it obtains additional financing and cash flow weakens in the near term. We could revise our view of financial risk if leverage becomes a concern.

If Nordic Semiconductor were to issue senior unsecured debt, we would likely rate such instruments 'BBB' to reflect the fact that that gross secured debt to EBITDA has remained below 2.0x on a sustained basis. Currently, the company has no secured debt.

Negative outlook

The negative outlook reflects the possibility that market conditions could remain weak, reducing Nordic Semiconductor's ability to invest sufficiently in research and development to sustain its leading position in wireless communication technology. It also reflects the possibility that weaker market conditions could increase financial leverage. We could revise the rating to stable if increased end-user demand and lower customer inventory levels lead to improved demand for the company's products, thereby improving margins and cash flow. We could lower the rating to reflect continued low demand resulting in an EBITDA margin below 10% over a protracted period, or major acquisitions or other investments leading to net debt/EBITDA above 1.5x.

Rating list	To	From
Long-term issuer credit rating:	BBB	BBB
Outlook:	Negative	Stable
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB	None

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+	b+
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		Negative	Stable
Short-term rating		**N3**	**N3**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB	None

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue 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:	NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 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).
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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