

Nordic Semiconductor ASA

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

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

Nordic Credit Rating (NCR) said today that it had lowered its long-term issuer rating on Norway-based [Nordic Semiconductor ASA](#) to 'BBB-' from 'BBB'. The outlook is stable. The short-term rating was affirmed at 'N3', while the senior unsecured issue rating was lowered to 'BBB-' from 'BBB'.

Rating rationale

The rating action on the long-term issuer rating reflects higher-than-previously-anticipated cyclicalities and weakened demand in Nordic Semiconductor's end markets. It also reflects reduced revenue visibility and uncertainty about the likelihood of a rebound in those markets. In addition, we see a risk of increased need for debt financing due to restrictions imposed by some customers on the company's cash balance.

We have lowered our assessment of the operating environment as we no longer expect the niche market in which Nordic Semiconductor operates to be less sensitive to the cyclicalities of the broader semiconductor industry. The company experienced sharp declines in demand across all of its markets in 2023, with group revenues declining by 30% year on year. This resulted in a sharp drop in profitability and negative operating profits in the fourth quarter. We believe that adverse economic conditions are likely to offset some expected improvements in NCR-adjusted EBITDA margins and constrain revenue growth due to less supportive pricing conditions. Nordic Semiconductor was unable to cancel wafer orders in 2023, which resulted in inventory build-up in a market downturn. Positively, we now expect the company to reduce inventories from their current levels, which should support operating cash flows in the remainder of the year.

We have lowered our assessment of Nordic Semiconductor's financial ratios to reflect the sensitivity of the company's credit metrics to operational commitments. Customers require the company to hold the equivalent of one year's research and development spending on its balance sheet, effectively restricting use to financing working capital and repayment of debt. We believe that revenue visibility is now lower than we previously thought and that diminished predictability of any recovery in end markets is likely to delay a rebound in revenues and margins.

Stable outlook

The stable outlook reflects our expectations that Nordic Semiconductor's operating profits will rebound by end-2024, although the timing and extent of any recovery remains unclear due to currently low revenue visibility in the broader semiconductor market. The outlook also reflects our expectations that the company will continue to invest in research and development and successfully develop new technologies, allowing it to sustain its position as market leader in the Bluetooth Low Energy niche. In addition, we expect Nordic Semiconductor to undertake operational improvements and seek to restore profitability.

We could raise the rating to reflect significantly increased scale, a broader product portfolio, and increased end market diversity. We could also raise the rating to reflect a sustained improvement in working capital management and an NCR-adjusted EBITDA margin above 30%.

We could lower the rating to reflect protracted negative market conditions and continued low visibility. We could also lower the rating if the company were to lose its technological leadership. The rating could also be lowered if the company were to experience negative free cash flows over a protracted period, resulting in increased need for debt to meet operating commitments.

Rating list

Long-term issuer credit rating:
 Outlook:
 Short-term issuer credit rating:
 Senior unsecured issue rating:

To	From
BBB-	BBB
Stable	Negative
N3	N3
BBB-	BBB

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		a	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	Negative
Short-term rating		N3	N3

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB-	BBB

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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