# BLS Bikeleasing GmbH & Co. KG
# Germany, Business Services

SCOPE BB+ STABLE

## Corporate profile

BLS Bikeleasing GmbH & Co.KG is a B2B service company active in the brokerage of bike-leasing contracts. It facilitates between the companies that sign the contracts on behalf of their employees and the bike manufacturers and dealers. In 2021, BLS' acquisition of long-time leasing partner Hofmann Leasing (HL) marked its entry into the financing market. With more than 80,000 bikes delivered in 2020, BLS is Germany's second-largest supplier of bike-leasing services after Jobrad. The segment has very strong growth rates, evident in BLS' revenues, which doubled in 2020 with the same is expected in 2021. As opposed to competitors, BLS provides a full service that includes insurance and services such as bike maintenance. In July 2021, BLS' two founders sold the company to financial investor Brockhaus Capital Management (BCM).

## Key metrics

| | | Scope estimates | | |
|---|---|---|---|---|
| Scope credit ratios | 2020 | 2021F | 2022F | 2023F |
| EBITDA/interest cover (x) | 22 | 10 | 24 | 33 |
| Scope-adjusted debt (SaD)/EBITDA (x) | 1.5 | 1.3 | Net cash | Net cash |
| Scope-adjusted funds from operations/SaD (%) | 46 | 47 | Net cash | Net cash |
| Free operating cash flow/SaD (%) | 29 | 58 | Net cash | Net cash |

## Rating rationale

**Scope Ratings GmbH (Scope) has assigned a BB+/Stable issuer rating to BLS Bikeleasing GmbH & Co.KG. Scope has also assigned a BB+ senior unsecured debt rating.**

The issuer rating reflects our view of BLS' successful business concept in the rapidly developing German bike-leasing market, which we categorise as business services. Key determinants of the business risk assessment are the company's ability to achieve a market share of about 20% only six years after its founding as well as its good profitability in its core segment of bike-lease contract brokerage.

At the start of 2021, BLS acquired its leasing partner HL for about EUR 11m, marking its entry into the financing market. While this comes with additional risk, it also improves product diversification, in line with management's medium-term goal to expand its scope of leasing products and it lessens financing risk. HL's integration is thus neutral for BLS' business risk profile.

BLS recently established an investor platform for the securitisation of leasing receivables, with the help of CrossLend and ERGO. The platform is already providing a more balanced funding mix.

### Ratings & Outlook

Corporate rating BB+/Stable

Senior unsecured debt rating BB+

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### Related Methodology

Corporate Rating Methodology, July 2021

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In June 2021, BLS was acquired by financial investor BCM, which will eventually take over 60% of the share capital from BLS' two founders. The founders will reinvest the proceeds to gain 40% in BCM's acquisition vehicle, BCM Zweite Beteiligungs GmbH. We understand that BCM will finance most of the BLS takeover with equity, while BCM Zweite will finance the residual EUR 30m with debt. Despite this and the impact from HL's financial debt which is now consolidated, BLS' financial risk profile is likely to remain solid, which is reflected in the rating. The very low leverage is likely to continue in our view as the company was debt-free before, now supported by free cash flows providing significant funds in the near future. Furthermore, the high double-digit growth available can now be funded both by the traditional forfaiting of receivables and increasingly by the securitisation of leasing receivables to investors via its new financing platform. We expect significant revenue growth of about 70% in 2021 and about 50% in 2022, assuming BLS can continue to finance growth while maintaining sufficient liquidity. This is likely to result in increased free operating cash flow by EUR 30m-40m, which is very high compared to EBITDA.

Liquidity is adequate, benefiting from the low short-term financial debt (except for the EUR 10m bridge financing bearer certificates in 2021) while cash generation ramps up.

We did not adjust the rating for supplementary rating drivers. We note that the bearer certificate documentation stipulates a leverage covenant of below 2x.

BLS' promotion of greater bike usage contributes to less traffic pollution and fosters individual health (ESG factor).

## Outlook and rating-change drivers

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

A positive rating action could result from a successful execution of growth plans and a meaningful contribution of the funding platform. It could also be supported by improved diversification through the expansion into other leasing products.

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

### Rating drivers

| Positive rating drivers | Negative rating drivers |
| --- | --- |
| • Significant growth potential<br>• Second-largest provider of bike-leasing services in Germany<br>• Presently strong credit metrics<br>• ESG factor: contribution to reducing traffic pollution and fostering individual health | • Funding risk regarding significant future growth<br>• Evolving competitive environment<br>• Future bike-leasing demand dependent on favourable tax status |

### Rating-change drivers

| Positive rating-change drivers | Negative rating-change drivers |
| --- | --- |
| • Successful platform set-up<br>• Increase of diversification | • Leverage exceeding 2.5x on a sustained basis |

## Financial overview

| | | Scope estimates | | |
|---|---|---|---|---|
| **Scope credit ratios** | **2020** | **2021F** | **2022F** | **2023F** |
| EBITDA/interest cover (x) | 22 | 10 | 24 | 33 |
| Scope-adjusted debt (SaD)/EBITDA (x) | 1.5 | 1.3 | Net cash | Net cash |
| Scope-adjusted funds from operations/SaD (%) | 46 | 47 | Net cash | Net cash |
| **Free operating cash flow/SaD (%)** | **29** | **58** | **Net cash** | **Net cash** |
| **Scope-adjusted EBITDA in EUR m** | **2020** | **2021F** | **2022F** | **2023F** |
| EBITDA | 18 | 30 | 44 | 56 |
| Operating lease payments in respective year | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| **Scope-adjusted EBITDA** | **18** | **30** | **44** | **56** |
| **Scope-adjusted funds from operations in EUR m** | **2020** | **2021F** | **2022F** | **2023F** |
| EBITDA | 18 | 30 | 44 | 56 |
| less: (net) cash interest as per cash flow statement | -1 | -3 | -2 | -2 |
| less: cash tax paid as per cash flow statement | -5 | -9 | -13 | -17 |
| add: dividends received | 0 | 0 | 0 | 0 |
| **Scope-adjusted funds from operations** | **12** | **18** | **29** | **38** |
| **Scope-adjusted debt in EUR m** | **2020** | **2021F** | **2022F** | **2023F** |
| Reported gross financial debt | 26 | 64 | 30 | 30 |
| less: cash and cash equivalents | -14 | -40 | -45 | -94 |
| add: cash not accessible | 14 | 15 | 15 | 20 |
| add: pension adjustment | 0 | 0 | 0 | 0 |
| add: operating lease obligations | 0 | 0 | 0 | 0 |
| **Scope-adjusted debt** | **26** | **39** | **0** | **Net cash** |

## Business risk profile (BB)

**Business services industry rated BBB**

Overall, we rate the business services industry at BBB.

We assess the business services industry to have medium cyclicality, though some sub-segments may be more volatile. Bike leasing appears to have 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 also 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.

**BLS' competitive position rated at BB-**

Our business risk assessment looks at three rating drivers:

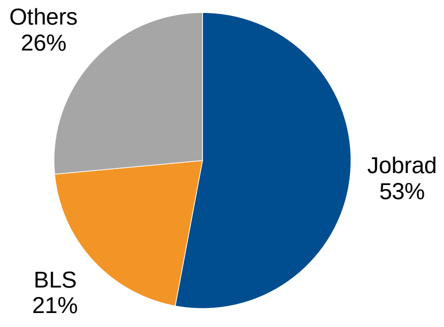
- Market shares
- Diversification
- Operating margins

**Number two in Germany**

Despite being a small and young company, BLS is already Germany's second-largest provider of bike leasing, a result of rapid growth during the last two years. We consider this growth to be due to two factors: i) a unique business concept 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 crisis. BLS had more than 100,000 leased bike contracts at the end of 2020 in Germany, which we estimate to represent 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 we calculate to hold at least 50% of the market.

BLS' management is focused not only on bike leasing. Future initiatives pursue a platform strategy – also outside of Germany – which is likely to expand the product range.

**Figure 1: German market shares (estimated)**




Source: Scope estimates

**Diversification is weak**

Diversification is the weak spot in BLS' competitive assessment, with activity predominantly focused on one segment and one geography. The underlying markets, while large, are increasingly competitive, for example, Volkswagen Financial Services recently announced its entry into bike leasing. Thus, while customer diversification (around 30,000 corporate customers and 1.2m employees) and the exposure to specialist bike retailers (about 5,000) are positive, both regional and segment diversification burden the diversification score.

That said, the acquisition of leasing company HL, which also owns its customers' data, might allow BLS to expand into other mobility-leasing categories such as PCs, laptops and air climate control. In addition, BLS' recent market entry into Austria has enlarged geographical diversification, though only slightly. Given the very recent nature of the two changes, we have therefore not changed our assessment of diversification for the time being, subject to relevant growth being demonstrated.

Finally, funding diversification has improved with the new financing platform, set up with the help of CrossLend and BLS' insurance partner, ERGO. This platform securitises part of the leasing receivables and sells them to investors, thus lessening the dependence on traditional financing via the forfaiting of receivables.

**Excellent underlying profitability**

BLS' EBITDA margin is high for a business services company, at about 43% in 2020. 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 new investor platform. As most of the leasing contracts entail both insurance and bike maintenance elements, we believe 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. An additional support is the high visibility of future sales 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 that have slowed bike delivery times. However, this also means there is a strong potential for a catch-up in demand.

**HL acquisition neutral for ratings**

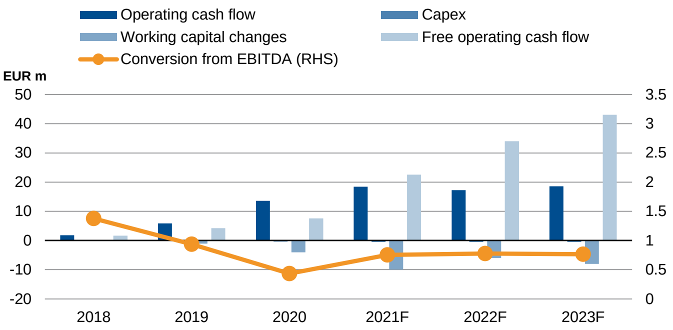
The integration of HL enables BLS to diversify into other leasing products as BLS now owns HL's customer data. HL can thus be seen as just a facilitator of future enhanced diversification. While HL comes with additional financing risk (formerly outside of BLS, but also relevant for its success), it will act as an in-house financing department, maybe akin to the financing subsidiaries of major car manufacturers. In addition, the reliance on traditional financing via forfaiting is likely to reduce in the future.

## Financial risk profile (A)

**Strong financial risk profile**

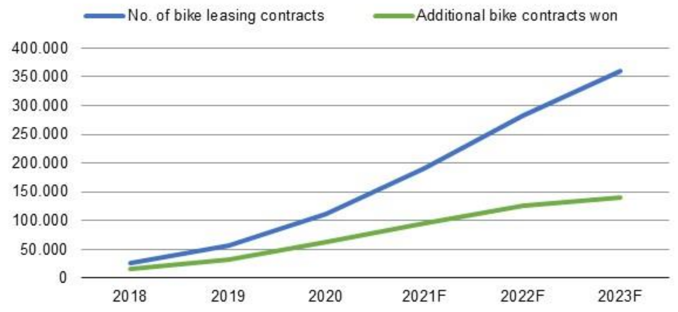
BLS' financial risk profile is characterised by very low financial debt as expressed by Scope-adjusted debt; BLS was even previously in a net cash position. This is due to the asset-light business model as an agent/broker with no manufacturing or product risks. BLS' main income on a stand-alone basis related to provisions from leasing companies (13% of the bike price) and from its insurance partner, ERGO, which explains BLS' strong ability to generate cash. While capex thus plays no role in cash absorption, working capital changes are likely significantly positive after the inclusion of HL. This can be explained by the enhanced ability to match funding needs with cash generation via provision income and prepaid insurance premiums. The early refinancing of bike purchases via the sale of leasing receivables (forfaiting, securitisation) is also supportive in this respect.

**Figure 2: BLS has strong cash generation**




Source: Scope estimates

**Figure 3: Significant growth expected**




Source: BLS

**Future expansion needs financing**

As growth expectations continue to be high, near-term financing demands are increasing. The new investor platform has diversified funding and reduced the reliance on the leasing partners' ability to enter into bank factoring lines. Our rating assumes this will continue to be the case. Leasing receivable securitisation has also allowed BLS to make greater use of capital markets financing. This in turn enables BLS to lay the foundations for future growth in bike leasing, also outside of Germany, and expand to other leasing products. International expansion has already happened in the first half of 2021 with the entry into Austria, enabled by issuance of a EUR 10m bearer bond.

**Adequate liquidity**

Liquidity is adequate based on good free cash generation and ample cash on the balance sheet. EUR 15m in cash is restricted to the pre-funding of bike purchases and thus is not freely available for debt reduction. Financial debt on the balance sheet is limited as activities have so far been financed with equity. For 2021, we assume financial debt to amount to EUR 64m, consisting of i) a EUR 10m one-year bearer bond; ii) the financing of the EUR 30m purchase price element; and iii) bank debt from the leasing business. The rating assumes BLS can safeguard liquidity in the future through short-term measures to be adopted in line with rising bike demand.

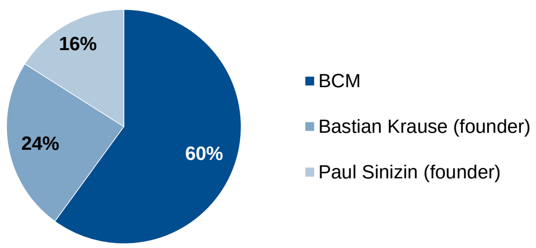
**Good recovery prospects**

Scope has assigned a senior unsecured debt category rating of BB+, taking into account the issuance of a EUR 10m bearer bond. This rating reflects the 'average' recovery expected by Scope. The recovery assessment is based on a hypothetical recovery scenario reflecting the likelihood that the amount of senior secured bank debt collateralised through receivables could increase materially in future in the company's envisioned growth process. This could weaken the position of senior unsecured debt lenders.

**Corporate governance neutral for rating**

The change in ownership to BCM raises no credit concerns. This is because BCM will finance the acquisition mainly from equity (90%), with the remaining 10% to be put onto the balance sheet of BCM's acquisition vehicle, BCM Zweite. Our Scope-adjusted debt calculation includes this debt because BLS will eventually need to refinance it. We assume that BCM will apply a conservative dividend policy (none assumed until 2023), enabling it to finance growth from organic cash flow.

**Figure 4: Future BLS ownership**



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