MOODY'S
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Rating Action: Moody's assigns B3 CFR to Fire (BC) S.p.A, B3 to EUR410m FRNs

18 Sep 2018

Frankfurt am Main, September 18, 2018 -- Moody's Investors Service today assigned a B3 corporate family rating (CFR), a B3-PD probability of default rating (PDR) to Fire (BC) S.p.A (Fire) and a B3 instrument rating to the proposed EUR410 million Senior Secured Floating Rate Notes (FRNs). The outlook is stable. This is the first time that Moody's rates Fire. Fire is the ultimate parent of companies trading under the name Italmatch.

RATINGS RATIONALE

Italmatch's B3 CFR reflects the company's diversification in specialty additives for water treatment, lubricants and flame retardants and its long-standing relationships with blue-chip customers such as BASF (SE) (A1 stable), Lubrizol and Ecolab Inc. (Baa1 stable). Some of its entrenched relationships are bolstered by joint product/formula development and long-term offtake agreements, which adds certainty around revenue generation. The strong positioning in oligopolistic niche markets allows the company to generate solid EBITDA margins of 15-16%. Margins have been diluted by previous acquisitions, but management intends to lift margins by implementing synergy measures.

The B3 ratings also take into account the relatively small size (EUR448.7 million of annual pro-forma revenues for LTM June 2018) which has grown from EUR60 million in 2007 mainly through 13 acquisitions. Moody's expects the company to remain acquisitive in order to grow its portfolio of applications, to add technological expertise and to extent its geographical footprint outside of Europe. The company has disclosed in its draft offering memorandum that it is bidding for a chemical additives producer with a strong operating footprint in the U.S. If Italmatch wins the bid, the transaction could close in Q4 2018 and would in Moody's view be transformational. The target would add minimum revenues of EUR100 million and Moody's-estimated EUR23 million of EBITDA. Italmatch intends to fund the potential acquisition with a mix of shareholder equity or debt as well as additional secured debt resulting in company-defined net leverage of 5.35x. Even if the transaction were not to materialize it indicates in the rating agency's view the appetitive for inorganic growth and transformational transactions.

As part of the company's organic growth plans, Italmatch has currently two capacity ramp-up projects in China underway. These investments initially constrain the company's free cash flow (FCF) generation that Moody's estimates to be negative EUR17 million in 2018, reach high single digit EUR million levels in 2019 and turn positive from 2020 onwards (FCF EUR 19 million).

The starting leverage of 6.2x adjusted debt/EBITDA (pro-forma LTM June 2018) is high, but the deleveraging trajectory of Italmatch is supported by (1) expected organic EBITDA growth; (2) incremental EBITDA from expansion projects; and (3) margin stability supported by the ability to pass on input costs, which consists of a variety of inputs with the top 10 accounting for 56% of its raw material exposure. The margin stability is also supported by the low fixed cost base which accounts for around 26-27% of total costs. Moody's expects leverage to be at 5.9x in 2019 (and excluding the potential acquisition).

Italmatch's liquidity is adequate. It is supported by EUR10 million starting cash on hand at time of closing of the transaction. Moody's expects Italmatch to return to positive FCF generation once its expansion projects come to conclusion and generate incremental EBITDA from 2020 onwards. FCF in 2018 is constrained by project-related capex, but is expected to turn positive from 2019 onwards.. While the RCF includes a "springing financial covenant" if drawings exceed 35% of the total availability, the expected headroom against the covenant will be ample. The proposed RCF (5.5-year maturity) and FRNs (6.0-year maturity) both mature in 2024.

RATIONALE FOR STABLE OUTLOOK

The stable outlook assumes Italmatch to keep EBITDA margins around 15-16% in the next 12-18 months. The stable outlook also factors in the successful execution of the capital expenditure plans with an incremental EBITDA contribution from 2021 of minimum EUR13 million.

STRUCTURAL CONSIDERATIONS

Moody's has aligned the B3 rating for the EUR410 million FRNs with the CFR. This reflects the relative ranking of the FRNs behind the EUR70 million RCF (unrated) and the size of the FRNs in relation to the overall amount of debt raised. The RCF is super senior to the FRNs. The security package of senior FRNs comprises a pledge over the company´s bank accounts and intercompany receivables as well as upstream guarantees from most of the group's operating subsidiaries, representing 80% of aggregate assets and around 70% of EBITDA.

WHAT COULD CHANGE THE RATING UP / DOWN

Moody's could upgrade the ratings if debt/EBITDA were to be below 5.5x and when the company returns to consistent positive FCF generation.

Moody's could downgrade the ratings if Italmatch's leverage increased to above 7.0x debt/EBITDA. Ratings could also be downgraded if FCF were to remain sustainably negative and liquidity deteriorated.

Fire (BC) S.p.A is the parent company of operating companies that trade under the name Italmatch Chemicals ("Italmatch"), with head offices in Genova, Italy. Italmatch is a global chemical additives manufacturer, with leadership in lubricants, water & oil treatments, detergents and plastics additives. The company operates through four distinct business divisions: Water & Oil Performance Additives ("WOPA"), Lubricant Performance Additives ("LPA"); Flame Retardants and Plastic Additives ("FPA") and Performance Products and Personal Care ("PPA"). In LTM June 2018, pro-forma revenue for Italmatch amounted to EUR448.7 million. In June 2018, Bain Capital Private Equity agreed to acquire Italmatch from Ardian, a private equity fund.

The principal methodology used in these ratings was Chemical Industry published in January 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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