S&P Global Ratings

Press Release

Italy-Based Specialty Chemicals Maker Fire (BC) S.a.r.l. Rated Preliminary 'B'; Outlook Stable

- The private equity firm Bain Capital is acquiring Italmatch Chemicals S.p.A. (Italmatch) through its holding company Fire (BC) S.à.r.l., for an enterprise value of €800 million.
- Italmatch is an Italy-based specialty chemical company, specialized in the manufacturing of performance additives for the lubricant, plastics, and water and oil markets, such as phosphorus derivatives, polymers, esters, and chlorides.
- We are assigning our 'B' preliminary long-term rating to Fire (BC) S.à.r.l.
- We are also assigning a preliminary 'B' issue rating and '3' recovery rating to the proposed €410 million senior secured floating rate notes due 2024.
- The stable outlook reflects our expectation that Italmatch will continue to grow and post solid EBITDA margins while progressing on its expansion plans, with adjusted debt to EBITDA of 5x-6x in 2019.

PARIS (S&P Global Ratings) Sept. 17, 2018--S&P Global Ratings said today that it had assigned its 'B' preliminary long-term issuer credit rating to Fire (BC) S.à.r.l., the parent and owner of Italmatch Chemicals S.p.A., a specialty chemicals manufacturer headquartered in Italy (together Italmatch). The outlook is stable.

At the same time, we assigned our 'B' preliminary long-term issue rating to the group's proposed €410 million senior secured floating rate notes due 2024, to be issued by Fire (BC) S.p.A. The preliminary recovery rating on the facilities is '3', reflecting our expectation of 50%-70% recovery (rounded estimate: 50%) in the event of a payment default.

The final ratings will depend on our receipt and satisfactory review of all final documentation and final terms of the transaction. The preliminary ratings should therefore not be construed as evidence of the final ratings. If we do not receive the final documentation within a reasonable time, or if the final documentation and final terms of the transaction depart from the materials and terms reviewed, we reserve the right to withdraw or revise the ratings. Potential changes include, but are not limited to, utilization of the proceeds, maturity, size and conditions of the facilities, financial and other covenants, security, and ranking. We understand that the proposed structure does not, at this stage, include any shareholder loans, preferred equity certificates or other debt-like instruments through the entire corporate group structure (all the way to the shareholders, sponsor, and fund). Were any such instruments be included in the final structure and we included them in our financial analysis, including in our leverage and coverage calculations, we could revise the ratings.

The private equity firm Bain Capital is acquiring Italmatch from Ardian, and is refinancing its debt. The contemplated financing for this acquisition comprises a €70 million revolving credit facility and €410 million senior secured floating rate notes. The transaction will be further supported by equity provided by the private equity sponsor.

The rating on Italmatch primarily reflects our view of the group's strong niche positions and its longstanding relationships with key customers, but also its relatively small size and highly leveraged financial profile.

Headquartered in Genoa, Italy, Italmatch is specialized in the manufacturing of performance additives mainly for the lubricant, plastics, and water and oil markets. The products are used as additives, or intermediates for additives to enhance the performance of certain finished products, such as water or oil solutions for industrial processes, industrial lubricants, and electrical equipment. Italmatch was founded in 1997 through a management buy-out of the phosphorus derivatives business of the Saffa Group, based in Spoleto, Italy. The group gradually expanded, notably through external growth, into a global chemical specialty group in lubricant performance additives, flame retardants, plastic additives, and performance products.

Over the years, Italmatch has developed niche market positions as a leading player in the manufacturing of phosphonate-based water antiscalants and corrosion inhibitors, with an estimated 25% global market share. The group also displays a strong position in the production of intermediates for engine oil antiwear and antioxidant additives. This has enabled the group to establish longstanding customer relationships, with which it can co-develop products. We furthermore acknowledge Italmatch's exposure to several end markets, like cleaning and industrial water treatment, oil and gas, automotive, and mining industries.

The group's expansion over recent years has been possible through external growth, with 10 mergers and acquisitions (M&A) in the past six years. We believe that this activity has played an integral part of the group's strategy and that it could undertake further M&A activity in the future. As a result of this expansion, the group now operates 17 manufacturing plants across Europe, U.S., and Asia Pacific, as well as five research and development centers. Mitigating our business risk assessment is Italmatch's relatively small size compared with global specialty chemicals leaders and some product concentration on phosphorus derivatives.

In our view, after the buy-out, Italmatch will exhibit a highly leveraged financial risk profile, and we expect adjusted leverage to be more than 5x in the fiscal year ending Dec. 31, 2018. Italmatch is involved in expansionary projects, mainly in China, to increase its production capacity and improve production processes. We note that these additional capital expenditures will weigh on free cash flow generation over the coming years. Our financial risk assessment is also constrained by the group's private equity ownership, which could result in an aggressive financial policy. We adjust debt for the nonrecourse factoring facility, with a utilized balance of around €15 million as of Dec. 31, 2017.

The stable outlook reflects our expectation that Italmatch will continue to grow and post solid EBITDA margins while progressing on its expansion plans. This could result in a moderate deleveraging with adjusted debt to EBITDA of 5x-6x in 2019, which is commensurate with the current rating.

In our view, the probability of an upgrade over our 12-month rating horizon is limited, given the group's high leverage and potentially aggressive financial policy from the private equity sponsor. We could raise the rating if the group were to post adjusted debt to EBITDA sustainably below 5x and funds from operations to debt consistently above 12%. In addition, a strong commitment from the private equity sponsor to maintain leverage at a level commensurate with a higher rating would be important in any upgrade considerations.

We could lower the rating if the group experienced severe margin pressure or significant operational issues, resulting in adjusted debt to EBITDA consistently above 6.5x and EBITDA interest coverage below 3.0x. These credit metrics could worsen due to large debt-funded acquisitions or unexpected shareholder returns. A weakening in the liquidity position could also put pressure on the company's creditworthiness.

RELATED CRITERIA

- **Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers**, Dec. 7, 2016
- **Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments**, Jan. 20, 2016
- **Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers**, Dec. 16, 2014
- **Criteria - Corporates - General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities**, April 29, 2014
- **Criteria - Corporates - Industrials: Key Credit Factors For The Specialty Chemicals Industry**, Dec. 31, 2013
- **Criteria - Corporates - General: Corporate Methodology**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, Nov. 19, 2013
- **General Criteria: Group Rating Methodology**, Nov. 19, 2013
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments**, Nov. 19, 2013
- **General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers**, Nov. 13, 2012
- **General Criteria: Use Of CreditWatch And Outlooks**, Sept. 14, 2009

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