DOW JONES NEWSWIRES

Press Release: S&PGR Downgrades Selecta Group B.V. To 'CCC-'; On Watch Neg

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The following is a press release from S&P Global Ratings:

-- Despite the recent capital injection from KKR and easing of lockdown conditions, we forecast pan-European vending machine operator Selecta Group B.V.'s (Selecta's) cash position to deteriorate beyond our prior base case and result in a tightened liquidity position.
-- In light of our revised expectations of subdued financial performance persisting though second-half 2020, we expect the group to have limited headroom to meet an interest payment of about EUR37 million in October, resulting in a heightened risk of default over the next six months.
-- As a result, we are lowering: our long-term issuer credit rating on Selecta to 'CCC-' from 'B-'; the issue ratings on the group's senior secured notes to 'CCC-' from 'B-'; and the issue ratings on the super senior revolving credit facility (RCF) to 'CCC+' from 'B+'. The recovery ratings remain unchanged.
-- We are also placing the ratings on CreditWatch with negative implications, indicating our view of a risk that the group could undergo a debt exchange to reposition the business--which we consider tantamount to a default--or face a liquidity shortfall in the next 90 days.

LONDON (S&P Global Ratings) June 29, 2020--S&P Global Ratings today took the rating actions listed above.
We expect a heightened risk of Selecta continuing to report monthly cash drain until at least the end of third-quarter 2020, which could leave the group with a liquidity deficit when meeting its October interest payment.
Although Selecta's management aims to record a positive monthly EBITDA figure for June/July, we believe there is limited headroom to build up a sufficient cash buffer to comfortably meet its October interest payment of about EUR37 million. We do not fully disregard the possibility of the group performing better than our expectations and meeting its debt service obligations without any form of capital support or restructuring, yet we believe the likelihood has diminished since our last publication (see "Selecta Group B.V. Downgraded To 'B-' On Expected Continued Negative Free Operating Cash Flow; Outlook Negative," published April 1, 2020). More specifically, the potential liquidity shortfall is based on our forecast of about EUR30 million of cash on balance sheet needed to run the business, and a continued cash burn from the March 31, 2020, position, resulting in cash of about EUR40 million-EUR60 million as at month-end September 2020 (including a fully drawn revolver and the EUR50 million KKR facility). As such, there is limited headroom for underperformance relative to the EUR37 million October payment, and we view Selecta as dependent upon favorable business, financial, and economic conditions to meet its debt service obligations.

We believe there is a high probability that **Selecta** will initiate a distressed exchange offer, as continued uncertainty on revenue growth for second-half fiscal year (FY) ending Dec. 31, 2020, persists.
European economies are gradually reopening, with increased footfall in public areas, benefiting the group's on-the-go (public and semi-public) sales channel. However, this is counterbalanced by muted performance in the workplace/private segment, because offices remain broadly closed. We believe there is still considerable uncertainty, despite the initial easing of lockdown measures; and that the continued risk of COVID-19 infections could push certain employers, with workforces that can work remotely, to delay their return to the office until the end of the third quarter of 2020 at least. We expect this to exacerbate pressure on the company to revert cash burn and generate positive free operating cash flow (FOCF) generation.

Although **Selecta** could potentially secure additional capital injections from its financial sponsor, **KKR**, we believe downside risks remain, and that the capital structure will stay unsustainable without structural changes.
Prior financial support from **KKR** and the recent changes to the management team at the CEO and chairman level highlight the financial sponsor's ongoing support, in our view. Furthermore, we understand that following the appointment of legal and financial advisors, the group is still evaluating all potential options, including capital structure alternatives and capital injections. Although **Selecta** could also reach an agreement for capital injection with its financial sponsor rather than a distressed exchange, we believe the firm's capital structure looks unsustainable at this point, given continued cash burn and the need to reposition the business with historically high capital expenditure (capex) and working capital affecting free cash flow performance.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic.
The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Environmental, social, and governance (ESG) credit factors for this credit rating change:
-- Health and safety

CREDITWATCH
We expect to resolve the CreditWatch in the next 90 days when we have greater visibility into the group's plans to address its interest payment, which we anticipate over the next several months.

We could raise the ratings if financial performance recovers to an extent exceeding our current base case and if we took a different view on the sustainability of the capital structure.

We could lower the rating if economic conditions worsen and it appears increasingly unlikely that **Selecta** will meet its interest payment, or if the company announces restructuring plans that we consider to be a distressed exchange.

RELATED CRITERIA

-- General Criteria: Group Rating Methodology, July 1, 2019
-- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
-- 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
-- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
-- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
-- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
-- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
-- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
-- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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