Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns B2 CFR to Groupe Solmax; B2 term loan

08 Jun 2021

Toronto, June 08, 2021 -- Moody's Investors Service (Moody's) assigned ratings to Groupe Solmax Inc. (Solmax), consisting of a B2 corporate family rating (CFR), B2-PD probability of default rating, and a B2 rating for the $535 million term loan and $100 million revolver. The outlook is stable. This is the first time Moody's has assigned ratings to the company.

Solmax will use the proceeds of the term loan and an equity contribution from its sponsors to purchase TenCate Geosynthetics from Royal Ten Cate (RTC, B2 stable), and to repay all of Solmax's existing debt. The Royal Ten Cate geosynthetics business generated about $380 million (€310 million) of revenues in 2020 (about 30% of RTC's total revenues) and will roughly double Solmax's EBITDA.

Assignments:

..Issuer: Groupe Solmax Inc.

.... Corporate Family Rating, Assigned B2

.... Probability of Default Rating, Assigned B2-PD

....Senior Secured 1st Lien Term Loan, Assigned B2 (LGD3)

....Senior Secured 1st Lien Revolving Credit Facility, Assigned B2 (LGD3)

Outlook Actions:

..Issuer: Groupe Solmax Inc.

....Outlook, Assigned Stable

RATINGS RATIONALE

Groupe Solmax (Solmax, B2 rating) benefits from: (1) a diversified business model through multiple geosynthetic product types with significant geographical diversification; (2) exposure to numerous end markets including infrastructure, waste management, mining and construction that helps offset their inherent cyclicality; (3) a diverse customer base with the top ten customers making up less than 25% of revenue and which include a number of large mining and waste management companies; and (4) good liquidity. Solmax is constrained by: (1) relatively short financial history with size and scale largely achieved in 2018 following a sizable acquisition; (2) high pro-forma leverage (adjusted debt/EBITDA of 5x at transaction close) that we expect will remain at this level through 2022; (3) relatively small size (pro forma LTM Apr-2021 EBITDA around $125 million) and concentration in the niche geosynthetic market; (4) exposure to raw material costs which is mostly mitigated by pass-through pricing for its products.

Solmax has good liquidity. Solmax's liquidity is supported by cash of approximately $15 million at the closing of the transaction, full availability under its $100 million revolver due 2026, and Moody's expected free cash flow of around $15 million through to mid-2022. We expect Solmax to use the revolver from April/May to the end of September/October for working capital purposes, and to fully repay the drawing by year end. Solmax does not have to comply with any financial covenants unless revolver drawings rises above the 35% commitment amount, which mandates compliance with a first lien leverage ratio of less than 7.5x. We do not expect this covenant to be applicable through to mid-2022, but there is good cushion if triggered. Solmax has limited ability to generate liquidity from asset sales as its assets are encumbered. Solmax has no refinancing risk until 2026 when its revolving credit facility is due.

Governance considerations for Solmax include private ownership and the potential for a more aggressive capital structure in comparison to public corporations. We also considered the reduced financial disclosure requirements for a private company in comparison to a publicly-traded entity, and the short operating and financial history of Solmax.

The first-lien pari passu term loan and revolving credit facility are rated B2, the same as the CFR, because it makes up the preponderance of the debt structure.

The credit facilities are expected to contain covenant flexibility for transactions not disclosed at this time that could adversely affect creditors, including the omission of certain material lender protections.

The stable outlook reflects Moody's view that it will maintain its leverage around 5x through 2022, as the company looks to execute its merger.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings could be upgraded if debt to EBITDA is below 4x, free cash flow to debt is above 5%, maintains good liquidity, and successfully integrates RTC's geosynthetics business and demonstrates a track record of consistent free cash flow and decreasing leverage

The ratings could be downgraded if debt to EBITDA is below 6x, free cash flow to debt is negative, or liquidity weakens.

Groupe Solmax Inc. (Solmax) is a manufacturer of geosynthetic products that are large sheets of plastics used to protect and fortify in various end markets. The company is privately owned by Fonds de Solidarité des Travailleurs Du Québec, CDP Investissements Inc. (wholly owned by Caisse de dépôt et placement du Québec), and indirectly the founder, with all three having equal ownership. The company's head office is in Varennes, Quebec, Canada.

The principal methodology used in these ratings was Manufacturing Methodology published in March 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1206079 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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