

Research

Research Update:

Manutencoop Facility Management 'B-' Rating Affirmed, Taken Off CreditWatch Negative; Outlook Negative

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Research Update:

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Overview

- Manutencoop Facility Management SpA (MFM) continues to face potential liquidity risk in the event of an adverse ruling from the appellate tribunals concerning MFM's alleged infringement of competition rules in the tender for school building cleaning services.
- We continue to assess the group's liquidity as less than adequate. However, given its higher-than-expected year-end cash balance, the availability of an additional committed factoring facility, and the uncertainty regarding when or if MFM would be required to pay fines or performance bonds, we believe the group's liquidity profile has improved since our last review in February.
- We are therefore removing all of our ratings on MFM from CreditWatch negative, and affirming the ratings at 'B-'.
- The negative outlook reflects our view of the risk that an adverse court ruling could put pressure on the group's liquidity position. It also reflects our concerns that recent negative press regarding potential contract cancellation could materially damage MFM's reputation and impair the company's operating environment.

Rating Action

On May 12, 2016, S&P Global Ratings affirmed its 'B-' long-term corporate credit rating on Italy-based facility services provider Manutencoop Facility Management SpA (MFM). We removed all of our ratings on MFM from CreditWatch, where they were placed with negative implications Feb. 12, 2016. The outlook is negative.

We also affirmed our 'B-' issue level rating, with a '3' recovery rating, on MFM's €425 million senior secured notes (outstanding nominal value of €300 million). The recovery rating incorporates our expectation of meaningful recovery in the lower half of the 50%-70% range in the event of a default.

Rationale

There is continuing uncertainty for MFM regarding the payment of a €48.5 million fine to the Italian Competition Authority (ICA), as the Italian Administrative Regional Tribunal (TAR) has yet to rule whether MFM infringed

competition rules in the tender for school building cleaning contracts. Nevertheless, the affirmation reflects our view that the group has seen some favorable developments since we placed the ratings on CreditWatch negative on Feb. 12, 2016.

These are the key developments:

- The group reported higher cash balances than we expected at year-end 2015 (€114 million compared with our forecast of €70 million-€80 million).
- MFM signed an additional three-year factoring facility that can be drawn up to €100 million per year.
- We understand that MFM continues to participate in contracts tendered by Consip SpA other than school cleaning contracts. MFM believes there will be no restriction in its ability to tender for other contracts irrespective of the decision by the appellate court regarding the Consip school cleaning contract. Consip SpA procures services for government and public bodies and represents about 70% of MFM's contract pipeline.
- Consip has also put on hold the process it had initiated to cancel MFM's school cleaning contract until the TAR has made its ruling.
- In addition, Telecom Italia has reinstated its contract with MFM following MFM's recent management changes. The contract generates annual revenue of about €25 million.

In light of these developments, we believe that any impact from a potentially adverse ruling by the TAR on MFM's liquidity will be felt over the next 12 months rather than 90 days.

We understand that TAR will hold a public hearing on July 6, 2016, to make a judgment regarding the merits of the case and the possible suspension of the fine until the case is fully resolved.

Our assessment of the group's business risk profile is supported by its leading position in Italian facility management services and contract backlog of about €2.8 billion. The assessment is constrained by MFM's geographical concentration to Italy, the very competitive nature of the facility management segment, and the reputational impact of the recent legal proceedings against the group.

In our base case, we assume:

- Italy's GDP will increase by 1.1% in 2016;
- MFM's forecast revenue will decline by 2%-5% over 2016 due to competitive pricing, potential contract cancellations, and the company winning fewer new contracts;
- Forecast reported EBITDA could decline to about €80 million-€85 million (after deducting €5 million provision for risks and non-recurring expenses). We understand that management's forecast for revenue and EBITDA are somewhat higher than our base case.
- MFM will pay a €48.5 million fine. This assumption, which we have included in our base case and our liquidity assessments, is in line with MFM's accounting, but we recognize that there is significant uncertainty attached to the fine payment.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted ratio of debt to EBITDA of about 5.7x-6.0x for 2016.

At this juncture, we continue to consider that MFM's capital structure is sustainable.

Liquidity

We currently assess MFM's liquidity as less than adequate. We calculate that the group's sources of liquidity will exceed its uses by more than 1x, but less than 1.2x.

Principal liquidity sources over the next 12 months include:

- Available cash balance of about €114 million as of Dec. 31, 2015;
- Committed revolving facility of about €4 million;
- Forecast unadjusted funds from operations of about €40 million-€45 million; and
- Working capital inflows of about €10 million.

Principal liquidity uses over the next 12 months include:

- Expected debt repayments of about €48 million, including mostly short-term uncommitted facilities;
- Estimated annual capital expenditures of about €25 million-€30 million;
- Payment of the ICA fine of €48.5 million;
- Seasonal working capital swings of about €35 million; and
- Estimated €10 million payments relating to restructuring.

While we do not quantitatively include the group's new factoring facility in our liquidity analysis, we do recognise that this new facility does provide some additional flexibility. We do not currently include any payment toward €24.5 million performance bonds in our liquidity assessment.

Outlook

The negative outlook reflects our view that a potential adverse ruling by the appellate courts could put pressure on the group's liquidity position over the next 12 months. It also reflects our concerns that recent negative press about potential contract cancellation could materially damage MFM's reputation and impair the company's operating environment.

Downside scenario

We could lower the rating if we were to assess the group's capital structure or business model as unsustainable. We could assess the group's capital structure as unsustainable if there are material liquidity needs (for example, the €48.5 million fine and €24.5 million performance bonds) without additional long-term funding arrangements being in place.

Upside scenario

We could revise the outlook to stable if MFM is able to put in place additional new committed long-term funding plans to meet any potential payment of fines and performance bonds. We could raise the rating if there is a favorable decision from the appellate courts that reverses ICA's decision, and the group's revenue and EBITDA margins stabilize.

Ratings Score Snapshot

Corporate Credit Rating: B-/Negative/--

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Highly Leveraged

- Cash flow/Leverage: Highly leveraged

Anchor: b

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Less than adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)

Recovery Analysis

Key analytical factors

- We have affirmed our 'B-' issue rating on Manutencoop's €300 million outstanding senior secured notes.
- The recovery rating remains unchanged at '3'. It is supported by our going concern valuation of the company but constrained by the new factoring facility and the employee termination indemnity, as well as other priority debt including finance lease and bank debt. Recovery prospects are in the lower half of the 50%-70% range.
- Our hypothetical default scenario envisages significant indebtedness, combined with the negative effects of a slowdown in MFM's home market of Italy. This, coupled with customers seeking better prices, increasing competition from smaller players, or reputational issues, would squeeze margins and lead to liquidity issues.
- We value Manutencoop as a going concern based on its leadership position in its home market.

Simulated default assumptions

- Year of default: 2018
- EBITDA at emergence: €55 million
- Implied enterprise value multiple: 5x
- Jurisdiction: Italy

Simplified waterfall

- Gross enterprise value at default: €275 million
- Administrative costs: €15 million
- Net value available to creditors: €260 million
- Priority Claims: €100 million
- Secured debt claims: €305 million*
- Recovery expectation: 50%-70% (lower half of the range)

*All debt amounts include six months of prepetition interest.

Related Criteria And Research

- Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Revised Revolver Usage Assumptions For Recovery Analysis In Corporate Ratings, Nov. 20, 2014
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt, Aug. 10, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Manutencoop Facility Management SpA		
Corporate Credit Rating	B-/Negative/--	B-/Watch Neg/--
Senior Secured	B-	B-/Watch Neg
Recovery Rating	3L	3H

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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. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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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