CREDIT OPINION
20 June 2024

Update

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RATINGS

Assemblin Caverion Group AB

Domicile	Sweden
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Assemblin Caverion Group AB

Update post merger financing

Summary

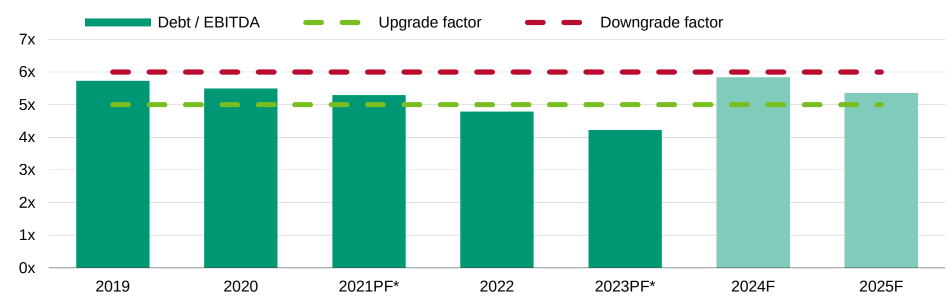
On 10 June 2024, we affirmed Assemblin Caverion Group AB's corporate family rating (CFR) with a stable outlook. The company issued a combined €1.28 billion senior secured debt funding to refinance existing debt of Caverion, repay outstanding floating rate debt, repay a shareholder loan bridge facility, and make squeeze out and transaction cost payments.

The rating is supported by the company's leadership position in the installation and service market in the Nordics, with a relatively flexible cost structure; its high exposure to the service and renovation sector; a positive historic trend of margin expansion and further opportunities in the context of the combination; and continued positive free cash flows.

However, Assemblin Caverion's high leverage and weak interest cover, with Moody's-adjusted debt/EBITDA of around 5.9x pro forma the transaction as of FY 2023, currently constrain the rating. Other challenges are the exposure to the overall health of the cyclical construction industry, the execution risk coming with integration of two large companies, and an event risk of debt-funded acquisitions or shareholder distributions associated with its private equity ownership.

Credit metrics are expected to remain in line with our requirements for the current rating category over the next 12-18 months. We expect Moody's-adjusted debt/EBITDA to remain below 6x and free cash flow to debt around 3-5% for 2024 and 2025 with a stronger mid-term potential driven by efficiency improvements. EBITA/interest remains at or below 2x in the next 12-18 months. Our projections incorporate an increase from the combined Moody's-adjusted EBITA margin of 5.2% towards 6%.

Exhibit 1
We expect Assemblin Caverion's leverage to remain within our expectation for its B2 rating



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
*2023PF is pro forma data for the merger of Assemblin Caverion but excluding the debt issuance
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» Leadership position in the installation and service market in the Nordics

» Asset-light business with a relatively flexible cost structure, enabling swift adjustments to shifts in economic cycles

» Exposure to more stable renovation and service business

» Positive FCF used for bolt-on M&A, supporting earnings growth

Credit challenges

» High financial leverage and weak EBITA/Interest pro-forma for the combination and bond issuance

» Exposure to the cyclical construction industry

» Event risk associated with private equity ownership

Rating outlook

The stable outlook incorporates the expectation of a moderately growing topline with margin growth through a successful integration of the two large businesses and ongoing business improvements. Furthermore, the outlook reflects the expectation that the company will operate within the financial metrics requirements for the B2 rating category over the next two years.

Factors that could lead to an upgrade

The ratings could be upgraded if strong earnings growth results in sustained improvement in credit metrics, including:

» Moody's-adjusted debt/EBITDA sustained below 5x, and

» Moody's-adjusted EBITA/interest above 2.5x, and

» Moody's-adjusted FCF/debt in the high-single-digit percentages and good liquidity.

Factors that could lead to a downgrade

The ratings could be downgraded with:

» Moody's-adjusted debt/EBITDA above 6.0x on a sustained basis, or

» Moody's-adjusted EBITA/interest sustainably below 1.7x, or

» FCF reduces towards zero on a sustained basis, or

» liquidity deteriorates.

Key indicators

Exhibit 2
Assemblin Caverion Group AB

(in $ billions)	2019	2020	2021PF*	2022	2023PF*	2024F PF**	2025F
Revenue	1.2	1.2	1.3	1.3	4.1	4.0	4.2
EBITA Margin	5.2%	5.5%	6.8%	6.9%	5.2%	5.4%	5.7%
Debt / EBITDA	5.7x	5.5x	5.3x	4.8x	4.2x	5.8x	5.4x
EBITA / Interest	3.5x	2.2x	2.8x	2.7x	2.8x	1.8x	2.0x
RCF / Net Debt	16.5%	18.1%	13.8%	16.2%	14.3%	9.8%	11.4%
FCF / Debt	7.8%	14.5%	7.8%	4.7%	6.4%	2.7%	4.6%

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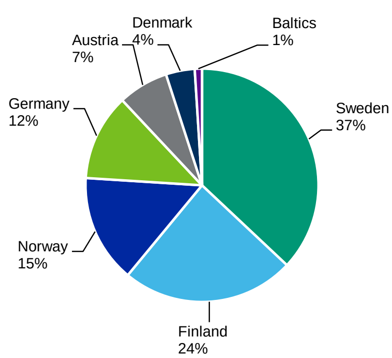
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

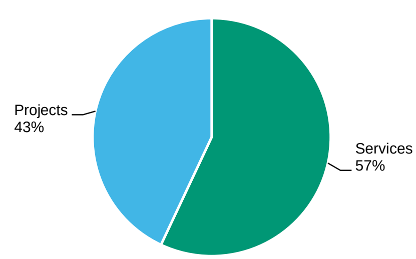
Following the combination of Assemblin and Caverion, Assemblin Caverion is the largest installation company in the Nordics, with installation services in electrical, heating and sanitation, and ventilation and associated services. Pro-forma for the combination with Caverion the combined annual revenue was SEK 43.3 billion, out of which 43% are generated by project and 57% by service business. The company was created in November 2015, when the current owner Triton acquired the Nordic perimeter of the bankrupt estate of Royal Imtech.

Exhibit 3
Sales breakdown after the combination with Caverion (2023)



Source: Company filings

Exhibit 4
Sales breakdown by type of assignment after the combination with Caverion (2023)



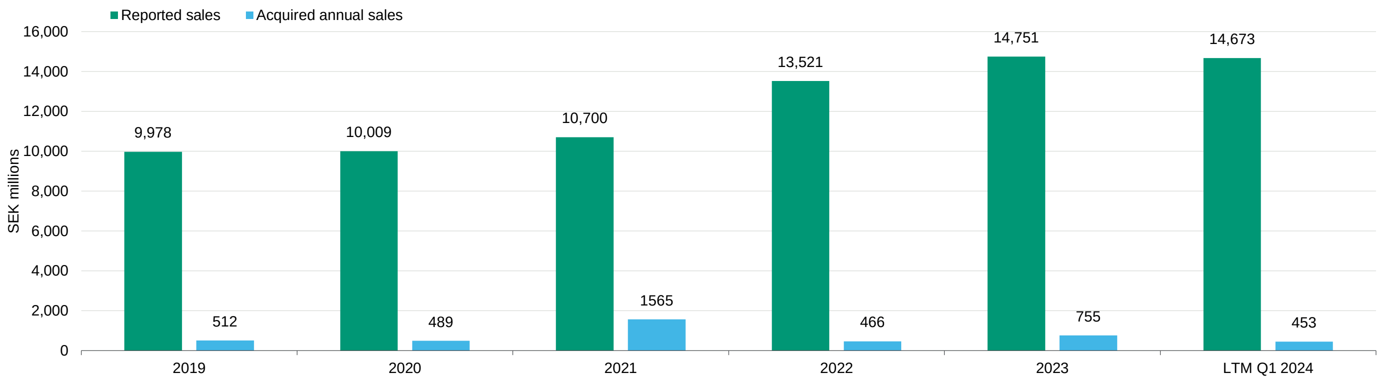
Source: Company filings

Detailed credit considerations

Leading Nordic technical installation and service company

Assemblin Caverion is the leading provider of technical installation and service company in the Nordics, with additional business footprint in Germany and Austria. In the Nordics, the combination of Assemblin and Caverion in 2024 created a company now larger than competitors Bravida or Instalco in a market that is still fairly fragmented. The company claims leadership in Norway, Sweden and Finland with further sizeable operations in Germany, Austria and Denmark. The installation and service market is local market, which means the business operations are performed by a large number of local teams. Both Assemblin and Caverion historically grew through bolt-on acquisitions and we expect that to continue.

Exhibit 5
Bolt-on acquisitions were an integral part of the Assemblin's growth strategy, now continued with Caverion



Acquired sales refer to the effect if the acquisitions take effect on 1 January each year, Assemblin only
Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Company filings

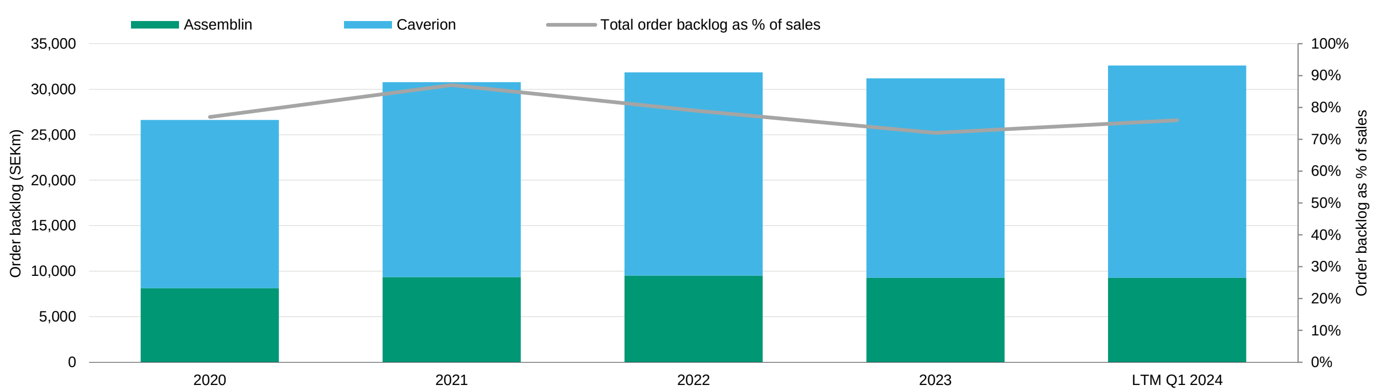
Solid business outlook despite sensitivity to cyclical construction sector balanced by high renovation exposure

We expect the installation market to follow growth trends of the construction market, although with a slight delay and smaller fluctuations. The installation market always had its largest exposure to the relatively more stable renovation, maintenance and service market. Given the recent slowdown in segments like residential or commercial building construction activity, the overall contribution to group revenues from these activities will likely remain very low.

The residential business contributed 7% of revenues in 2024, but this included the renovation business. We see the sizeable service business, now contributing the majority of revenues, as a more stable business.

Overall the business outlook is relatively solid, even if the new-building installation market has a weaker outlook. Public spending as well as the renovation and service part of the business are set to grow moderately but steadily in the next 2-3 years. The joint company had an order backlog of SEK 32.6 billion, representing 76% of annual sales, as of March 2024, which supports income stability for the next 12 to 18 months, despite the ratio coming down from previous years.

Exhibit 6
Assemblin Caverion's order backlog remains robust, supporting revenue stability in the next 12-18 months



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Source: Company filings

Flexible cost structure and cost-saving initiatives support profitability improvements

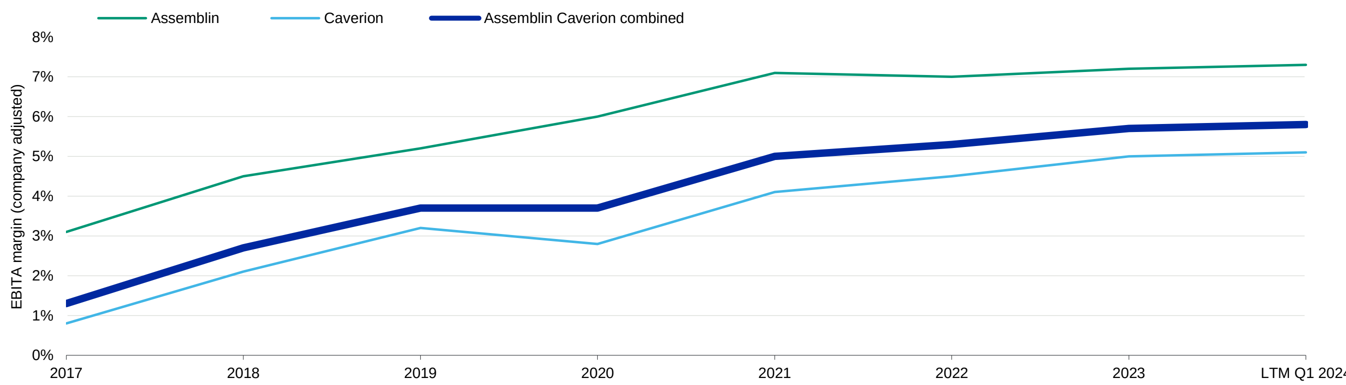
The company benefits from a relatively flexible cost structure and a revenue stream that is at least partially allow for a pass-through of cost inflation. The group estimates that 35% of its business is at fixed cost mostly in the projects business, while the remainder is largely on cost plus structures that mitigate inflationary pressure on profitability.

Both Assemblin and Caverion have focused on increasing profitability in the last years. While company-reported EBITA margins for Assemblin grew from about 3% in 2017 to above 7% in 2021 to remain about constant since then, Caverion moved from less than 1% in 2017 to 5% in 2023. Moody's-adjusted EBITA margins of the combined company stood at 5.2% as of FY 2023, which we expect to improve in the next 12 to 18 months despite implementation cost related to the merger of Assemblin and Caverion.

Exhibit 7

Assemblin Caverion has a track record of margin improvements

EBITA margin (*company-adjusted*)



Periods are financial year-end unless indicated. LTM = Last 12 months.

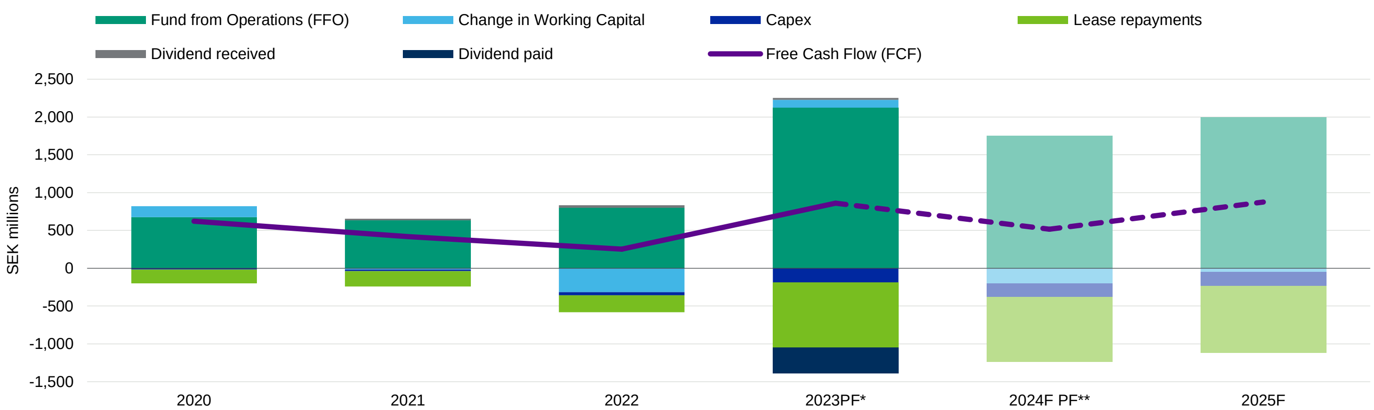
Source: Company filings

Positive FCF supports the credit profile

Despite structurally low profitability, Assemblin Caverion's business also has low capital intensity, with historically high cash conversion rates. Capital spending outside of leases has historically been around 0.2% of revenues, 2% including leases. The company's project business leads to a negative working capital profile, given the timing of invoicing versus cost payments. At the same time, its service business is associated with a positive net working capital profile.

Assemblin has a track record of generating positive FCF, which we expect to continue. Despite the increase in interest cost, we expect the company to continue to generate positive FCF of at least SEK400 million a year (according to our definition, after interest paid and after IFRS16 lease principal payment), assuming moderate working capital consumption in the next 12-18 months. We also expect the company to remain acquisitive and to continue to use FCF for bolt-on acquisitions, allowing it to grow earnings. Bolt-on acquisition multiples are likely to be in the range of 4x-6x enterprise value/EBITA.

Exhibit 8
We expect Assemblin Caverion to continue generating moderate positive FCF



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FFO = Funds from operations after interest paid.
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Source: Moody's Ratings

ESG considerations

Assemblin Caverion Group AB's ESG credit impact score is CIS-4

Exhibit 9
ESG credit impact score

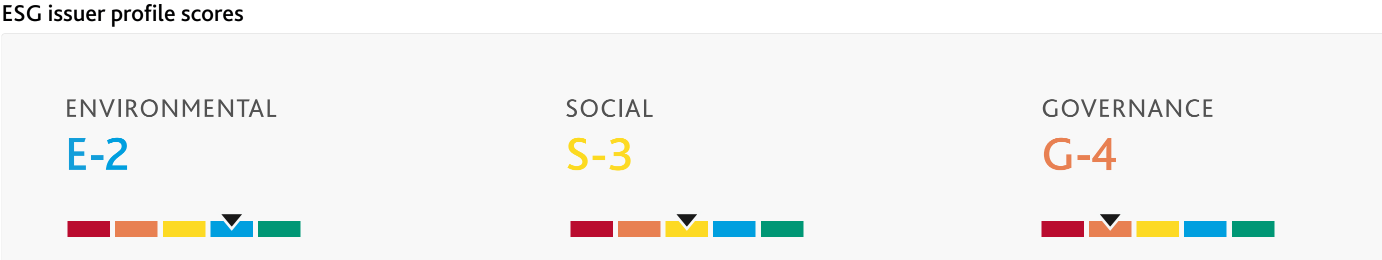
CIS-4

ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-3.

Source: Moody's Ratings

Assemblin Caverion's **CIS-4** indicates the rating is lower than it would have been if ESG risk exposures did not exist. This reflects company's aggressive financial strategy, characterized by the highly levered capital structure.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

As an installation services provider, the company helps to reduce the consumption of energy and resources in buildings, and the company estimates that the majority of its revenues are benefitting/driving the transition to low carbon. Nevertheless, fleets of vehicles used to deliver its services to customers creates some exposure to carbon transition risks.

Social

The main credit risks stemming from social issues are linked to human capital and health and safety. Potential workforce disruptions related to union labour, availability of highly skilled labour, labour standards, and wage or benefits demands could result in higher costs or lower productivity. The company operates in dangerous environments, creating health and safety risks, only partly mitigated by the company's high focus on workplace safety including the use of personal protective equipment and clothing.

Governance

The main credit risks stemming from governance issues relate to the company's aggressive financial strategy, characterized by the highly levered capital structure, relevered post merger with Caverion. That said, over the past several years the company's management team demonstrated good execution with respect to integration of acquisitions, organic growth, margin improvement and positive free cash flow.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

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Structural considerations

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Methodology and scorecard

The principal methodology used in rating Assemblin was our Business and Consumer Service Industry rating methodology.

The scorecard-indicated outcome is B1 based on the results for the FY 2023 proforma and B1 on a forward-looking basis, is one notch above the assigned rating. The assigned rating reflects the high leverage and lower free cash flow generation.

Exhibit 11

Rating factors

Assemblin Caverion Group AB

Business and Consumer Service Industry Scorecard	Current FY Dec-23PF*		Moody's 12-18 month forward view	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ billions)	4.1	Ba	4.1 - 4.3	Ba
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	Ba	Ba	Ba	Ba
b) Competitive Profile	B	B	Ba	Ba
Factor 3 : Profitability (10%)				
a) EBITA Margin	5.2%	Caa	5.5% - 5.8%	Caa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	4.2x	Ba	5.3x - 5.8x	B
b) EBITA / Interest	2.8x	B	1.6x - 1.8x	B
c) RCF / Net Debt	14.3%	B	9% - 10%	B
Factor 5 : Financial Policy (10%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		B1		B1
b) Actual Rating Assigned				B2

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Appendix

Exhibit 12

Moody's-adjusted debt/EBITDA reconciliation

Assemblin Caverion Group AB

In SEK' m	2021 Audited	2022 Audited	2023 PF issuance*
Bond (Carrying amount)	3,535	3,856	0
Other financial liabilities	7	14	19
Leasing liabilities	760	811	2,792
New issuance	0	0	14,752
As Reported Debt	**4,302**	**4,681**	**17,563**
Pensions	788	548	1,100
Contigent consideration	372	423	401
Moody's-Adjusted Debt	**5,462**	**5,652**	**19,064**
Moody's-Adjusted Debt / EBITDA	**5.8x**	**4.8x**	**5.9x**

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Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Ratings

Exhibit 13

Category	Moody's Rating
ASSEMBLIN CAVERION GROUP AB	
Outlook	Stable
Corporate Family Rating	B2
Senior Secured	B2/LGD4

Source: Moody's Ratings

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