Research Update:

Assemblin Caverion Group AB Outlook Revised To Positive On Improved Business Strength And Expected Deleveraging

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PRIMARY CREDIT ANALYST

Christopher Ewert, CFA
Madrid
+34 646 72 56 91
christopher.ewert
@spglobal.com

SECONDARY CONTACT

Kathryn Archibald
Dublin
+ 353(1)-568-0616
kathryn.archibald
@spglobal.com

Rating Action Overview

- Assemblin Caverion Group AB is planning to issue Swedish krona (SEK)9,220 million of new senior secured notes alongside cash on balance sheet to refinance Caverion's outstanding debt, repay a bridge shareholder loan from the HoldCo, and provide additional liquidity for the squeeze out of minority shareholders of Caverion, transaction fees, and cash on balance sheet.
- In our view, the business combination of Assemblin and Caverion strengthens the business profile by creating a leading northern European multi-services installation company with SEK43 billion in revenue while enhancing the geographical diversification by reducing Assemblin's revenue exposure to Sweden and adding new geographic areas, including Germany, Austria, and Denmark.
- We forecast S&P Global Ratings-adjusted debt to EBITDA of 5.5x at year-end 2024, decreasing to 5.0x in 2025, coupled with solid free operating cash flow (FOCF) generation of more than SEK1,500 million, thanks to organic revenue growth and margin expansion toward 8.5%.
- We revised the outlook to positive from stable and affirmed our 'B' long-term issuer credit rating on Assemblin Caverion Group AB. We also assigned our 'B' issue-level rating to the proposed senior secured notes of €800 million and affirmed our 'B' issue-level rating on the group's existing senior secured notes of €480 million. The recovery rating is '3', reflecting our expectations of meaningful (50%-70%; rounded estimate 55%) recovery in the event of a payment default.
- The positive outlook reflects our view that Assemblin Caverion Group will successfully integrate its combined operations with a strong focus on profitability, leading to EBITDA margin expansion toward 8.5% and solid FOCF generation of above SEK1,500, driving a deleveraging toward 5.0x over the next 12-18 months.

Rating Action Rationale

The current transaction follows Triton's decision to combine its portfolio companies, Assemblin Group AB and Caverion Oyj, for which Triton gained majority ownership during 2023. The group, which is now called Assemblin Caverion Group AB, is planning to issue €800 million of senior secured notes alongside cash on balance sheet to refinance the existing debt of Caverion of €372 million, repay a bridge shareholder loan of €338 million, and provide additional liquidity for the squeeze out of the remaining shareholders within Caverion, transaction fees, and cash on balance sheet.

We see a strengthening of the business profile as a result of the combination of Assemblin and Caverion. While Assemblin reported revenue of SEK14,751 million, the combined business generated about SEK43,339 million, which compares with SEK29,423 million of 2023 revenue for the second-largest northern European player Bravida or about SEK35,800 million of 2023 revenue for the German technical facility management company Apleona Group GmbH. This combination places the group now as the market leader in the Nordics, with a No. 1 position across Sweden, Finland, and Norway, where the company operates through 340 local units. In addition, the combination will help to reduce Assemblin's geographical concentration in Sweden to 37% from 71% based on pro forma 2023 revenue while also establishing new geographic areas, including Germany and Austria, which contributed 19% of pro forma 2023 revenue, or Denmark (4%). We believe that business combination enhances the local density in its respective markets, allowing for stronger brand awareness, more efficient allocation of resources, and procurement gains, thanks to better purchasing power with its suppliers. In addition, the exposure to new regions, including Germany, which remains a highly fragmented market where the top three market players hold less than 5% of market share, expands the group's addressable market and facilitates future growth opportunities. Moreover, we view favorably that capabilities with regard to green technology services and smart building solutions are strengthened where we see future opportunities to provide additional services to existing customers, thus ultimately supporting customer stickiness. The strengthened footprint within the green technology solutions segment is represented by close to 30% of 2023 revenue that is already EU taxonomy aligned, which we believe will become a more important source of future revenue growth for the company.

The business combination will temporarily reduce profitability but enhance revenue predictability, supporting cash flow stability. While the EBITDA margin is forecast to decline to 7.9% in 2024 from 8.4% in 2023 due to Caverion's lower overall profitability, revenue predictability and stability are anticipated to improve as the share of services revenue, which is linked to framework agreements, is shifting to 57% of total 2023 revenue from 41% for Assemblin stand-alone previously. In addition, revenue linked to project work is considered short term, with good cost predictability that allows the company to factor in any inflation costs while project-related revenue that is based on a cost-plus method allows immediate pass-through. Furthermore, the project risk linked to a specific contract is low for the group given only 7% of total work is linked to projects with a size of more than €15 million, therefore mitigating concentration risk as well as project risk that may lead to significant write-downs.

The combination of Assemblin and Caverion entails integration risk. The size of the transaction combining the second- and third-largest Nordic multi-services and installation providers by creating a new group with more than SEK43 billion of revenue adds a level of complexity. Therefore, as part of this integration process, the company may incur more than anticipated integration costs that affect the profitability of the group and could lead to weaker credit metrics than our base case. However, we see mitigating factors for the integration process led by the complementary nature of the two businesses, with Assemblin having a stronger footprint in small project work and Caverion within managed services. Therefore, we see a limited overlap of customers and expect opportunities from the conversion of project and services activities in each of the entities by leveraging the existing capabilities and customer relationships. Furthermore, we view positively the continuity of the existing management, which is expected to stay in place and help the integration process through its expertise and market knowledge while having demonstrated an ability to integrate acquired businesses, with Assemblin, for instance, acquiring more than 50 companies since 2017.

Because of management's focus on profitability, we forecast leverage to decrease to 5.0x over the next 18 months. In 2024, we are forecasting marginally negative revenue growth on a like-for-like basis of up to negative 1.5%, driven by management's focus on improving profitability, which is reflected by the first quarter 2024 results, which have seen a revenue decline of 2.9% for the combined business while the company reported adjusted EBITA increased by 6% thanks to about 50 basis points (bps) of margin expansion. The negative decline particularly stems from the Finnish operations of Assemblin, which are undergoing a restructuring of the project business while we expect that Caverion's strong Finnish operations will facilitate the turnaround. Thereafter, we forecast moderate organic revenue growth of 2.5%-3% because we expect that market conditions will only gradually improve with regard to private new housing buildings and office buildings because interest rates are expected to decrease, offset by solid demand from the public sector and infrastructure projects while benefitting from a larger client base across the regions that supports cross-selling opportunities. On a stand-alone Assemblin basis, the S&P Global Ratings-adjusted EBITDA margin was 8.4% in 2023 while the EBITDA margin is set to decline to 7.9% in 2024 due to the negative margin mix coming from Caverion, which has lower profitability than Assemblin. However, on a like-for-like basis, we forecast 40 bps margin expansion in 2024, supported by management's ambition to focus on higher-margin activities as well as implement operational efficiencies that include the closure of non-performing units as well as incentive schemes. The ability of the current management to enforce those changes has been reflected by the track records of Assemblin and Caverion, where a gradual shift occurred with a decreasing number of underperforming units to 61 from 79, which returned to profitability over a period of five years. As a result, company reported adjusted EBITA margin increased to 7.2% in 2023 from 3.1% in 2017 for Assemblin and to 5.0% from 0.8% for Caverion. In 2025, we are forecasting EBITDA margin expansion to 8.4%, which is supported by management's ability to improve the profitability of underperforming units as well as synergy realisation of about SEK180 million, mostly linked to central cost savings, partially offset by exceptional costs of SEK 250 million in order to support the integration of the businesses and realize synergies. In fact, 57% of cost-saving initiatives had already been put into place by April 2024 and are expected to be fully in place by the end of the second quarter of 2024. As a result of our base case, we forecast leverage to be 5.5x at the end of 2024 before decreasing to 5.0x at year-end 2025 while funds from operations (FFO) to debt is forecast at 10.2% and 10.9%, respectively. In addition, FFO cash interest coverage is expected to remain above 2x.

The asset-light business model of Assemblin and Caverion supports strong cash flow generation. We are forecasting positive FOCF generation of at least SEK1,500 million over the next two years and above SEK800 million after lease payments, supported by the low capital expenditure (capex) requirements of the business of about 0.5% of sales that are mostly linked to equipment, refurbishment works, and IT while the business bears a structurally negative working capital profile because project-related work is usually invoiced before the work is carried out. Despite the shift toward more services work with the combination of the two businesses, we continue to view the working capital profile as supportive of cash flow generation. Thanks to the good revenue predictability on the back of 57% of revenue coming from services agreements, coupled with a continuously strong order backlog that covered at least 70% of revenue since 2020 and the ability to pass on higher inflation, we expect that the combined business will continue to generate strong positive FOCF. The solid FOCF generation supports, combined with SEK894 million of pro forma cash on balance sheet after the transaction and a new super senior revolving credit facility of SEK2,880 million, support ample liquidity for Assemblin Caverion Group AB. In addition, the company does not face any near-term maturities after the refinancing transaction last year that extended the maturity wall until 2029.

Outlook

The positive outlook reflects our view that Assemblin Caverion Group will successfully integrate its combined operations with a strong focus on profitability leading to EBITDA margin expansion toward 8.5% and solid FOCF generation of above SEK1,500, driving a deleveraging toward 5.0x over the next 12-18 months.

Downside scenario

We could revise the outlook to stable over the next 12-18 months if adjusted leverage remained materially above 5x or FFO to debt fell below 10%. This could be caused by:

- Integration challenges that could lead to higher-than-expected one-off costs, or
- A more aggressive financial policy with large debt-funded acquisitions or shareholder remunerations.

Upside scenario

We could raise the rating if the company demonstrated successful integration of the two businesses and a financial policy that supports credit metrics commensurate with a higher rating. This implies adjusted leveraged about or below 5x and FFO to debt above 10% on a sustained basis.

Company Description

Assemblin Caverion Group AB is a European complete installation and service provider that focuses on electrical, heating, sanitation, and ventilation, as well as smart buildings. The business is a combination of Assemblin Group AB and Caverion, which was acquired by Triton during 2023.

On a combined basis, the group operates across 10 countries including Sweden (37% of 2023 revenue), Finland (24%), Norway (15%), Germany (12%), Austria (7%), Denmark (4%), and the Baltics (1%), with about 21,800 employees. In 2023, Assemblin Caverion Group AB generated SEK43,400 million of reported revenue with an estimated an S&P Global Ratings-adjusted EBITDA margin of 7.5%.

Assemblin Caverion Group AB is owned by financial sponsor Triton.

Our Base-Case Scenario

Assumptions

- We expect eurozone GDP growth of 0.7% in 2024, increasing to 1.3% thereafter. In Sweden, we anticipate minimal GDP growth of 0.3% in 2024 and thereafter 2%. In Finland, we forecast negative GDP growth of 0.3% in 2024, recovering to 1.6% in 2025 while Norway's GDP is anticipated to grow by 1% in 2024 and 1.7% thereafter.
- The Consumer Price Index (CPI) is forecast to be 2.6% in the eurozone in 2024 and 2.1% in 2025. In Sweden, the CPI is forecast to be 2.5% in 2024 and 2025. In Finland and Norway, the CPI is 0.9% and 3.4% in 2024 and 1.3% and 2.4% in 2025, respectively.
- For 2024, organic revenue growth on a combined basis (Assemblin and Caverion) is forecast to be negative 1.4% led by more challenging market conditions that affect the demand and management focus on higher-margin work that has led to a restructuring within the Finnish business of Assemblin. Thereafter, we forecast organic revenue growth of 2.5%-3%, benefiting from a better market environment with higher GDP growth, continued solid order intakes, and benefits from its strengthened local footprints as a combined business.
- S&P Global Ratings-adjusted EBITDA margins are set to decline to 7.9% in 2024 from 8.4% in 2023 due to the combination of Assemblin and Caverion, in which Caverion has a lower-margin profile. On a like-for-like basis, the EBITDA margin is forecast to expand by 40 bps year on year in 2024 thanks to management's focus on profitability. We also expect some synergy realization coming from the combination of the two businesses, partially offset by SEK250 million of exceptional costs. Thereafter, we forecast a gradual margin expansion toward 9.0% thanks to realized synergies and operational improvements in regions with unprofitable projects such as Assemblin's Finland operations.
- Capex of about 0.5-0.6% of consolidated revenue, which is broadly in line with the historical trend.
- Moderate working capital outflows of up to SEK200 million during 2024, with broadly neutral flows thereafter as the company benefits from a structurally negative net working capital profile where project work is invoiced before work is carried out. Project work is structurally more working capital negative in nature than service assignments.
- No dividend payments and acquisitions apart from the small bolt-on acquisitions undertaken during the first quarter of 2024, resulting in SEK30 million considerations.

Key metrics

Assemblin Caverion Group AB--Forecast summary

Industry sector: Facilities services									
	--Fiscal year ended Dec. 31--								
	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f	2028f
(Mil. kr)									
Revenue	10,009	10,721	13,521	14,751	42,738	43,840	44,995	46,124	47,288
EBITDA (reported)	733	954	1,201	1,362	3,368	3,664	3,946	4,106	4,256
Plus/(less): Other	(10)	(13)	(74)	(125)	1	1	1	1	1
EBITDA	723	941	1,127	1,237	3,369	3,665	3,947	4,107	4,257
Less: Cash interest paid	(207)	(251)	(283)	(411)	(1,252)	(1,356)	(1,324)	(1,317)	(1,321)
Less: Cash taxes paid	(8)	(106)	(149)	(105)	(230)	(300)	(421)	(442)	(460)
Funds from operations (FFO)	508	584	695	721	1,887	2,009	2,201	2,348	2,476
Cash flow from operations (CFO)	823	615	511	726	1,751	2,041	2,250	2,417	2,570
Capital expenditure (capex)	16	20	37	49	214	263	270	231	236
Free operating cash flow (FOCF)	807	595	474	677	1,537	1,778	1,980	2,186	2,334
Debt (reported)	2,473	3,547	3,870	5,162	14,383	14,383	14,383	14,383	14,365
Plus: Lease liabilities debt	769	760	811	1,023	2,711	2,792	2,876	2,962	3,051
Plus: Pension and other postretirement debt	577	610	500	583	953	953	953	953	1,047
Plus/(less): Other	140	379	423	401	454	284	99	14	7
Debt	3,959	5,296	5,604	7,169	18,501	18,412	18,311	18,312	18,470
Adjusted ratios									
Debt/EBITDA (x)	5.5	5.6	5.0	5.8	5.5	5.0	4.6	4.5	4.3
FFO/debt (%)	12.8	11.0	12.4	10.1	10.2	10.9	12.0	12.8	13.4
FFO cash interest coverage (x)	3.5	3.3	3.5	2.8	2.5	2.5	2.7	2.8	2.9
EBITDA interest coverage (x)	3.6	3.8	4.0	2.4	2.7	2.7	2.9	3.1	3.2
CFO/debt (%)	20.8	11.6	9.1	10.1	9.5	11.1	12.3	13.2	13.9
FOCF/debt (%)	20.4	11.2	8.5	9.4	8.3	9.7	10.8	11.9	12.6
Annual revenue growth (%)	0.3	7.1	26.1	9.1	189.7	2.6	2.6	2.5	2.5
EBITDA margin (%)	7.2	8.8	8.3	8.4	7.9	8.4	8.8	8.9	9.0

All figures include S&P Global Ratings adjustments' unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We continue to assess Assemblin Caverion's liquidity as adequate, because we expect the group's liquidity sources will cover its uses by more than 1.2x over the next 12 months. our assessment is restricted by our view that it could be challenging for Assemblin Caverion to absorb high-impact, low-probability events without refinancing. We believe the group's financial policy is sufficiently prudent to maintain adequate liquidity but not to support a higher assessment.

Pro forma the transaction, principal liquidity sources for the next 12 months include:

- Net accessible cash balance of about SEK894 million at the closing of the transaction.
- An undrawn super senior revolver of SEK2,880 million.
- Cash FFO of about SEK1,075 million.

Principal liquidity uses over the same period include:

- Capex of about SEK225 million-SEK250 million.
- Seasonal working capital requirements of SEK750 million per year.
- Working capital outflows (not seasonal) of about SEK150 million.
- Earn outs related to previous acquisitions of SEK80 million.

Covenants

The group is subject to springing first-lien senior secured leverage of 7.9x on its super senior SEK2,880 million revolver, tested quarterly when drawings exceed 40%. We expect the company to maintain adequate headroom under this covenant over the next 12 months.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit analysis of Assemblin Caverion Group AB. Our assessment of the company's financial risk profile as highly leveraged reflects corporate decision-making that prioritizes the interests of the controlling owners, in line with our view of most rated entities owned by private-equity sponsors. Our assessment also reflects generally finite holding periods and a focus on maximizing shareholder returns.

Issue Ratings - Recovery Analysis

Key analytical factors

- Our 'B' issue-level rating on the existing senior secured notes of €480 million, as well as the proposed €800 million of new senior secured notes, is in line with the issuer credit rating. The '3' recovery rating reflects our expectations of meaningful (50%-70%; rounded estimate 55%) recovery in the event of a payment default.
- The recovery rating is constrained by the super senior revolver and large amount of senior secured claims.
- We view the security package provided to senior secured lenders as weak because it includes only share pledges, intercompany loan receivables, and material operating bank accounts. We note that there is a guarantor coverage test where the obligors must account for at least 80% of consolidated EBITDA.
- There is a financial covenant for the benefit of the super senior lenders only. It is tested only if drawings under the revolver exceed 40%. In that case, the senior secured net leverage ratio should not exceed 7.9x.
- In our hypothetical default scenario, we assume a material decrease in revenue due to rising competition, leading to falling volumes as the company limits unprofitable projects. This, is

turn, would result in a significant decline in EBITDA and cash flows and a default in interest payments on debt.

- We value the group as a going concern given its leading position as an installation provider in the northern European market, as well as its established branch network and strong customer relationships.

Simulated default assumptions

- Year of default: 2028
- Jurisdiction: Sweden

Simplified waterfall

- Emergence EBITDA: SEK1,948 million
- Minimum capex at 0.5% of three-year average sales
- Multiple: 6x
- Gross enterprise value (EV) at emergence: SEK11,686 million
- Net EV after administrative expenses (5%): SEK11,102 million
- Priority liabilities (revolver reflecting an 85% draw): SEK2559 million
- Net EV available to senior secured lenders: SE8,543 million
- Senior secured debt claims: SEK15,294 million
- Recovery expectations: 50%-70% (rounded estimate: 55%)

*All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Issuer Credit Rating	B/Positive/--
Business risk:	Fair
Country risk	Very low
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)
Financial policy	FS-6 (no impact)

Issuer Credit Rating	B/Positive/--
Liquidity	Adequate (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	b

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Assemblin Caverion Group AB		
Issuer Credit Rating	B/Positive/--	B/Stable/--
Senior Secured	B	B
Recovery Rating	3(55%)	3(50%)
New Rating		
Assemblin Caverion Group AB		
Senior Secured	**B**	
Recovery Rating	3(55%)	

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.