S&P Global
Ratings

RatingsDirect®

Research Update:

Leading Nordic Installation And Service Provider Apollo Swedish Bidco AB (Assemblin) Assigned 'B' Rating; Outlook Stable

June 13, 2023

PRIMARY CREDIT ANALYST

Christopher Ewert, CFA
Dublin
+353 15680620
christopher.ewert@spglobal.com

SECONDARY CONTACT

Solene Van Eetvelde
Paris
+ 33 14 420 6684
solene.van.eetvelde@spglobal.com

Rating Action Overview

- Triton has sold Assemblin Group AB to its continuation fund IV, via a new holding company Apollo Swedish Bidco AB. The acquisition is funded through a new €480 million senior secured notes due in 2029 and €394 million of equity contribution, while the company is also raising a new super senior revolving credit facility (RCF) of Swedish krona (SEK)1.1 billion (about €95 million).
- We forecast that the refinancing of the existing capital structure will increase adjusted debt to EBITDA close to 6.0x by the end of 2023 from 5.0x at the end of 2022.
- We assigned our 'B' long-term issuer credit rating to Apollo Swedish Bidco AB and our 'B' issue rating to the proposed €480 million senior secured floating-rate notes, with a recovery rating of '3', indicating meaningful recovery prospects (50%-70%; rounded estimate 50%) in the event of a payment default.
- On completion of the transaction and full repayment of the existing €350 million senior secured notes, we intend to withdraw our ratings on Assemblin Group AB (B/Stable/--).
- The stable outlook reflects our view that Assemblin will continue to see mid- to high-single-digit revenue growth, coupled with a moderate increase in EBITDA margin, which will support deleveraging toward 5.5x by year-end 2024 and sustained good free operating cash flow (FOCF) for future business growth.

Rating Action Rationale

The current financial sponsor, Triton, has sold Assemblin Group AB to its continuation fund IV and refinanced the capital structure. As part of this, the new rated parent company, Apollo Swedish Bidco AB, is proposing to issue €480 million of new senior secured notes. While we forecast this refinancing will increase leverage by about 1x to close to 6.0x by the end of 2023, we continue to forecast deleveraging thereafter. Assemblin's positive operating performance has resulted in deleveraging by 0.6x during 2022, to 5.0x, which has continued during first-quarter 2023, with about 12% organic revenue growth and 60 basis points (bps) of company reported EBITDA margin expansion. Despite a slowdown in the private real estate market, we expect a solid operating performance from Assemblin in 2023, with forecast revenue growth of 8% including about 2% of acquired growth, alongside margin expansion by 20 bps to 8.5% at the end of 2023. This is thanks to a strong backlog of about SEK9.1 billion that allows for good revenue visibility, the company's ability to maintain margins in a high-inflation environment with a timely pass-through of most of the cost inflation, continued operational improvements in the Finnish business, and the successful integration of margin accretive mergers and acquisitions (M&A). On this basis, we continue to expect solid mid-single-digit revenue growth and margin expansion toward 9.0% by the end of 2024, which supports deleveraging to 5.5x. We expect S&P Global Ratings-adjusted funds from operations (FFO) cash interest coverage will decline close to 2.0x, from 3.0x in 2022, as it is affected by higher interest costs because of the refinancing, coupled with higher interest rates.

The 'B' issuer credit rating on Apollo Swedish Bidco AB reflects the group's continued financial-sponsor ownership and appetite for debt-funded acquisitions. The group has undertaken 69 tuck-in acquisitions in Finland, Norway and Finland since 2017 alongside the larger acquisition of the Finnish smart building technology service company Fidelix in 2021. While these acquisitions have allowed Assemblin to take advantage of high fragmentation of the Nordics installation market to strengthen its footprint and market share, they have slowed its deleveraging. We continue to expect bolt-on M&A to strengthen existing capabilities and expand services within smart building technology services. We forecast healthy growth for this sector, led by the energy transition.

Our assessment continues to reflect Assemblin's good market position and history of profitable growth. In Sweden, where it generates about 71% of revenue, Assemblin is No. 2 behind Bravida Holding AB. We believe that Assemblin's market share within the building management systems--estimated to be 2x larger than its closest pure play installation competitors in Finland and Sweden--will spur further growth in the future and help solidify its well-recognized brand. Management's ability to execute its strategy is reflected by Assemblin's profitability, which increased over the past six years, with S&P Global Ratings-adjusted EBITDA margin expanding to 8.3% in 2022, from 4.9% in 2017, thanks to a reduction in the share of unprofitable branches down to 14% from 30% over the period, successfully integrating small margin-accretive bolt-on M&A and being able to pass on cost inflation in a timely manner on the back of about two-thirds of contracts that are "cost-plus" in Sweden and Norway.

We view positively Assemblin's gradual reduction in geographical concentration in Sweden and increasing scale, although they continue to lag that of higher rated peers. Through the growth of Assemblin in Finland and Norway over the last five years, the geographical concentration in Sweden has reduced by about 10% to 71% of total revenue, while the scale of the business has grown to about €1.2 billion in revenue in 2022 from €870 million at the end of 2018. Nonetheless, we continue to view the size of the business as a constraint compared to larger installation and services companies such as Bravida and Spie S.A., with most of its revenue still coming from Sweden and thus exposing the business to concentration risk.

Revenue stability, supported by the growing share of services revenue and strong backlog, coupled with the asset-light business model, support continued ample liquidity and strong FOCF. Assemblin has a track record of solid FOCF. Over the next two years, we forecast FOCF after lease payments of at least SEK250 million per year, thanks to minimal capital expenditure (capex) of SEK40 million-SEK50 million and only moderate working capital outflows of up to SEK100 million to support the growth of the business, with a growing share of services revenue that is more working capital-intensive in nature. The ample liquidity profile of Assemblin is further supported by an absence of near-term maturities, pro forma cash on balance sheet of SEK440 million, and a new super senior RCF of SEK1.1 billion that is expected to be undrawn at closing.

Outlook

The stable outlook reflects our view that Assemblin will continue to see mid- to high-single-digit revenue growth, coupled with a moderate increase in EBITDA margin, which will support deleveraging toward 5.5x by year-end 2024 and sustained FOCF for future business growth.

Downside scenario

We could lower our ratings if Assemblin experienced a material decline in profitability or higher volatility in margins, due to unexpected operational issues or increased competition. This would include FOCF turning negative or FFO cash interest coverage declining and staying sustainably below 2x.

Alternatively, continued debt-funded acquisitions or shareholder-friendly returns that resulted in S&P Global Ratings-adjusted debt to EBITDA higher than 7.0x on a sustained basis could result in a downgrade.

Upside scenario

We could raise the ratings if Assemblin reduced and sustained S&P Global Ratings-adjusted debt to EBITDA below 5x on the back of continued growth, at least stable margins, and solid FOCF. We would also expect shareholders to commit to and demonstrate a financial policy consistent with S&P Global Ratings-adjusted debt to EBITDA lower than 5.0x.

Company Description

Apollo Swedish Bidco AB is the parent company of Assemblin, a complete installation and service provider in the Nordic region focusing on electrical, heating, sanitation, and ventilation. Following the acquisition of Fidelix and Tom Allen Senera in 2021, the company now operates a fourth business segment of technical services, focused on green technology and smart building solutions.

The company is headquartered in Sweden, with close to 200 branches in more than 100 Nordic locations, employing more than 6,700 people. In 2022, Assemblin generated revenue of SEK13.5 billion and an S&P Global Ratings-adjusted EBITDA margin of 8.3%.

Apollo Swedish Bidco AB is owned by financial sponsor Triton.

Our Base-Case Scenario

Assumptions

- We expect GDP growth of negative 0.3% for Sweden, 0% for Finland, and positive 0.8% in Norway for 2023, on the back of high inflation, stunted hiring, and higher interest rates. We expect a recovery and positive GDP growth in 2024, steering the economy toward a modest recovery from second-half 2023.
- For 2023, organic revenue growth of about 6% on the back of a continued strong backlog and price increases from passing on cost inflation across business divisions, in addition to 2% of acquired growth. In 2024, we expect organic revenue growth to be about 3.5%, thanks to the strong backlog, while we forecast inflation will ease, resulting in only moderate price increases, in addition to 1.5% of acquired growth.
- S&P Global Ratings-adjusted EBITDA margins are set to increase toward 9.0% by 2024 from 8.3% in 2022, due to the company's ability to successfully pass on cost inflation as well as operational improvements within the Finnish business, and margin-accretive bolt-on acquisitions, while we anticipate no material change in product mix and cost structure over the forecast horizon.
- Capex of SEK40 million-SEK50 million per year, about 0.3% of consolidated revenue, which is broadly in line with the historical trend.
- Moderate working capital outflows of up to SEK100 million during 2023 and 2024 due to lower project work activity in light of the macroeconomic environment. Project work is structurally more working capital negative in nature than service assignments.
- No dividend payments.
- M&A of about SEK400 million over the next three years as we expect the group to continue its focus on small bolt-on M&A, in line with previous years. We expect this will help the company expand into new niches and strengthen its positions in core markets.

Forecast summary

- Adjusted debt to EBITDA of about 6.0x at year-end 2023, expected to decline to 5.5x by 2024.
- Adjusted FFO to debt of about 8.5% over the next two years.
- Adjusted FFO cash interest coverage of about 2.1x when taking into consideration the increased interest expenses of the new capital structure on a full-year basis.
- S&P Global Ratings-adjusted FOCF of about SEK500 million per year.

Liquidity

We continue to assess Assemblin'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. We also maintain our adequate liquidity assessment because we consider that it could be challenging for Assemblin to absorb high-impact, low-probability events without refinancing. 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 SEK440 million at closing of the transaction.
- An undrawn super senior RCF of SEK1,100 million.
- Cash FFO of about SEK444 million.

Principal liquidity uses over the same period include:

- Capex of about SEK40 million-SEK50 million.
- Seasonal working capital requirements of SEK250 million per year.
- Working capital outflows (not seasonal) of about SEK100 million.

Covenants

Assemblin will be subject to only one springing first-lien net leverage covenant of 7.9x maximum under the super senior secured RCF, to be tested when drawings exceed 40% of commitments. We forecast that the group will maintain ample headroom, such that a 15% decline in EBITDA will not result in a breach of the covenant.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-3

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

Issue Ratings--Recovery Analysis

Key analytical factors

- Our 'B' issue rating on the proposed €480 million senior secured notes is in line with the issuer credit rating. The '3' recovery rating reflects our expectations of meaningful recovery (50%-70%; rounded estimate 50%) in the event of a payment default.
- The recovery rating reflects the super senior RCF.
- 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 RCF 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 strong position as an installation provider in the Swedish market, as well as its established branch network and strong customer relationships.

Simulated default assumptions

- Year of default: 2026
- Jurisdiction: Sweden

Simplified waterfall

- Emergence EBITDA: SEK731 million
- Minimum capex at 0.5% of three-year average sales
- Multiple: 5.5x
- Gross enterprise value (EV) at emergence: SEK4,020 million
- Net EV after administrative expenses (5%): SEK3,819 million
- Priority liabilities (RCF reflecting an 85% draw): SEK970 million
- Net EV available to senior secured lenders: SE2,849 million
- Senior secured debt claims: SEK5,648 million
- Recovery expectations: 50%-70% (rounded estimate: 50%)

*All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Issuer Credit Rating	B/Stable/--
Business risk:	Weak
Country risk	Very Low Risk
Industry risk	Intermediate Risk
Competitive position	Weak
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 additional impact)

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

Related Criteria

- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Assemblin Financing AB, Jan. 23, 2023

Ratings List

New Rating	
Apollo Swedish Bidco AB	
Issuer Credit Rating	B/Stable/--
Senior Secured	B
Recovery Rating	3(50%)

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; or Stockholm (46) 8-440-5914

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.