

Rating Action: Moody's upgrade Boels' CFR to Ba3, outlook stable

30 Jun 2022

Paris, June 30, 2022 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of Boels Topholding B.V.'s ("Boels or the company") corporate family rating ("CFR") to Ba3 from B1 and its probability of default rating ("PDR") to Ba3-PD from B1-PD. Concurrently, Moody's has also upgraded the instrument rating on the EUR1,450 million senior secured term loan B (TLB) due 2027 and EUR 179.3 million senior secured revolving credit facility (RCF) due 2026 to Ba3 from B1. The outlook remains stable.

RATINGS RATIONALE

Boels' upgrade to Ba3 reflects the company's strong operating performance and track record after the pandemic, and leverage (Moody's adjusted debt/EBITDA), which reduced to 3.4x in 2021 from 3.9x in 2020 and which Moody's expects will continue to improve towards 3.0x by 2023 with a continued improvement in earnings. Even during the pandemic, performance was resilient with revenue falling by only 5% and EBITDA increasing by 3% (like-for-like, including Cramo) in 2020. Moody's also expects that the company will continue to generate positive free cash flow (FCF)/debt of around 2-3% beyond 2022 and maintain adequate liquidity. The rating action also takes into account Boels' financial flexibility to cut capital spending in an economic downturn which will bolster FCF in the event of a downturn, no refinancing needs until 2027 and their conservative financial policy of maintaining reported net leverage below 3.0x and partial hedging of their interest rate exposure which Moody's views as prudent.

The company's continued strong performance is forecast to be driven by improving market conditions in Boels' countries of operations, a recovery in end markets supported by easing of restrictions and government infrastructure spending as well as continued demand for its equipment as rental penetration continues to grow although the weaker macroeconomic environment may soften demand.

Moody's expects Boels will continue growing its top line by mid-single-digit percentage in the next two years, supported by the continued growth in its European markets. This is broadly in line with the European Rental Association forecasts of 6% market growth in the Boels' core geographies [1]. As a result, Moody's expects adjusted EBITDA of around €495-520 million resulting in leverage of 3.3x and 3.1x in 2022 and 2023 respectively.

Governance was a key rating driver of today's rating action in line with Moody's ESG framework because of management's credibility and Boels' good track record of maintaining a conservative financial policy, which includes maintaining adequate liquidity and paying down debt with excess cash in 2021.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that Moody's-adjusted leverage will trend towards 3.0x in the next 12-18 months. It also includes Moody's expectation of continued growth and increased rental penetration in the company's countries of operation. Moody's considers that the company will not execute any major debt-funded acquisitions or shareholder distributions in the short-term as per the company's stated financial policy.

LIQUIDITY PROFILE

Moody's considers Boels' liquidity to be adequate and supported by a cash balance of €28 million and an undrawn senior secured RCF of EUR179.3 million as of 31 March 2022. Moody's expects the company will generate negative FCF/debt of 4% in 2022 as it ramps up its fleet investment. From 2023 onwards, Moody's expects Boels to generate FCF/debt of around 2%-3% even under Moody's assumption of higher interest rates for the unhedged portion of debt.

As part of the documentation, the Senior Facility Agreement ("SFA") contains a maintenance covenant based on net leverage set at 6.5x. Moody's expects Boels to maintain ample headroom under this covenant.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Corporate governance is a consideration for Boels. The company is owned by Pierre Boels Jr. who is also the

CEO, which leads to key-man risk.

The company has also reiterated its commitment to a more conservative financial policy of maintaining reported net leverage below 3.0x with no plans for dividend distributions or major debt funded acquisitions in the near term.

STRUCTURAL CONSIDERATIONS

The PDR is Ba3-PD, in line with the CFR, reflecting Moody's assumption of a 50% family recovery rate as is customary for bank debt structures with loose financial covenants. The senior secured RCF and senior secured TLB are pari passu and rated Ba3, in line with the CFR.

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

Positive pressure on the rating could occur if: (i) Moody's-adjusted leverage declines below 2.5x on a sustainable basis; (ii) liquidity is consistently good, with positive FCF/debt approaching 10%; and (iii) its business profile continues to improve such as increasing market share, earnings and diversification of end-market exposure.

Negative pressure on the rating could occur if: (i) the company's operational performance deteriorates; (ii) Moody's-adjusted leverage increases above 3.5x on a sustained basis, or (iii) FCF is consistently negative such that liquidity deteriorates.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Equipment and Transportation Rental published in February 2022 and available at <https://ratings.moody.com/api/rmc-documents/379526>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Netherlands, Boels Topholding B.V. (Boels) is a leading European provider of generalist and specialist rental equipment. Boels was founded in 1977 by Pierre Boels Sr. His son Pierre Boels Jr. is its Chief Executive Officer since 1996 and owns 100% of the company. Boels generated €1.3 billion of revenue and €473 million of Moody's adjusted EBITDA as of 31 December 2021.

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 on <https://ratings.moody.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1288235.

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

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REFERENCES/CITATIONS

[1] European Rental Association 24-Nov-2021

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