

## CREDIT OPINION

23 June 2023

Update



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### RATINGS

#### Apollo Swedish BidCo 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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# Apollo Swedish BidCo AB

## Update to credit analysis

### Summary

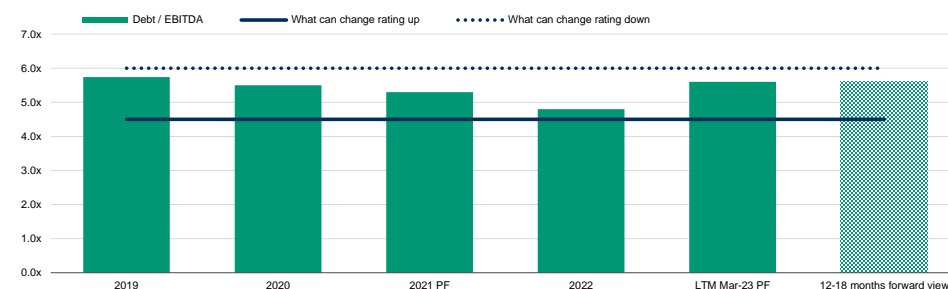
On 13 June 2023, we re-assigned a B2 corporate family rating (CFR) with a stable outlook to [Apollo Swedish BidCo AB](#) (Assemblin), upon the announcement of the refinancing of the capital structure through an issuance of €480 million senior secured notes, following a fund-to-fund transfer of Assemblin by Triton. The issuance will lead to an increase in gross leverage and interest costs, but we expect metrics to remain in line with expectations for its B2 rating.

Assemblin's strong market position as Sweden's second-largest provider of installation services; its asset-light service business with a flexible cost structure; high exposure to more stable service and renovation end markets (around 75% of revenue); a track record of margin expansion and generating positive free cash flow (FCF); and our expectation of continued positive FCF generation, which will likely be used to fund bolt-on M&A that supports earnings growth, support the company's B2 rating.

However, Assemblin's high leverage, with Moody's-adjusted debt/EBITDA of around 5.6x pro forma the transaction as of the 12 months that ended March 2023; concentration in Sweden (around 70% of revenue generated); exposure to the overall health of the cyclical construction industry and risk that current solid profitability could moderately weaken because of a decline in residential and commercial new build construction activity in the Nordic region; and an event risk of debt-funded acquisitions or shareholder distributions associated with its private equity ownership all constrain the rating.

Exhibit 1

### We expect Assemblin's leverage to remain within our expectation for its B2 rating



LTM Mar-23 PF is pro forma for the impact of the new bond issuance.

Forward view represents our view, not the view of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Credit strengths

- » Strong market position in the fragmented Swedish installation market
- » Asset-light service business with flexible cost structure, enabling swift adjustments to shifts in economic cycles
- » Exposure to recurring revenue from maintenance contracts (40% of sales), and high share of renovation and services in the Nordic installation market (75% of sales)
- » Positive FCF used for bolt-on M&A, supporting earnings growth

## Credit challenges

- » High financial leverage
- » Significant concentration in Sweden, which represents around 70% of revenue
- » Exposure to the cyclical construction industry
- » Event risk associated with private equity ownership

## Rating outlook

The stable rating outlook reflects our expectation that Assemblin's solid order backlog, maintenance contracts and flexible cost structure will support earnings stability in the next 12-18 months. It also reflects our expectation of Moody's-adjusted gross leverage of around 5.5x- 6.0x, Moody's-adjusted FCF/debt in the low- to mid-single-digit percentages and interest coverage of Moody's-adjusted EBITA/interest of around 1.7x-2.0x. The outlook also assumes no further significant increase in leverage from future debt-funded acquisitions or shareholder distributions, as well as the company maintaining adequate liquidity.

## 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 below 4.5x, 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Assemblin Group AB

	2018A	2019A	2020A	2021 PF	2022A	LTM Mar-23 PF	12-18 months forward view
Revenue (USD billion)	1.0	1.1	1.2	1.3	1.3	1.2	1.2
EBITA Margin	4.7%	5.2%	5.5%	6.8%	6.9%	7.5%	7% - 7.5%
Debt / EBITDA	5.0x	5.7x	5.5x	5.3x	4.8x	5.6x	5.5x - 6.0x
EBITA / Interest	2.9x	3.5x	2.2x	2.8x	2.7x	2.0x	1.7x - 2.0x
RCF / Net Debt	20.7%	16.5%	18.1%	13.8%	16.3%	17.2%	10% - 11%

LTM Mar-23 PF is pro forma for the impact of the new bond issuance.

Forward view represents our view, not the view of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

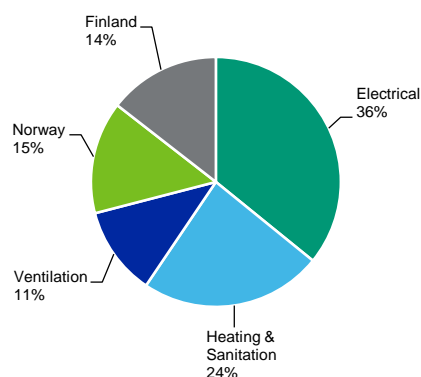
## Profile

Headquartered in Stockholm, Assemblin is the second-largest installation company in Sweden, with installation services in electrical, heating and sanitation, and ventilation. For the 12 months that ended March 2023, the company reported revenue of SEK14.9 billion and EBITA of SEK1.0 billion. 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 split by division

For the 12 months that ended March 2023



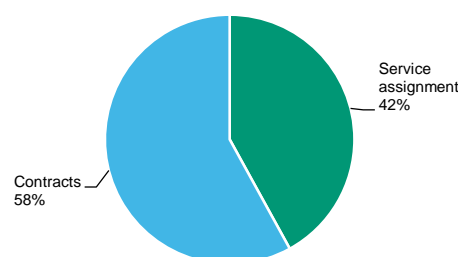
Electrical, Heating &amp; Sanitation, and Ventilation in Sweden only.

Source: Company reports

Exhibit 4

### Sales split by type of assignment

For the 12 months that ended September 2022



Electrical, Heating &amp; Sanitation, and Ventilation in Sweden only.

Source: Company reports

## Detailed credit considerations

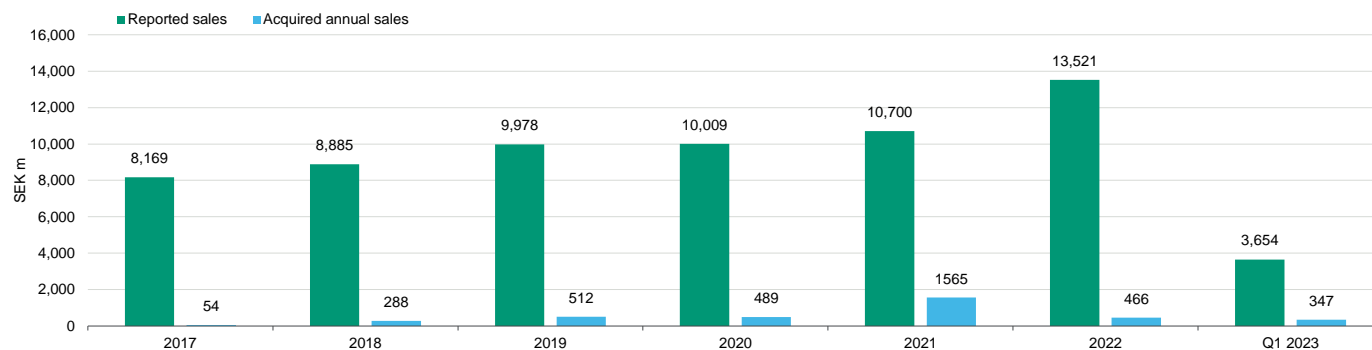
### Among leading companies in the fragmented Swedish installation market; bolt-on acquisitions offer continued growth potential

Assemblin benefits from a well-established branch network in Sweden, centred around the large urban areas of Stockholm, Gothenburg and Malmö. Additionally, the company has a market-leading position in the Oslo region through its very profitable H&S business. Assemblin is the second-largest installation company in Sweden, after Bravida SE (Bravida), but a market share of only 8% (according to management) in the country, demonstrating the market fragmentation. The top four companies, Bravida, Assemblin, Instalco Sverige AB (Instalco) and Caverion, control around 20% of the Nordic installation market and play an active role in industry consolidation. Given the local nature of installation, bolt-on and medium-sized acquisitions are an integral part of Assemblin's strategy to grow its business.

We expect bolt-on acquisitions to remain an integral part of Assemblin's growth strategy. The company has a track record of successfully integrating acquisitions. In 2022, Assemblin acquired companies with a total annual turnover of around SEK500 million and total consideration paid of SEK367 million, which included largely small bolt-on acquisitions. In 2021, Assemblin completed two medium-sized deals, Fidelix and Senera group (Tom Allen Senera), both operating in Finland. The Fidelix acquisition added around SEK500 million in annual turnover and increased the company's exposure to the building automation market, which has favourable growth prospects. Tom Allen Senera added more than SEK300 million in annual turnover to Assemblin and improved Assemblin's position in the Finnish installation market.

Exhibit 5

#### Bolt-on acquisitions are an integral part of Assemblin's growth strategy



Acquired sales refer to the effect if the acquisitions take effect on 1 January each year. Acquired in 2023 refers to January-March 2023.

Source: Company reports

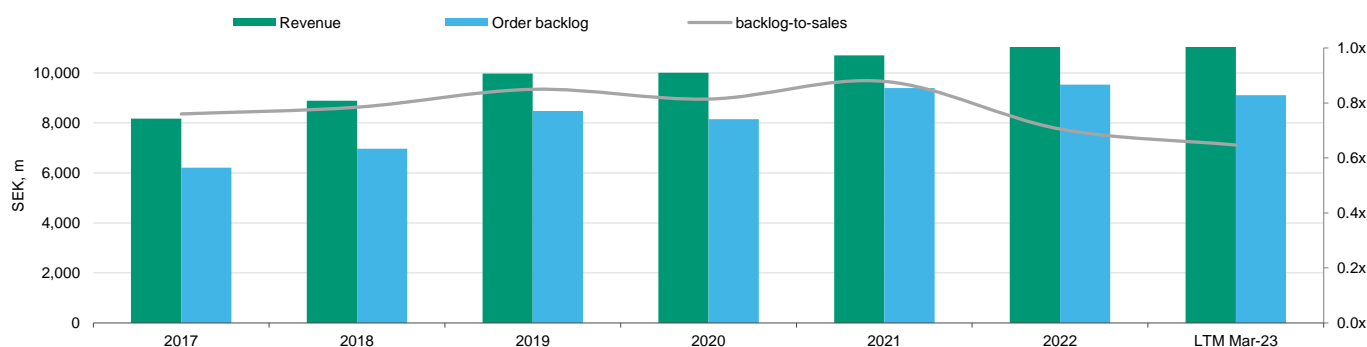
#### Sensitivity to cyclical construction sector somewhat balanced by high renovation exposure

We expect the installation market to follow growth trends of the construction market, although with a slight delay and smaller fluctuations. The installation market has an around 70% exposure to the relatively more stable renovation, maintenance and service market. In addition, Assemblin's exposure to the most cyclical subsector, such as new builds of residential buildings, is fairly limited at less than 5% for its two largest divisions, electrical and H&S. Also, the large amount of contracts per year and the fairly low average value per contract partly shield the company from being dependent on individual subsectors. Furthermore, 40% of Assemblin's revenue is from maintenance or service contracts, which provide a stable revenue base.

Euroconstruct expects increasing interest rates, high inflation and slowing economic growth investments to hurt the construction of new residential and commercial buildings in the Nordic region. However, activity in the renovation and maintenance sector is set to remain broadly stable.

In 2022, Assemblin's operating performance was fairly robust, with sales improving by 13% on an organic basis compared with that in 2021, while its EBITA margin remained broadly stable despite inflationary pressures. Solid order backlog of SEK9.1 billion as of the end of March 2023 supports revenue stability in the next 12-18 months.

Exhibit 6

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

Source: Company reports

**Flexible cost structure and cost-saving initiatives support profitability improvements**

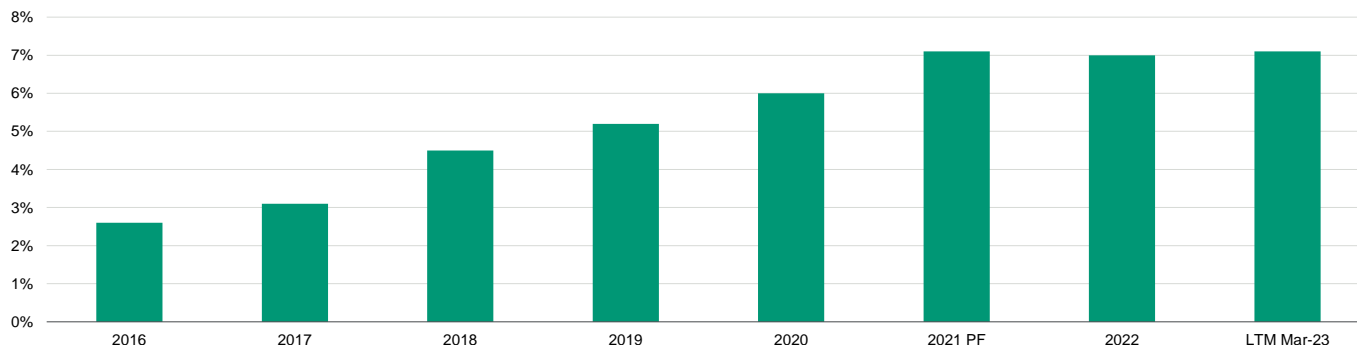
Following its acquisition by Triton in 2015, management introduced a margin improvement plan, which included overhead reduction, closure of unprofitable branches and discontinuation of leases. These measures have had a positive effect: operating performance improved, with the reported EBITA margin increasing from around 3% in 2016 to around 7% in the 12 months that ended March 2023 (adjusted for nonrecurring items). 2022 gradually improved compared with 2021 and was in line with that of its largest peer, Bravida. The company targets an EBITA margin of 8% in the medium term. However, we expect high inflation and slowing economic growth, along with the added strain from intensified competition in a softening market environment, to constrain further improvement in margins over the next year or so.

In Finland, margins deteriorated in 2022, but are likely to improve somewhat with continuous restructuring initiatives of the company. The company aims to close unprofitable branches and reposition the portfolio towards building automation solutions, with the acquisitions completed in 2021. However, there were issues in 2022 in the performance of one of the businesses acquired, Tom Allen Senera, because of lack of availability of components, largely resolved now based on our expectations. For those reasons, Assemblin had to strategically increase its stock of inventory in the fourth quarter of 2022, resulting in build up of net working capital, which will likely remain at high levels in the next 12-18 months.

Exhibit 7

**Assemblin has a track record of margin improvements**

EBITA margin (company-adjusted)



Source: Company reports

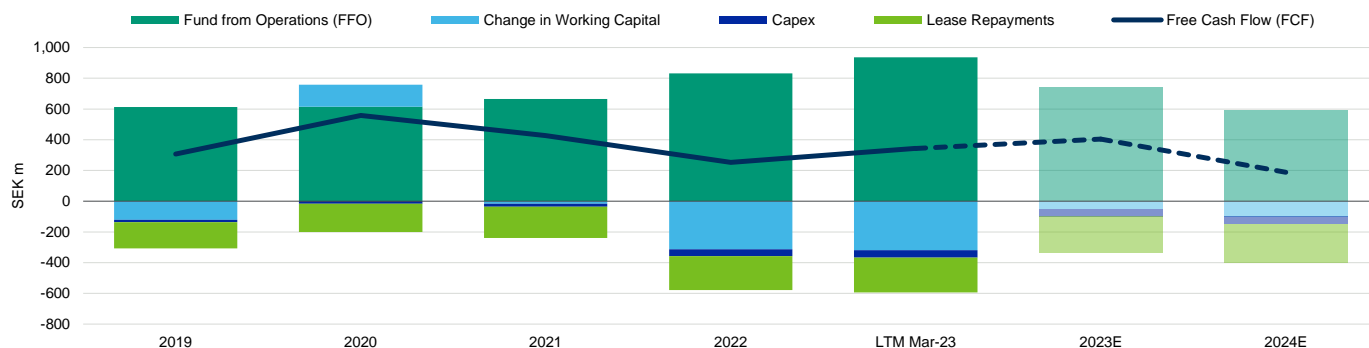
**Positive FCF supports the credit profile**

Despite structurally low profitability, Assemblin's business also has low capital intensity, with a normal level of capital spending/sales of around 2% (including lease payments). This facilitates very good cash conversion. 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, as Exhibit 8 shows, although cash conversion declined in 2022 because of a temporary net working capital buildup driven by increased inventory levels. Despite the increase in interest cost, we expect the company to continue to generate positive FCF of at least SEK200 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 to continue to generate positive FCF**



All ratios are based on 'Adjusted' financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.  
 FFO = Funds from operations after interest paid.  
 Forecasts represent our view, not the view of the issuer.  
 Source: Moody's Investors Service

**ESG considerations**

**Apollo Swedish Bidco AB's ESG Credit Impact Score is Highly Negative CIS-4**

Exhibit 9

**ESG Credit Impact Score**

**CIS-4**  
**Highly Negative**

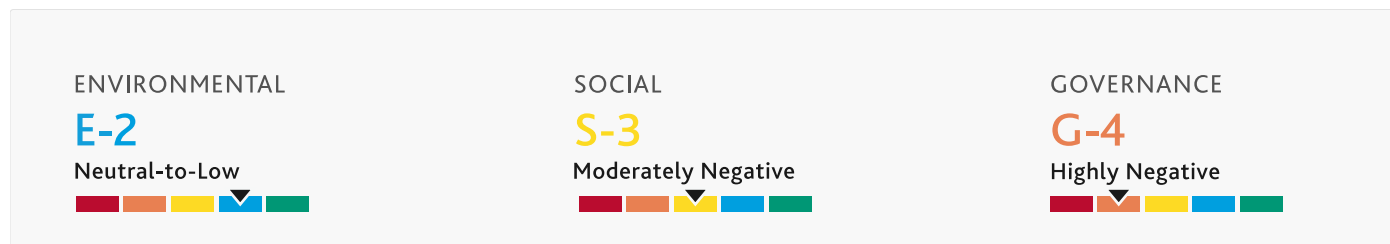
NEGATIVE IMPACT : : POSITIVE IMPACT

For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.

Source: Moody's Investors Service

Assemblin'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 Investors Service

**Environmental**

As an installation services provider, the company helps to reduce the consumption of energy and resources in buildings, and the company estimates that approximately 80% 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. This is evidenced by the increased leverage as part of the proposed transaction following a fund-to-fund transfer by Triton, a largely debt-funded acquisition of Fidelix in 2021, and the shareholder distribution in 2019. That said, over the past several years Assemblin'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**

Assemblin's liquidity is adequate and will benefit from the extension of the debt maturity profile, as well as the upsize of the revolving credit facility (RCF) as part of the proposed transaction. The cash balance of around SEK440 million as of the end of Q1 2023 and an undrawn upsized RCF of 1,100 million and maturity extended to 2029 upon closing, support liquidity. These sources, together with internally generated funds from operations, are sufficient to cover intra-year working capital swings, with a build-up during the second and third quarters, and a subsequent release in the fourth quarter and the first quarter of the next year. Other uses include annual capital spending, lease payments and spending on bolt-on M&A. The RCF contains a springing net leverage financial covenant tested only when the facility is more than 40% drawn.

**Structural considerations**

Assemblin's proposed capital structure consists of senior secured floating-rate notes due 2029 and a super senior secured RCF due 2029, with guarantees from subsidiaries which account for at least 80% of consolidated EBITDA for both.

The notes will share the same security package as the super senior RCF, consisting of pledges over the capital stock, intercompany loans and operating bank accounts, which we consider as weak. However, the notes will rank junior to the super senior RCF upon enforcement. While the B2 rating on the proposed €480 million backed senior secured floating-rate notes due 2029 is in line with the CFR, but a further increase in the relative size of the super senior RCF could result in downward notching of the notes relative to CFR.

## Methodology and scorecard

The principal methodology used in rating Assemblin was our [Business and Consumer Service Industry](#) rating methodology, published in November 2021.

The scorecard-indicated outcome is B2 based on the results for the 12 months that ended March 2023 pro forma the proposed capital structure and B2 on a forward-looking basis, in line with the rating assigned.

Exhibit 11

### Rating factors

Assemblin Group AB

Business and Consumer Service Industry Scorecard [1][2]	Current LTM Mar-23 PF		Moody's 12-18 Month Forward View As of 6/13/2023 [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Scale (20%)</b>				
a) Revenue (USD Billion)	\$1.2	B	\$1.2	B
<b>Factor 2 : Business Profile (20%)</b>				
a) Demand Characteristics	Ba	Ba	Ba	Ba
b) Competitive Profile	B	B	B	B
<b>Factor 3 : Profitability (10%)</b>				
a) EBITA Margin	7.5%	Caa	7% - 7.5%	Caa
<b>Factor 4 : Leverage and Coverage (40%)</b>				
a) Debt / EBITDA	5.6x	B	5.5x - 6.0x	B
b) EBITA / Interest	2.0x	B	1.7x - 2.0x	B
c) RCF / Net Debt	17.2%	Ba	10% - 11%	B
<b>Factor 5 : Financial Policy (10%)</b>				
a) Financial Policy	B	B	B	B
<b>Rating:</b>				
a) Scorecard-Indicated Outcome		B2		B2
b) Actual Rating Assigned				B2

LTM Mar-23 PF reflects the proposed capital structure. Forward view represents our view, not the view of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Ratings

Exhibit 12

Category	Moody's Rating
<b>APOLLO SWEDISH BIDCO AB</b>	
Outlook	Stable
Corporate Family Rating	B2
Bkd Senior Secured	B2/LGD4

Source: Moody's Investors Service



## Appendix

Exhibit 13

### Reconciliation of Moody's-adjusted debt/EBITDA Assemblin Group AB

In SEK' m	2021 Audited	2022 Audited	LTM Mar-23 PF
Bond (Carrying amount)	3,535	3,856.0	5,428.0
Other financial liabilities	7.0	14.0	16.0
Leasing liabilities	760.0	811.0	854.0
<b>As Reported Debt</b>	<b>4302</b>	<b>4681</b>	<b>6298</b>
Pensions	788.0	548.0	548.0
Contingent consideration	372.0	423.0	423.0
<b>Moody's-Adjusted Debt</b>	<b>5,462</b>	<b>5,652</b>	<b>7,269</b>
<b>Moody's-Adjusted Debt / EBITDA</b>	<b>5.8x</b>	<b>4.8x</b>	<b>5.8x</b>
<b>Moody's-Adjusted Debt / EBITDA (PF)</b>		<b>4.7x</b>	<b>5.6x</b>

Unusual adjustment in 2021 relates to the capital gain from the divestment of operations, the reassessment of contingent purchase considerations and the transformation cost related to Triton's exit.

Sources: Company reports, Moody's Financial Metrics™ and Moody's Investors Service estimates

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