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# S&P Global

## Ratings

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# Southwire Co. LLC Outlook Revised To Stable On Refinancing, 'BB' Rating Affirmed; New Term Loan Rated 'BB+'

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U.S.-based wire and cable manufacturer Southwire Co. LLC is refinancing its capital structure to address its upcoming debt maturities.

As a result, we are revising our outlook on Southwire to stable from negative and affirming our 'BB' corporate credit rating on the company.

We are also assigning our 'BB+' issue-level rating to the company's proposed \$500 million senior secured term loan due 2025. The recovery rating is '2'.

The stable outlook reflects the company's reduced refinancing risk, as well as our view that Southwire will maintain adjusted debt to EBITDA of about 2x and funds from operations (FFO) to debt between 30% and 40% over the next 12 months.

NEW YORK (S&P Global Ratings) April 26, 2018--S&P Global Ratings today affirmed its 'BB' corporate credit rating on Carrollton, Ga.-based Southwire Co. LLC and revised the outlook to stable from negative.

At the same time, we assigned our 'BB+' issue-level rating and '2' recovery rating to the company's proposed \$500 million senior secured term loan due 2025. The '2' recovery rating indicates our expectation for substantial (70%-90%; rounded estimate: 70%) recovery in the event of a payment default.

The outlook revision to stable reflects our view that Southwire has sufficiently addressed its near-term maturity and potential liquidity risk. We assume that the company's steady credit quality and receptive conditions in bank loan markets should enable the proposed transaction to be completed. At the same time, we still expect the company's strong operational performance to continue over the next year, supported by solid demand and higher volumes. The positive operating environment should, in our view, lead to improved credit measures with adjusted leverage of about 2x and FFO to debt of 30%-40% by year-end 2018, with modest gains in 2019. This compares to adjusted leverage of about 1.8x and FFO to debt of roughly 35% in Southwire's fiscal year ended Dec. 31, 2017.

The stable outlook reflects the company's reduced refinancing risk, as well as our view that demand in the U.S. will remain robust in 2018 and 2019, supported by healthy GDP growth and continued strength in the company's key construction-related end markets. We expect that over the next 12 months, Southwire will maintain adjusted debt to EBITDA of about 2x and FFO to debt between 30% and 40%.

In our view, a downgrade is unlikely over the next 12 months given our favorable outlook for U.S. construction markets and GDP growth. However, we could lower our ratings on Southwire if market conditions deteriorated or competitive pressures weighed on EBITDA, resulting in adjusted debt to EBITDA approaching 4x or FFO to debt approaching 20%. This could occur if volumes declined by more than 25% from current levels. Lastly, a more aggressive financial policy that raises leverage toward those thresholds--whether due to additional acquisitions, larger discretionary dividends, or a major share repurchase--could also result in a downgrade.

We view an upgrade over the next 12 months as equally unlikely absent a transformational change in which Southwire became a more diverse company able to withstand differing sector and economic conditions or managed to grow profit margins materially from current levels. Notably, this would be predicated upon our belief that such large acquisitions would be generally leverage-neutral. However, we could raise our ratings if the company achieved

such growth while lessening the volatility in its cash flows while maintaining adjusted FFO to debt above 45% and debt to EBITDA below 2x.

#### RELATED CRITERIA

General Criteria: Methodology For Linking Long-Term And Short-Term Ratings ([/en\\_US/web/guest/article/-/view/sourceId/10011703](/en_US/web/guest/article/-/view/sourceId/10011703))

, April 7, 2017

Criteria - Corporates - General: Recovery Rating Criteria For

Speculative-Grade Corporate Issuers ([/en\\_US/web/guest/article/-/view/sourceId/9831306](/en_US/web/guest/article/-/view/sourceId/9831306)), Dec. 7, 2016

Criteria - Corporates - General: Methodology And Assumptions: Liquidity

Descriptors For Global Corporate Issuers ([/en\\_US/web/guest/article/-/view/sourceId/8956570](/en_US/web/guest/article/-/view/sourceId/8956570)), Dec. 16, 2014

Criteria - Corporates - Industrials: Key Credit Factors For The Metals

And Mining Downstream Industry ([/en\\_US/web/guest/article/-/view/sourceId/8389094](/en_US/web/guest/article/-/view/sourceId/8389094)), Dec. 20, 2013

General Criteria: Group Rating Methodology ([/en\\_US/web/guest/article/-/view/sourceId/8336067](/en_US/web/guest/article/-/view/sourceId/8336067)), Nov. 19, 2013

Criteria - Corporates - General: Corporate Methodology: Ratios And

Adjustments ([/en\\_US/web/guest/article/-/view/sourceId/8330212](/en_US/web/guest/article/-/view/sourceId/8330212)), Nov. 19, 2013

Criteria - Corporates - General: Corporate Methodology ([/en\\_US/web/guest/article/-/view/sourceId/8314109](/en_US/web/guest/article/-/view/sourceId/8314109)), Nov. 19, 2013

General Criteria: Country Risk Assessment Methodology And Assumptions ([/en\\_US/web/guest/article/-/view/sourceId/8313032](/en_US/web/guest/article/-/view/sourceId/8313032)),

Nov. 19, 2013

General Criteria: Methodology: Industry Risk ([/en\\_US/web/guest/article/-/view/sourceId/8304862](/en_US/web/guest/article/-/view/sourceId/8304862)), Nov. 19, 2013

General Criteria: Methodology: Management And Governance Credit Factors

For Corporate Entities And Insurers ([/en\\_US/web/guest/article/-/view/sourceId/7629699](/en_US/web/guest/article/-/view/sourceId/7629699)), Nov. 13, 2012

General Criteria: Use Of CreditWatch And Outlooks ([/en\\_US/web/guest/article/-/view/sourceId/5612636](/en_US/web/guest/article/-/view/sourceId/5612636)), Sept. 14, 2009

#### RELATED RESEARCH

Southwire Co. LLC Outlook Revised To Negative; 'BB' Rating Affirmed ([/en\\_US/web/guest/article/-/view/sourceId/10442797](/en_US/web/guest/article/-/view/sourceId/10442797)), Feb. 21, 2018

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