Fluidra, SA
Avda. Francesc Macià, 60, planta 20
08208, Sabadell (Barcelona)
Tel. +34 93 724 39 00
www.fluidra.com

TO THE SPANISH SECURITIES COMMISSION

Fluidra, S.A. ("**Fluidra**" or the "**Company**"), pursuant to the provisions of article 228 of the Consolidated Securities Market Act approved by Legislative Royal Decree 4/2015, of 23 October, hereby issues the following

MATERIAL FACT

Following the material fact published by the Company on 15 February 2018 under number 261601, it is hereby informed that the agency S&P Global Ratings ("S&P") has confirmed the long-term issuer credit rating of BB to Fluidra as well as to its €850 million first-lien term loan, after the closing of the merger between Fluidra (as absorbing company) and Piscine Luxembourg Holdings 2 S.à r.l. (as absorbed company) notified by means of the material fact published on 2 July 2018 under number 267484. S&P assigned a stable outlook to this rating.

The press release from S&P that announces this rating is attached to this material fact.

Sabadell, on 10 August 2018

S&P Global
Ratings

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Research Update:

Pool Equipment Manufacturer Fluidra Rated 'BB' On Merger With Zodiac Pool Solutions; Outlook Stable

Primary Credit Analyst:
Salvio Cascarino, Milan + 00390272111303; salvio.cascarino@spglobal.com

Secondary Contact:
Maxime Puget, London (44) 20-7176-7239; maxime.puget@spglobal.com

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Research Update:

Pool Equipment Manufacturer Fluidra Rated 'BB' On Merger With Zodiac Pool Solutions; Outlook Stable

Overview

- Spain-based Fluidra S.A. and Piscine Luxembourg Holdings 2 S.à.r.l., the parent company of U.S.-based Zodiac Pool Solutions, merged, creating a leader player in the pool equipment industry with €1.3 billion of pro forma sales.
- In connection with the merger, Fluidra issued shares to Zodiac's shareholders and the combined group refinanced its existing credit facilities.
- We forecast the combined group will generate about €100 million of annual free cash flow and maintain S&P Global Ratings-adjusted debt to EBITDA of 3x-4x.
- We are assigning our 'BB' ratings to Fluidra and the euro-equivalent €850 million first-lien term loan.
- We are withdrawing the 'B' issuer credit rating on Zodiac Pool Solutions S.a.r.l., which is now part of Fluidra S.A.
- The stable outlook reflects our view that the combined group will maintain solid profitability and free cash flow generation over the next 12-18 months.

Rating Action

On Aug. 9, 2018, S&P Global Ratings assigned its 'BB' long-term issuer credit rating to Fluidra S.A., a Spain-based multinational group serving the residential and commercial pool and wellness sector. The outlook is stable.

At the same time, we assigned our 'BB' issue ratings to the euro-equivalent €850 million floating-rate first-lien term loan maturing in 2025. The recovery rating on this facility is '3', indicating our expectations of 50%-70% recovery (rounded estimate: 55%) in the event of payment default. The term loan was issued by the subsidiaries Fluidra Finco, S.L.U. (euro tranche), Zodiac Pool Solutions LLC (U.S. dollar tranche), and Zodiac Pool Solutions PTY LTD (Australian dollar tranche) and guaranteed by Fluidra and some of its subsidiaries. We are not assigning our ratings to the revolving credit facility (RCF) and to the asset-based loan (ABL).

We withdrew the 'B' issuer credit rating on Zodiac Pool Solutions S.a.r.l., given that we have now assigned a final 'BB' rating to Fluidra S.A., the group topco and a guarantor under the group's senior credit facilities.

Rationale

On July 2, 2018, the merger between Fluidra and Zodiac was completed following approval from the antitrust regulators. Approvals were obtained without remedies in all jurisdictions, excluding Europe and South Africa. In particular, in the EU, the group must divest the Israeli business, Aquatron. We do not see the mentioned divestment affecting the group's overall creditworthiness, as this business accounts for less than 2% of the combined group's sales and EBITDA. As such, we forecast the new Fluidra group will generate sales of €1.3 billion and adjusted EBITDA of about €220 million in 2018. Overall, we see limited integration risks between the two companies, given their similar size, focus of operations, and lack of geographic overlap. However, we believe there will be some costs associated with aligning the manufacturing and logistics for the whole group.

The merger has been cash neutral for the group, given that it has been funded through the issuance of new Fluidra shares to Zodiac's existing shareholders. We believe the refinancing of its debt structure supports the group's debt maturity profile.

The new shareholder structure includes affiliates of private equity firm Rhône Capital (42%), representing the former majority owner of Zodiac; Fluidra's historical four founding families (29%); and free float on the Spanish stock exchange (29%). A formal agreement between the major shareholders supports the business strategy and the financial policy, as well as the composition of the board of directors and the management structure. These factors are positive for the group's deleveraging profile.

In our view, the new combined group's business strengths include its position among the three top players globally (alongside Hayward Industries and Pentair) in the consolidating residential pool equipment industry. The new group will have a strong presence in the largest pool markets, such as the U.S. (30% of pro forma sales) and Europe (48%). Moreover, it has a relatively good scale of operations for the industry, with €1.3 billion of sales, as well as wide product distribution in 150 countries and a well-spread manufacturing footprint. Its portfolio of well-recognized brands (for example, AstralPool and the Jandy Pro Series) covers most product categories (filters, pumps, heating/cooling, and cleaning systems), supporting solid profitability, which we forecast will result in a 16%-17% adjusted EBITDA for 2018-2019. We believe maintaining high product quality and innovation should remain key with professional customers (pool builders, maintenance services, remodelers, and dealers) in the U.S. and Europe.

Another business positive is that about 64% of pro forma sales in 2017 were derived from the aftermarket pool segment (replacement of older pool equipment). This segment is generally viewed as more resilient and less cyclical than sales driven by the new pool construction segment (36% of sales), which we view as more discretionary in nature and more correlated to the volatile residential new-build cycles.

Business challenges, in our view, include that the combined group is operating only in one, relatively niche, and discretionary category compared with consumer durables categories like home appliances. The products have a long replacement cycle of eight to 10 years and are big-ticket items. The group faces strong competition in its main markets, against other established players such as Hayward and Pentair, which have better market positions in such core product categories as chlorinators and pumps.

We also view the business as exposed to a high degree of seasonality. The bulk of sales is generated in the second quarter of the year in anticipation of the summer season in Europe and in North America. This leads the company to see large seasonal working capital movements of €160 million-€180 million, which will be mostly funded by the RCF and the ABL. Still, there are some mitigants to this seasonality, such as sales generated in the Southern Hemisphere (about 15% of pro forma sales) and the "early-buy program," allowing distributors and dealers to pre-buy inventories for the following season at favorable prices and conditions.

Supporting the financial profile is our forecast that the group will likely generate significant free operating cash flow (FOCF) of about €100 million. Despite the large working capital movements, the business model continues to display low capital expenditure (capex) intensity. This is notably due to Zodiac's business model, which relies on a significant part of using outsourced manufacturing partners. We also note the group has some excess capacity to accommodate volume growth.

We forecast that the group's debt leverage, measured by our adjusted debt-to-EBITDA ratio, will gradually decrease over the next two years, supported by solid free cash flows and factoring in our understanding that the group will prioritize debt deleveraging in that period. We believe that discretionary spending on debt-financed acquisitions is likely to be constrained by the limited number of suitable acquisition targets in the industry, with no indication that Fluidra could move to an adjacent category. We also understand that shareholder remuneration will be modulated in conjunction with a stable debt leverage.

Our base-case scenario of gradual debt deleveraging in 2018-2019 in the range of 3.5x-4.0x is also supported by our view that the existing shareholder agreement between Fluidra's historical shareholders and affiliates of private equity firm Rhône Capital should not lead to a sizable level of shareholder remuneration that could constrain credit metrics. We think that the composition of the board of directors and the fact that affiliates of Rhône Capital have less than a majority stake, as well as our expectation that Rhône Capital will exit its investment in the medium term, support our view that the group will maintain a consistent financial policy.

In our base case for 2018-2019, we assume:

- Sales of about €1.3 billion, driven by about 7%-9% growth in 2018, mainly thanks to the alignment of the early-buy program moving sales to October 2017-February 2018 from August-September 2017. About 3.0% organic sales increase in 2018-2019, mainly driven by volumes in the aftermarket segment;
- S&P Global Ratings-adjusted EBITDA margin of 16%-17%, reflecting the current profitability in the two merged businesses, restructuring costs associated with the integration, and some benefits on cost savings, notably in procurement;
- FOCF of about €100 million, with capex of €40 million-€50 million annually, with limited expansion capex; and
- S&P Global Ratings-adjusted debt of €800 million-€850 million, which primarily includes borrowing, operating leases and pension, netted by surplus cash.

Based on these assumptions, we arrive at the following S&P Global Ratings-adjusted credit measures for 2018-2019:

- Debt to EBITDA of 3.5x-4.0x;
- EBITDA interest coverage at about 5.0x; and
- FOCF to debt at 10%-15%.

Liquidity

We view Fluidra's liquidity as adequate and calculate that liquidity sources should exceed uses by more than 1.2x in the next 12 months.

Principal liquidity sources on June 30, 2018, include:

- About €60 million of cash on balance sheet;
- €130 million of undrawn committed RCF and €190 million (US$230 million) undrawn committed under the ABL facility; and
- Our forecast of cash funds from operations of €150 million-€160 million.

Principal liquidity uses as of the same date include:

- Very limited short-term debt with only €8.5 million debt repayment under the first-lien term loan;
- Large working capital outflows of about €180 million-€190 million (including intra-year requirements) due to seasonality of the business; and
- Maintenance capex of about €30 million-€40 million.

Outlook

The stable outlook on Fluidra reflects our view that the new Fluidra group should benefit from strong regional market positions in Europe and the U.S. in its industry. We believe that the group's portfolio of strong brands and the long-term relationships with professional customers will support an S&P Global Ratings-adjusted EBITDA margin of 16%-17% and FOCF of about €100 million annually in 2018-2019.

For the rating category, we believe Fluidra should maintain S&P Global Ratings-adjusted debt to EBITDA of 3.0x-4.0x over the next 12-18 months, supported by a consistent financial policy on discretionary spending.

Downside scenario

We could lower the rating if we see S&P Global Ratings-adjusted debt to EBITDA increasing to above 4.0x on a recurring basis. This could result from a sharp drop in sales in the combined group's new-build business, while its aftermarket business could suffer from pool owners delaying renovation works. We could also see lower profitability coming from an inability to pass on higher raw material costs in the context of stronger price pressure between competitors.

A negative rating action could also occur if we were to observe the group deviating to a more aggressive financial policy, which would negatively affect debt leverage. This could arise from a large debt-funded acquisition in an adjacent category or much larger dividend payments than expected in 2018-2019.

Upside scenario

We could raise the rating if Fluidra is able to deleverage, reaching an S&P Global Ratings-adjusted leverage ratio of 2.0x-3.0x, thanks to continued strong FOCF and a consistently prudent financial policy toward discretionary spending.

From an operational standpoint, this is contingent on a successful merger of Fluidra and Zodiac, sustained by strong organic sales growth leading to global leadership in the industry and market share gains in all key product segments and geographic markets, as well as further business diversity.

Ratings Score Snapshot

Issuer Credit Rating: BB/Stable/--

Business risk: Fair
- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Financial sponsor-4 (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

Issue Ratings--Recovery Analysis

Key analytical factors
- The €850 million euro equivalent senior secured first-lien term loan due 2025 is rated 'BB' with a '3' recovery rating. Our indicative recovery prospects are in the 50%-70% range (rounded estimate 55%).
- The security package includes perfected first-priority security interests on substantially all material owned tangible and intangible assets of Fluidra Finco, S.L.U. and each guarantor. A second priority pledge exists on all ABL priority collateral, which mainly consists of accounts, securities, inventories, etc.
- The facilities are covenant lite, with a springing first-lien net-leverage covenant of 5.65x, to be tested when the RCF is drawn at 40% or more. The ABL agreement includes a minimum fixed charge coverage ratio of 1:1x depending on remaining availability under the line.
- Under our hypothetical default scenario, we assume a steep decline in sales and income from a slowdown in consumer spending on pool equipment and, consequently, lower sales and operating margins for the group.
- We value Fluidra as a going concern, given its solid brand portfolio and leading position in the global pool equipment market.

Simulated default assumptions
- Year of default: 2023
- Jurisdiction: Spain

Simplified waterfall
- Emergence EBITDA: Approximately €105 million
- Capex represents 2.5% of three-year annual pro forma average sales.
- Cyclicality adjustment is 5%, in line with the specific industry subsegment.
- Operational adjustment is 5% to reflect lower leverage vs peers

- Multiple: 6.0x to reflect the bigger size and geographic scope vs. peers.
- Gross recovery value: Approximately €625 million
- Net recovery value for waterfall after administrative expenses (5%): Approximately €595 million
- Estimated priority claims [ABL or other]: About €48.5 million
- Estimated first-lien debt claims: Approximately €955 million
- Recovery range: 50%-70% (rounded estimate 55%)
- Recovery rating: 3

*All debt amounts include six months of prepetition interest.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Consumer Durables Industry, Dec. 12, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Pool Equipment Manufacturer Fluidra Rated 'BB(Prelim)' On Merger Agreement With Zodiac Pool Solutions; Outlook Stable, Feb. 15, 2018

Ratings List

New Rating

Fluidra S.A.		
Issuer Credit Rating	BB/Stable/--	
Fluidra Finco, S.L.U.		
Zodiac Pool Solutions PTY LTD		
Zodiac Pool Solutions LLC		
Senior Secured	BB	
Recovery Rating	3(55%)	

Ratings Withdrawn

	To	From
Zodiac Pool Solutions S.a r.l.		
Issuer Credit Rating	NR/--	B/Stable/--
Zodiac Pool Solutions LLC		
Senior Secured	NR	B
Recovery Rating	NR	3(55%)
Senior Secured	NR	CCC+
Recovery Rating	NR	6(5%)

NR--Not rated.

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. 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; Stockholm

(46) 8-440-5914; or Moscow 7 (495) 783-4009.