S&P Global Ratings

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Bulletin:

Cheplapharm Arzneimittel GmbH Credit Profile Can Absorb Proposed €150 Million Tap

May 28, 2019

LONDON (S&P Global Ratings) May 28, 2019--S&P Global Ratings today said it considers German pharmaceutical company Cheplapharm Arzneimittel GmbH (B/Stable/--) has sufficient leeway to absorb the additional debt it plans to issue.

Cheplapharm plans to increase its term loan B by €150 million to €980 million and use the proceeds to repay €150 million of the amount it drew from its revolving credit facility (RCF). The amount was used to pay for acquisitions. Our ratings on Cheplapharm and its debt are therefore unaffected.

Cheplapharm reported good financial performance in 2018. Revenues stood at about €290 million (up 28% from 2017) and EBITDA at about €165 million (up 24% from 2017). These increases mainly stem from acquisitions carried out in 2018. The company is now focusing on integrating the 12 new products it bought. Mergers and acquisitions are only likely to resume in the second half of 2019.

We assume Cheplapharm's S&P Global Ratings-adjusted gross debt will be €980 million in 2019. Our estimate of debt includes the €980 million term loan B and operating leases of about €1 million. We expect stable adjusted EBITDA of €190 million-€210 million in 2019 and 2020. Therefore, we anticipate adjusted group leverage will be about 4.8x-5x in 2019-2020. We also expect positive free operating cash flow of more than €100 million in 2019-2020.

Cheplapharm's senior secured debt includes the €310 million RCF due 2024 and €980 million term loan B3 due 2025. The company will roll its term loans B1 and B2 into the new term loan B3, in order to gain a uniform margin.

The recovery rating on these instruments is '3', indicating our expectation of meaningful recovery (50%-70%; rounded estimate 50%) in the event of a payment default. Our rating rationale is described in more detail in "German Pharma Company Cheplapharm Arzneimittel 'B' Ratings Affirmed On Planned Debt Issuance; Outlook Stable," published on Nov. 6, 2018, on RatingsDirect.

This report does not constitute a rating action.

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