

Bulletin:

# Specialty Pharmaceutical Company Cheplapharm 'B' Ratings Remain On CreditWatch Positive Pending IPO

April 11, 2022

*This report does not constitute a rating action.*

PARIS (S&P Global Ratings) April 11, 2022--S&P Global Ratings said today that its 'B' long-term issuer credit rating on Germany-based specialty pharmaceutical company Cheplapharm Arzneimittel GmbH (Cheplapharm) and the 'B' issue rating on Cheplapharm's debt remain on CreditWatch, where they were placed with positive implications on Jan. 17, 2022. The CreditWatch placement followed the company's announcement that it was undertaking a formal process for an IPO on the Frankfurt Stock Exchange.

We believe that an IPO could result in a material improvement in Cheplapharm's S&P Global Ratings-adjusted debt-to-EBITDA ratio, which we forecast in the 4.0x-4.5x range in 2021. Such an improvement could support a higher rating, assuming that the IPO is successful and the company allocates the proceeds to debt repayment and acquisition opportunities. Cheplapharm has postponed its IPO compared to its initial timeline because of adverse market conditions, but we understand that an IPO remains its primary objective.

Cheplapharm's recent operational performance has been strong. The company increased its revenue by 63% and reported an EBITDA margin of about 61% in the year to September 2021, thanks to the successful integration of recent acquisitions and the timely transfer of marketing authorizations. In the same period, the company has also achieved high free operating cash flow (FOCF) that we estimate in the €180 million-€190 million range. We expect Cheplapharm to continue allocate a combination of FOCF and new debt to product acquisitions. The company signed several product acquisition agreements in the second half of 2021 and issued a new €1.48 billion term loan B in February 2022.

We expect to resolve the CreditWatch placement once the IPO is complete and we have evaluated the impact of the listing and Cheplapharm's financial policy on its credit metrics. We could raise the ratings if we forecast that Cheplapharm will maintain an adjusted leverage ratio sustainably in the 4.0x-5.0x range and if the company continues to generate a high EBITDA margin and substantial annual FOCF.

For a detailed credit rationale, see "Specialty Pharmaceutical Company Cheplapharm 'B' Rating On CreditWatch Positive After IPO Intention Announced," published Jan. 17, 2022, on RatingsDirect.

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