MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Alloy Parent Limited (aka Doncasters) to B3 from Caa1; outlook stable

09 May 2024

Withdraws all Caa1 ratings on senior secured bank credit facilities

London, May 09, 2024 -- Moody's Ratings (Moody's) today upgraded the corporate family rating (CFR) of precision parts manufacturer Alloy Parent Limited (Doncasters) to B3 from Caa1, as well as its probability of default rating (PDR) to B3-PD from Caa1-PD. Concurrently, Moody's has withdrawn the Caa1 instrument ratings on the backed senior secured first lien bank credit facilities due 2024 issued by Doncasters US Finance LLC and Doncasters US LLC. The outlook remains stable for Doncasters. Subsequently, both outlooks for Doncasters US Finance LLC and Doncasters US LLC have been withdrawn.

Today's upgrades principally reflect:

• The successful refinancing of the company's senior debt, which was maturing in 2024

• Current and projected credit ratios in line with a higher rating, with a strong industry backdrop

• Improved liquidity through the restoration of full revolving facility availability

RATINGS RATIONALE

At the end of April 2024, Doncasters borrowed a new six-year $500 million senior secured term loan B. It currently matures in December 2027 but would automatically extend in case of PIK debt extension or equitisation. The company was therefore able to repay all its outstanding first lien debt, which was maturing in December 2024, including (i) $339 million for its previous term loan B and accrued interest and (ii) $70 million of outstanding drawings under its revolving asset-based lending (ABL) facility. The successful refinancing of both the term loan and the ABL was a key driver of the upgrade. It reflects good financial risk management, a governance factor.

Continuous improvements in financial performance and resulting credit ratios since the 2020 restructuring also supported today's upgrade to B3. Doncasters has grown its revenue by strong double-digit percentages annually on a like-for-like basis, including over 30% in 2023. EBITDA more than doubled since 2020 to over $80 million in 2023 (including $13 million acquired from Uni-Pol in 2022). Moody's estimates that Moody's-adjusted gross debt/EBITDA in 2023 was 5.7x, pro forma for the recent refinancing. While the transaction increased leverage from 5.0x in December 2023, Moody's-adjusted leverage has reduced consistently, from 6.6x in 2022 and 7.2x in 2021. Very strong demand in aerospace and energy end-markets over the medium-term provide good deleveraging potential to below 5.0x in the next 12-18 months. Successfully navigating supply chain and labour constraints and maintaining a high degree of control over operations will be key in this regard. While EBITDA continued to grow in 2023, the company did not meet Moody's profit expectations, led by a combination of the above factors. The rating agency regards them as one-off but they do reflect risks inherent to the industry including inventory write-offs, labour disputes and unplanned furnace outages.

Additional factors which support Doncasters' B3 CFR include (i) diversified end markets and platforms, (ii) leading positions on critical long-term programmes and some vertical integration into superalloys, and (iii) long-term sales contracts including improvements on market share commitments and protection against inflation.

Nevertheless, the following elements constrain Doncasters' credit quality: (i) substantially larger competitors, (ii) a high degree of customer concentration and currently high reliance on more volatile superalloys in profit mix, and (iii) around $720 million of PIK debt outside the restricted group, following a repayment of $50 million through the refinancing exercise. Its cash pay portion represents a cash outflow from the restricted group of $4 million per annum, accruing at 13.5%. The company's new $50 million delayed draw facility can be drawn to repay PIK debt.

Moody's has withdrawn Doncasters US LLC's and Doncasters US Finance LLC's Caa1 instrument ratings because these debt tranches are no longer outstanding following the company's refinancing.

LIQUIDITY

Better liquidity was a driver of Doncasters' upgrade to B3. As part of the refinancing, the company restored full availability under its GBP90 million ABL facility, which now matures in July 2027. The company also had $35 million of cash on balance sheet as of 31 December 2023. Access to external sources of liquidity is particularly important for Doncasters in light of its relatively modest cash balance and working capital needs. In addition, the company has a track record of continued negative free cash flow (FCF) generation. Moody's expects improvement toward break-even this year and the rating agency projects that Doncasters will turn FCF positive from 2025.

RATING OUTLOOK

The outlook is stable and reflects Moody's expectation that Doncasters will continue to renew contracts on better terms, grow revenue and profit in the next couple of years, leading to good deleveraging on a gross debt basis but a continued lack of meaningfully positive free cash flow. The outlook also incorporates the expectation that the company will not embark on any debt-funded acquisitions or make debt-funded shareholder distributions.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive ratings pressure could develop over time if:

» Revenue and EBITDA organic growth continue above double-digit percentages and,

» Moody's-adjusted leverage decreases below 5.0x on a permanent basis and,

» Moody's-adjusted FCF becomes sustainably positive and,

» Moody's-adjusted EBITA/Interest expense moves above 1.5x on a sustainable basis and,

» No shareholder distributions or material debt-funded acquisitions are made.

Doncasters' ratings could be downgraded if:

» Revenue and EBITDA decline organically or in case of significant contract losses or operational issues or,

» Moody's-adjusted gross debt/EBITDA moves sustainably above 6.0x, including as a result of debt-funded transactions or,

» FCF remains negative beyond 2024 or the liquidity position deteriorates below a $50-60 million range, or

» Moody's-adjusted EBITA/Interest expense drops below 1x, or,

» The risk that Doncasters will be unable to refinance its very large PIK facility above the restricted group and without any detrimental effect to the restricted group's creditors increases.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at https://ratings.moodys.com/rmc-documents/74970 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Doncasters, headquartered in England, is a global, vertically integrated tier one and two supplier of precision components principally for aeroengines, industrial gas turbines and automotive applications. In 2023, Doncasters had revenue and EBITDA before exceptional items of $717 million and $89 million respectively.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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