

Media Release

LCY Chemical Corp. Ratings Placed On CreditWatch Negative Following Proposed Acquisition By Carlton

July 24, 2018

Overview

- Private equity firm Carlton, has approached LCY with a cash offer to acquire all of LCY's equity for about NT\$ 48 billion.
- If the transaction is successful, we expect LCY's leverage to be much higher under the control of its new owners, which we are highly likely to view as financial sponsors.
- We are therefore placing our issuer credit ratings on LCY on CreditWatch with negative implications.
- We will resolve the CreditWatch status as soon as we have more details regarding the transaction so that we can determine the extent of any negative impact on LCY's credit metrics following the acquisition.

Rating Action

Taiwan Ratings Corp. today placed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **LCY Chemical Corp.** on CreditWatch with negative implications.

Rationale

The CreditWatch placement follows LCY's announcement on July 22, 2018 that Carlton (Luxembourg) Holdings S.a.r.l., a related company of private equity investor Kohlberg Kravis Roberts & Co. L.P. (KKR) has approached LCY to acquire its entire issued share capital for a consideration of about New Taiwan dollar (NT\$) 48 billion. The negative placement reflects our view of a potential significant rise in LCY's debt leverage and change in the company's financial policies following the sale. Under the transaction, LCY will become a private company and delist from Taiwan Stock Exchange. LCY expects the transaction to be completed by the end of 2018 subject to the approval of relevant authorities.

We believe private equity firms such as KKR adopt more aggressive financial policies that use debt and debt-like instruments to maximize shareholder returns. If the transaction between Carlton and LCY materializes and the private equity holds more than 40% of LCY's shares, we would likely consider LCY to be controlled by a financial sponsor, which we view as negative for LCY's leverage.

CreditWatch

We aim to resolve the CreditWatch placement when we receive more details about Carlton's financing plans and the impact on LCY's credit metrics. Our assessment will include the credit quality of the immediate new owner and of LCY, given that LCY will be the investment vehicle's only asset, which is

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the common structure in a buyout transaction. In addition, we will need to assess new owner's attitude toward its business operations and financial policy going forward. These include the business development strategy in terms of geographic and industry exposure, merger and acquisition plans, and financial policy in terms of capital structure and dividend policy.

We could lower our rating on LCY by at least one notch if the transaction materializes. The number of notches would depend on our assessment of the financial policy that the new owners would pursue for LCY, as well as our expectations for the company's leverage, liquidity, and cash flow generation post transaction closing.

We may affirm the rating if the transaction fails, or, under the rare likelihood that KKR is not the major shareholder and holds less than 40% of total shares after the transaction, and therefore we believe there is no material impact on LCY's business operations and ability to fulfill its financial obligations.

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions – June 26, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Commodity Chemicals Industry - December 31, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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Ratings List

CreditWatch Action

	To	From
LCY Chemical Corp.		
Issuer Credit Ratings	twA/Watch Neg/twA-1	twA/Stable/twA-1

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