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Wendel SE

Wendel's rating remains comfortably positioned after proposed acquisition of CPI

On Tuesday Wendel SE (Baa2 stable) announced that it has signed an agreement to acquire Crisis Prevention Institute (CPI, unrated) from FFL Partners for an enterprise value of $910 million. Wendel will make an equity investment of up to $590 million (€535 million) and will own 98% in CPI as the existing management will remain invested in the business. The transaction, which is expected to close in Q4 2019 or Q1 2020, will improve Wendel's diversification. The non cyclical nature of the target is also seen as a credit positive especially given the timing of the acquisition at a late stage in the macroeconomic cycle. Wendel's rating will remain comfortably positioned pro forma of the closing of the transaction with an estimated pro forma MVL of around 6/7% (from a net cash position pro forma of the disposal of Allied Universal), which still leaves ample headroom against our downgrade trigger of more than 20%.

CPI, headquartered in the US, is a leading provider of behavior management and crisis prevention training programs that help professionals respond to anxious, hostile and violent behaviors with safe and effective methods. CPI mainly serves education and healthcare customers but has been making inroads in other industries exposed to violent behaviors. CPI's revenue are largely focused on its domestic market but its international expansion has accelerated in recent years with non US revenue reaching 20% for the 12 months ended 31st August 2019.

CPI's addressable market has been estimated at $680 million by consultancies commissioned by Wendel during the due diligence process. Wendel sees strong opportunities to increase its share of wallet from existing customers over the next few years but also to make inroads into potential segments of the market that are currently not been exploited. Wendel remains confident that CPI can exceed the underlying market growth of 5% p.a. whilst maintaining a strong profitability and cash conversion. Demand for CPI's products will also be supported by an increasing prevalence of mental health and behavioral disorders and an increasingly stringent regulatory environment going forward.

CPI generated $86 million of revenue and an adjusted EBITDA of $39 million for the 12 months ended 31st August 2019. The company has a track record of strong organic revenue growth with a largely organic revenue CAGR of around 13% since 2008. This is a mitigant to the lofty valuation paid by Wendel with an EV/EBITDA multiple of around 23x. Wendel also highlighted in its press release that CPI has a good cash conversion with more than 90% (as measured by adjusted (EBITDA-Capex)/Adjusted EBITDA) supported by the healthy operating margins of CPI and the asset light nature of the business model. Lastly CPI is a highly levered company with an estimated net reported leverage of approximately 8.0x at 31st August 2019 notwithstanding that leverage should reduce swiftly if the company can pursue its historical pace of growth.

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