MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Apex Tool's CFR to B3; outlook stable

28 Jan 2022

Approximately $1.4 billion of rated debt affected

New York, January 28, 2022 -- Moody's Investors Service (Moody's) upgraded Apex Tool Group, LLC.'s (Apex) Corporate Family Rating (CFR) to B3 from Caa2 and its Probability of Default Rating to B3-PD from Caa2-PD. Moody's also assigned a B1 rating to Apex's proposed first lien senior secured bank credit facility, comprising a revolving credit facility and term loan, and a Caa2 rating to the company's proposed second lien senior secured term loan. Proceeds from these credit facilities and additional equity from affiliates of Bain Capital Partners, LLC (Bain), the owner of Apex, will be used to pay off Apex's existing senior secured bank debt and senior unsecured notes due 2023, which will have their respective ratings withdrawn upon closing of the refinancing. The outlook is changed to stable from negative.

The upgrade of Apex's CFR to B3 from Caa2 results from the company's recapitalization, which is reducing balance sheet by nearly $120 million and repaying debt holders at their respective commitments without haircuts. Moody's projects debt-to-EBITDA at about 6.5x by late 2023 versus 10x at Q3 2021 and EBITA-to-interest expense approaching 2.0x over the next two years from about 1.0x for the last twelve months ended October 1, 2021. Also, the recapitalization significantly improves Apex's liquidity profile, extending maturities and further supporting the rating upgrade. Apex's new capital structure will consist of a senior secured bank credit facility, comprising a revolving credit facility expiring 2027 (no borrowings at closing of the refinancing) and a first lien term loan maturing 2029, and a second lien term loan maturing 2030.

The change in outlook to stable from negative reflects Moody's expectation that Apex will be able to continue to generate revenue growth and modestly improve profitability with recovering demand from automotive, aerospace and other industrial users.

With respect to governance risks, Moody's considers Apex's financial strategy to be aggressive, as evidenced by high leverage despite the additional equity contribution by Bain. Moody's believes that Bain will monetize its investment in Apex, which is now approaching $630 million, through the sale of the company, since Bain is well into its ninth year of ownership. Such action that results in significant deterioration of credit metrics could affect Apex's long-term ratings.

"Apex is no longer on the precipice of defaulting on its debt, but now needs to execute on its operating plan," said Peter Doyle, Vice President at Moody's.

The following ratings are affected by today's action:

Upgrades:

..Issuer: Apex Tool Group, LLC.

.... Corporate Family Rating, Upgraded to B3 from Caa2

.... Probability of Default Rating, Upgraded to B3-PD from Caa2-PD

Assignments:

..Issuer: Apex Tool Group, LLC.

....Senior Secured 1st Lien Revolving Credit Facility, Assigned B1 (LGD3)

....Senior Secured 1st Lien Term Loan B, Assigned B1 (LGD3)

....Senior Secured 2nd Lien Term Loan, Assigned Caa2 (LGD5)

Outlook Actions:

..Issuer: Apex Tool Group, LLC.

....Outlook, Changed To Stable From Negative

RATINGS RATIONALE

Apex's B3 CFR also incorporates Moody's expectation that Apex will generate solid operating margin. Moody's forecasts good operating performance, with EBITDA margin in the range of 11% - 13% through 2023, a key offset to the company's leveraged capital structure. Also, as a global manufacturer of hand and power tools with recognizable product brands Apex should benefit from growth prospects and resulting spending in its primary regions. Moody's also forecast's free cash flow-to-debt in the range of 3% - 6% over the next two years.

The B1 rating on the company's senior secured bank credit facility, two notches above the Corporate Family Rating, results from its structural seniority to Apex's second lien term loan. The bank credit facility consists of a revolving credit facility and a term loan. The revolving credit facility and term loan are pari passu. Both have a first lien priority security on all domestic assets. The Caa2 rating on the company's second lien senior secured term loan, two notches below the Corporate Family Rating, results from its subordination to Apex's first lien debt. The senior secured bank credit facility and second lien senior secured term loan are guaranteed by the domestic, wholly-owned subsidiaries and an intermediate holding company in Hong Kong, which controls the company's business in China.

The first lien senior secured term loan is expected to contain certain covenant flexibility for transactions that can adversely affect creditors. Notable terms include incremental first lien debt capacity up to the greater of 100% Consolidated EBITDA and an equivalent fixed amount as of the closing date; plus additional amounts not to exceed the consolidated first lien net leverage ratio at closing (if pari passu secured). Incremental first lien debt up to the incremental starter amount may have an earlier maturity date than the initial term loan. Collateral leakage is permitted through the transfer of assets to unrestricted subsidiaries, subject to carve-out capacity and other conditions; there are no express "blocker" provisions which prohibit the transfer of specified assets to unrestricted subsidiaries. Non-wholly-owned subsidiaries are not required to provide guarantees; dividends or transfers resulting in partial ownership of subsidiary guarantors that could jeopardize guarantees, with no explicit protective provisions limiting such guarantee releases. There are no express protective provisions prohibiting an up-tiering transaction. The above are proposed terms and the final terms of the credit agreement may be materially different.

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

An upgrade to Apex's ratings could ensue if end markets remain supportive of organic growth and the company delevers such that debt-to-EBITDA is sustained below 5.5x and EBITA-to-interest expense remains above 2.0x, while improving liquidity. The CFR could be downgraded if Apex's debt-to-EBITDA is sustained above 6.5x or EBITA-to-interest expense is trending below 1.0x. A deterioration in liquidity or material shareholder return activity could result in downward rating pressure as well.

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1287885 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Apex Tool Group, LLC. headquartered in Charlotte, North Carolina, is a global manufacturer of hand and power tools for industrial, commercial, construction and retail customers. Bain Capital Partners, LLC, through its affiliates, is the owner of Apex.

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Peter Doyle
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Gretchen French
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.

250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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