

Moody's Downgrades ServiceMaster; Outlook Revised to Stable



Source: www.TurfMagazine.com

NEW YORK, N.Y. – Moody's Investors Service ("Moody's") downgraded the Corporate Family and Probability of Default ratings of The Servicemaster Company ('Servicemaster') to B3 and B3-PD from B2 and B2-PD, respectively. All other debt instrument ratings were also downgraded by one notch. The Speculative Grade Liquidity rating of SGL-2 was affirmed. The outlook was revised to stable from negative.

The downgrade to a B3 Corporate Family Rating reflects Moody's expectations for lower revenue and EBITDA in 2013 attributable to ongoing disappointing performance in the TruGreen segment. Debt to EBITDA is expected to remain above 7 times through 2014, a level of financial leverage which is high for the B3 rating. Capital investment needs at TruGreen and Terminix could limit free cash flow available for debt repayments. Moody's also expects Servicemaster will use cash to acquire larger franchises as they become available. Although a new CEO has been hired, ongoing senior management instability could delay progress in boosting business performance.

Moody's anticipates a flat to low single digit overall revenue growth rate and flat profitability in 2013, driven by expected mid-single-digit sales increases at both Terminix and American Home Shield. The ratings are supported by solid market positions and scale in key business segments. Improving U.S. consumer confidence and conditions in the housing sector should help turn-around efforts at TruGreen, but performance at this segment will drag on overall results. Liquidity is good, with expected annual free cash flow of at least \$100 million, cash balances expected to remain above \$250 million, \$265 million of available revolver capacity through 2014 and no material near-term debt maturities.

The stable ratings outlook reflects Moody's expectation for at least \$100 million of annual free cash flow and revenue and profit growth in operating

segments other than TruGreen.

The ratings could be downgraded if ServiceMaster's growth, efficiency and turn-around initiatives fail to produce EBITDA and free cash flow growth, or if TruGreen does not demonstrate profitable customer growth during the 2014 season. Impaired liquidity or shareholder-friendly financial policies could also lead to lower ratings.

The ratings could be upgraded if Servicemaster demonstrates steady revenue and profitability growth in all businesses, reduces financial leverage and grows free cash flow, while maintaining good liquidity and balanced financial policies. If Moody's expects debt to EBITDA and free cash flow to debt will be sustained at less than 5.5 times and above 5 percent, respectively, the ratings could be raised.

Source:www.4-traders.com

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