Credit Review – company case studies

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Zakłady Mięsne Henryk Kania S.A.

Background to the company

Zakłady Mięsne Henryk Kania, the Polish producer of meat and poultry, was declared bankrupt in June 2020. A long-established family business, the company had been listed on the Warsaw Stock Exchange since 1997 and had performed well owing to extensive business relationships with leading retailers, including hypermarkets and discounters. Sales revenues were PLN 1.42bn (EUR 341m) in 2017, 11% higher year-on-year, while EBIT and pre-tax earnings both rose 19% to PLN 94m and PLN 69m, respectively.

When did problems start arising?

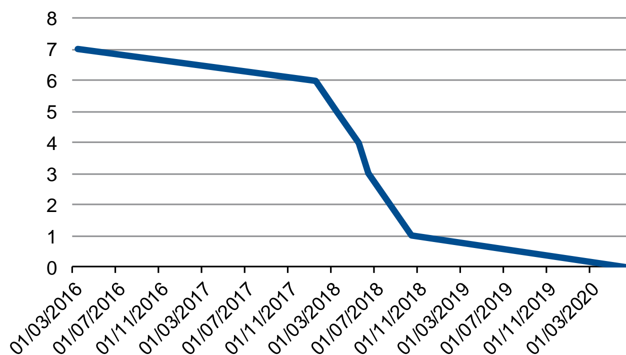
Sales revenue declined 20% in 2018 but of greater concern, liquidity and financial reporting issues also emerged, resulting in a PLN 886m loss. A series of debt collection claims against the company had started to be lodged from October 2017 and by September 2019 the company had a negative equity balance. Following a series of complicated investigations, the company was declared bankrupt by the courts on 18 June 2020.

Credit Review Score History

As the company's difficulties accelerated through 2018, the Credit Review Score was lowered multiple times:

- In 2017, the company had a Credit Review Score of **7** (Stable, slightly above-average financial stability).
- In early 2018, the Credit Review Score was lowered to **6** (average financial stability).
- From May 2018 and the Credit Review Score was lowered in quick succession, first to **5** (Medium Risk) and very soon afterwards to **4** (Increased Risk).
- Again, within a short space of time, the company was downgraded with a Credit Review Score of **3** (High Risk)
- In October 2018, the Credit Review Score was cut again to **1** (Extremely High risk).

Zakłady Mięsne Henryk Kania: Credit Review Score History



Company X

Background to the company

Company X, a European energy utility, had built an optically successful and robust business, increasing turnover in an accelerated manner in the 2009-2011. But the company's business model was capital intensive and growth had been heavily debt-financed.

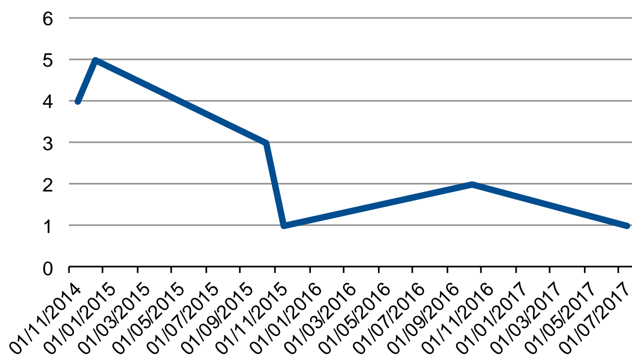
When did problems start arising?

Very high levels of debt and heavy cash requirements ultimately led to decreasing levels of market confidence, and access to funding became increasingly difficult. This undermined cash generation at the operating level, and the company's liquidity position deteriorated. A programme of asset sales was initiated to decrease the debt burden, but the urgent need to generate cash from operations had become increasingly uncertain.

Credit Review Score History

- In 2014, the company had a Credit Review Score of **5** (Medium Risk). This was cut to **4** (Increased Risk) in November 2014 due to cashflow deterioration and high debt-service levels (even after the company's debt had been reprofiled).
- In October 2015, despite a capital increase, the company was downgraded to a Credit Review Score of **3** (High Risk) due to the worsening liquidity position.
- In November 2015, the Credit Review Score was cut to **1** (Extremely High Risk) and the company filed for creditor protection shortly thereafter.

COMPANY X Credit Review Score History



Adveo España S.A.

Background to the company

Adveo Group International underwent a significant transformation at the start of the last decade. In late 2011, the company (formerly called Unipapel) acquired Adimpo as well as the European business of Spicers, while it sold its paper manufacturing and distribution business to Springwater. This led to a significant change in the business from being a supplier of office products rather than a producer.

When did problems start arising?

As a result of the business transformation, Adveo Group's turnover increased significantly, reaching EUR 314m in 2013, up from EUR 113m a year earlier. But profits continued to follow a negative path.

The company had taken out a EUR 145m five-year syndicated bank facility in 2011 to finance the Spicers acquisition. This was replaced in January 2015 with a EUR 100m five-year syndicated loan and a EUR 15m revolving credit facility. However, in December 2016, tough market conditions forced the group to obtain a covenant waiver for all of 2016 and the first quarter of 2017 as the company was in breach.

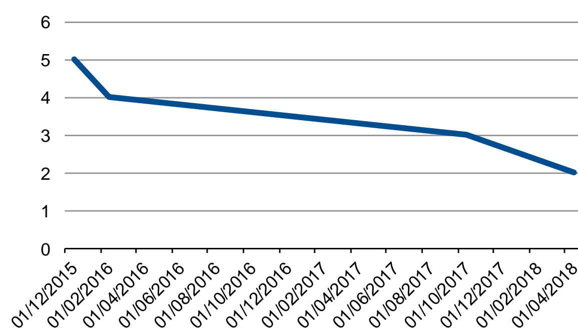
Debt was renegotiated and in July 2017, a new three-tranche debt agreement was signed. The company could only draw on its short-term RCF if certain conditions were met, principally divestments, as it was suffering some liquidity stresses. On top of the debt agreement, the company obtained some additional external funding to purchase inventory and continue activities, since its pool of relationship banks had declined to increase their debt positions. Along with these financial tensions, the group put in place an ambitious digitalisation strategy, but this suffered serious implementation problems, and the group lost market share.

Credit Review Score History

The company was being closely monitored through meetings with the CFO and frequent phone contact, over and above the information the company was releasing to the stock market regulator, the CNMV.

- At the end of 2015, the company had a Credit Review Score of **5** (Medium Risk).
- In February 2016, the Credit Review Score was cut to **4** (Increased Risk) owing to adverse developments in Spain (IT problems and poor consumer data).
- In October 2017, the Credit Review Score was cut to **3** (High Risk), as the group battled losses and weak performance in certain markets, especially Spain. Even though the company's debt had been refinanced, debt levels were still high against EBITDA.
- In April 2018, the Credit Review Score was lowered again to **2** (very High Risk) due to continuing high levels of debt while the trends in the business were not improving. Payment delays had also been registered and there was uncertainty about when sales of non-core assets could be achieved to reduce debt.

Adveo España S.A. Credit Review Score History



Company Y

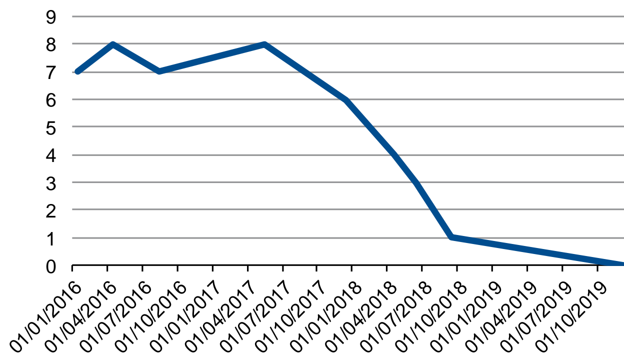
Background to the company

Company Y, a long-established UK multi-product retailer, operates a nationwide network of stores.

Credit Review Score History

- In December 2017, the Credit Review Score was cut from **8** (Good Financial Stability) to **6** (Average Financial Stability). Profits had fallen steeply that year owing to some large exceptional items on the back of closures of stores and distribution capacity.
- In April 2018, the Credit Review Score was cut to **4** (Increased Risk). Pre-tax profits had tanked that year due to restructuring-related exceptional items, and the retail industry in addition suffered severe weather-related and other disruptions.
- In June 2018, the Credit Review Score was cut again to **3** (High Risk) and the company issued a profit warning.
- In September 2018, the Credit Review Score was cut to **1** (Extremely High Risk). At that point, external advisors had been brought into the business and there were further store closures. In the following year, administrators were appointed.

Company Y Credit Review Score History



Carillion PLC

Background to the company

Carillion was a large and highly leveraged UK-listed construction and facilities management group active in private finance initiatives and infrastructure projects. The company grew rapidly throughout the 2000s through a strategy of serial acquisitions. Its business was also heavily debt financed as management sought to accelerate turnover.

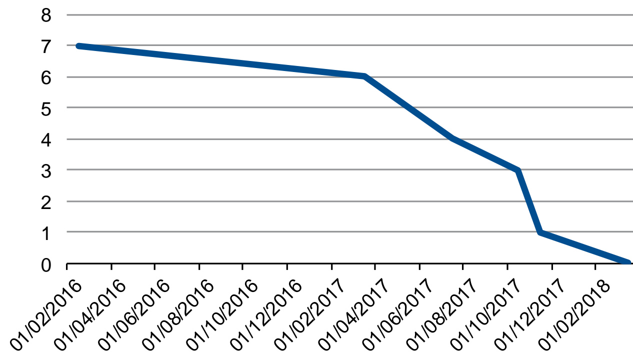
When did problems start arising?

The group fell into financial difficulties in 2017, declaring a GBP 1.15bn loss for the first half of that year and warning it would breach its banking covenants. It went into compulsory liquidation in January 2018 with liabilities of almost GBP 7bn. By the end of 2016, a clear downtrend in the company's business prospects was recognised, and the Credit Review Score was adjusted on a consistent basis.

Credit Review Score History

- Throughout 2016, Carillion had a Credit Review Score of **7** (Stable, slightly above-average financial stability).
- In early 2017, this was lowered to **6** (Average financial stability).
- The first strong downgrade to a Credit Review Score of **4** (Increased risk) – came just three months later in the middle of 2017.
- By the autumn of that year, Carillion was cut to **3** (High risk).
- In November 2017, this was lowered to **1** (Extremely high risk) months ahead of liquidation.

Credit Review Score History



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