

Fitch Affirms Newell Rubbermaid's IDR at 'BBB'; Outlook Revised To Positive

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Newell Rubbermaid, Inc.'s (Newell) ratings at 'BBB' and revised the Rating Outlook to Positive from Stable. The Outlook revision is based largely on the company's improved profile and Fitch's expectations that the company will maintain its current business momentum and credit protection measures through the medium term.

KEY RATING DRIVERS

Improved Business Profile

Since the last recession, and with the sale of its hardware and teach platforms in late 2013, Newell has divested or exited \$850 million (15% of 2009 revenues) in product lines or businesses where commodities such as resin comprised a significant percentage of costs and margins were low and or there was little brand differentiation. Of the \$850 million divested, approximately \$500 million was in resin intensive product lines. Resin exposure, among other factors, accounted for the 240 basis point gross (bps) margin contraction in 2008. Commodity costs escalated in 2011 though not to the same degree as 2008 with gross margins contracting just 40 bps

Concurrently, the company has undertaken several restructuring actions to reduce fixed overhead and increase the variable portion of its cost structure. Newell's organizational flexibility has increased with adjusted EBITDA margins improving more than 300bps to 16.7% at the last twelve months (LTM) ended Sept. 30, 2013. As a result, Fitch expects variability in margins and cash flows during cyclical peaks and troughs to be less pronounced going forward supporting an improved business profile incorporating cyclical elements.

Benefits from Economic Cycle

Fitch estimates that the cyclical portion of Newell's product lines facing cyclical end-users or markets has declined modestly in the past two years to 60% with the recent dispositions. Nonetheless, the portfolio should benefit from relative economic stability in

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North America. Revenues generated from North America, represent more than 70% of the company's \$5.7 billion in revenues at the LTM ended Sept. 30, 2013. Fitch expects positive GDP growth in the U.S. in 2014 and 2015 and growth in construction to benefit Newell's tools and commercial products segments (approximately 25% of revenues) going forward. This provides support for low-single digit organic growth rates despite the pressure in the office supply market, which is an end market for Newell's writing segment (24% of 2013 revenues).

Strong FCF Despite Cyclicalities

Importantly, despite the fact that Newell has been restructuring for much of the past decade and has experienced several economic downturns, it has generated positive free cash flow since at least 1996. Newell's FCF (operating cash flow less capital expenditure and dividends) ranged from \$250 million to \$375 million annually over the past four years and the LTM despite significant cash restructuring and pension payments. Fitch expects FCF to remain within this band from 2014 through 2016 as both restructuring and pension contribution are likely to ease in by 2015. Pension contributions, which were more than \$100 million in 2013, should decrease in 2014 given good equity market returns last year. Cash restructuring and related payments in the \$100 million range related to Project Renewal should end with the program in 2015. However, Fitch is cautious regarding the company's decade long restructuring, and of further actions post Project Renewal which could change the agency's expectations.

Improved Credit Protection Measures

The company has lowered its costs, simplified its capital structure and reduced debt such that its credit protection measures have improved markedly since 2008. Through the LTM, Newell's leverage of 1.8x is down more than one turn from 3.2x at the end of 2008. FFO interest coverage has improved even further to 8.6x from 3.5x. Fitch expects Newell's leverage to remain closer to 2x providing a cushion for moderate discretionary activities.

Ample Liquidity, Modest Maturities

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Liquidity is ample. The company has almost \$200 million of cash and more than \$1.1 billion in credit facilities. The \$1.1 billion is comprised of an \$800 million revolving credit maturing in 2018 and a \$350 million receivable facility maturing in 2015. Debt maturities are modest in the next three years with only a \$250 million note due in 2015. Based on Fitch's expectation of low single-digit organic revenue growth and the company's ability to maintain SG&A to revenues in the 25% range, EBITDA should improve moderately with leverage remaining below 2x. Fitch anticipates that Newell will likely keep debt levels in the \$1.7 billion range or higher over the medium term.

RATING SENSITIVITIES

What Could Trigger a Rating Action:

--Continued good business momentum exemplified with low single-digit organic growth, stable or increasing margins and FCF in or above recent ranges.

--Operating with leverage near 2x on a sustained basis.

Future developments that may, individually or collectively, lead to a negative rating action or reinstatement of the Stable Outlook include:

--A lengthy recession in the U.S. given that Newell's profitability and cash flows have historically bounced back to normal levels within 12 - 18 months after the end of previous economic downturns;

--Intention of sustaining leverage well above 2x on a sustained basis. This could be caused by a change in management's financial strategy or a sizeable debt-financed acquisition.

Fitch affirms Newell's ratings as follows:

--Long-term Issuer Default Rating (IDR) at 'BBB';

--Short-term IDR at 'F2';

--Commercial paper at 'F2';

--\$800 million revolving credit facility at 'BBB';

--Senior unsecured notes at 'BBB'.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology: Including Short-term Ratings and Parent and Subsidiary Linkage' (August 2013).

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http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

Additional Disclosure

Solicitation Status

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