

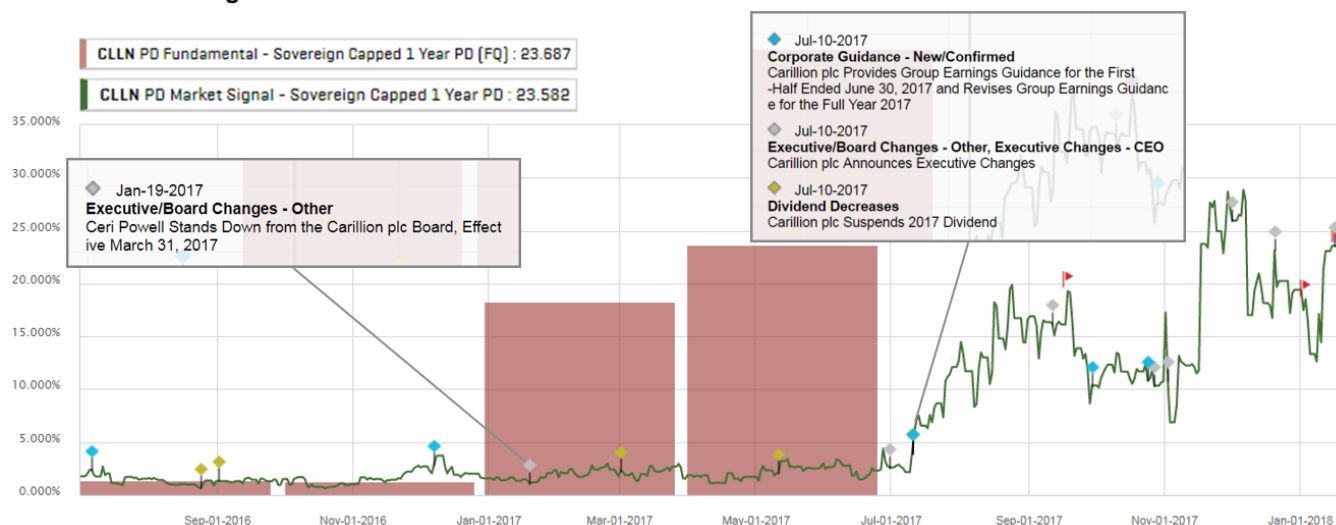
Essential tools for strategic decisions

Credit Analytics Case Study: Carillion Plc

Bankruptcy Summary

Carillion Plc (Carillion), a construction services firm, had “declining profit margins” and “high adjusted debt [due to] reverse factoring and its unfunded pension deficit” according to S&P Global Ratings¹. When Carillion filed for liquidation on January 15, 2018, the company had debt and liabilities in excess of £1.5 billion. Trading in the shares was suspended that same day. S&P Global Market Intelligence’s Fundamental Probability of Default (Fundamental PD) rose to 18.27% in the first quarter of 2017 from 1.32% the previous quarter – the equivalent of the implied credit score falling to ‘ccc’ from ‘bb’². An additional 30% increase from Q1 to Q2 2017 brought the Fundamental PD to 24%, six months ahead of Carillion’s liquidation. In the quarter leading up to its compulsory liquidation filing, the median Market Signal Probability of Default (Market Signal PD) was 18%, and reached as high as 29%. The Market Signal PD increased nearly sixfold, from 2.17% to 12.69% (equivalent to a credit score decrease from ‘bb-’ to ‘ccc+’) during July 2017 in response to a share price decline of nearly 70% during the month. Carillion’s share price fell by 39% on July 10 alone, triggered by a profit warning (the first of three) and the announcement of a strategic review.

Exhibit 1: Market Signal and Fundamental PD Escalation



Source: S&P Global Market Intelligence as of June 11, 2018. For illustrative purposes only.

Business Description

Carillion provides maintenance, facilities management, and energy services to buildings and large property estates, in public and private sectors; infrastructure services for roads, railways, and utility networks. It serves aviation, corporate, financial services, oil and gas, central and local government, defense, healthcare, transport, education, commercial and retail, and residential and leisure sectors. Carillion was incorporated in 1999 and is headquartered in Wolverhampton, in the United Kingdom.

¹ Source: S&P Global Ratings, *Carillion's Demise: What's At Stake?*

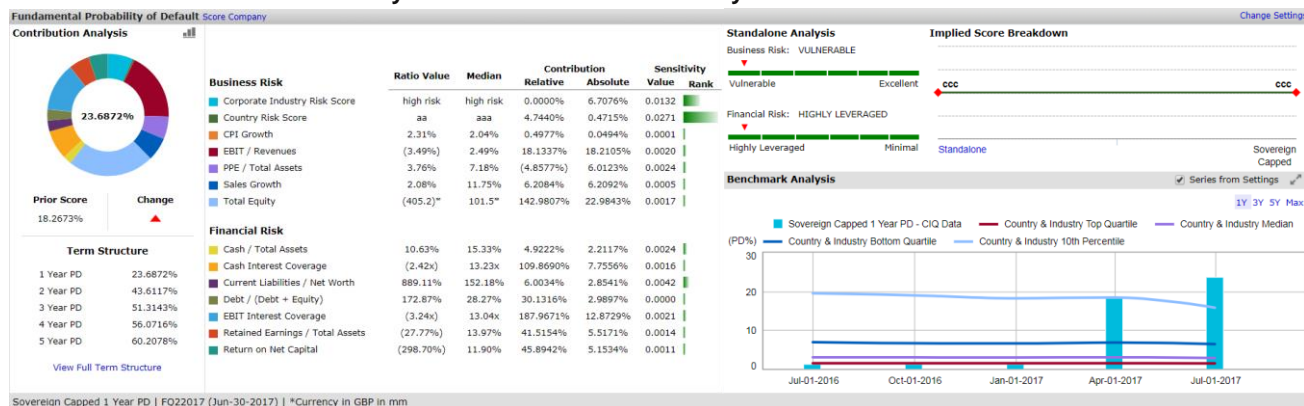
https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=38529831&From=SNP_CRS as published on March 23, 2018.

² Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD scores from the credit ratings used by S&P Global Ratings. S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence.

Fundamental Probability of Default Analysis

Upon closer inspection of the Fundamental PD in the third quarter of 2017, business and financial risks were significant problems for the company, with vulnerable and highly leveraged scores, respectively. In the first quarter of 2017, Carillion's Fundamental PD of 1.32% was better than the UK Construction & Engineering industry median of 4.43%. The Fundamental PD later increased to place Carillion in the worst 25% of the industry by the second quarter of 2017. The most significant factor contributing to the increase in Fundamental PD is Carillion's EBIT interest coverage, a measurement of the company's ability to pay interest on debt, which fell to -0.32 in the first quarter of 2017 from 2.75 in the fourth quarter of 2016 (semiannual data was multiplied by 0.5). The elevated Fundamental PD was also due to total equity and cash interest coverage which stood at -£405MM and 0.09, respectively, in the first quarter of 2017 down from £730MM and 2.7 in Q4 2016. Between Q4 2016 and Q1 2017 EBIT decreased by £132MM to a net loss of £100MM and equity decreased by an astonishing £1,135MM. The Fundamental PD illustrates Carillion's sizable net losses left the company debt ridden and unable to operate.

Exhibit 2: Fundamental Probability of Default Contribution Analysis



Source: S&P Global Market Intelligence as of June 11, 2018. For illustrative purposes only.

Exhibit 3: Key Developments

Date	Type	Headline
Jan-03-2018	Regulatory Agency Inquiries/	Financial Conduct Authority Commences an Investigation in Connection with the Timeliness and Content of Announcements Made by Carillion Between 7 Dec. 2016 and 10 July 2017
Dec-20-2017	Executive/Board Change - Other, Executive Change - CEO	Carillion plc Announces Management Changes
Dec-01-2017	Executive/Board Change - Other	Carillion plc Announces Board Changes
Oct-24-2017	M&A Transaction Announcement	Serco Group plc (LSE:SRP) entered into a letter of intent to acquire UK healthcare facilities management business from Carillion plc (LSE:CLLN) for £50.1 million.
Sep-25-2017	M&A Rumors and Discussion	Carillion Seeks To Sell Some Middle East Operations
Sep-18-2017	Index Constituent Drop	Carillion plc(LSE:CLLN) dropped from FTSE 350 Index (GBP)
Jul-17-2017	Considering Multiple Strategic Alternatives	Carillion Considers Strategic Review
Jul-14-2017	Client Announcement	Oxfordshire County Council Ends Ties with Carillion Five Years Before Contract Expiry
Jul-10-2017	Corporate Guidance - New/Confirmed	Carillion plc Provides Group Earnings Guidance for the First-Half Ended June 30, 2017 and Revises Group Earnings Guidance for the Full Year 2017
Jul-10-2017	Dividend Decrease	Carillion plc Suspends 2017 Dividend
Jul-10-2017	Considering Multiple Strategic Alternatives	Carillion To Undertake Comprehensive Review Of The Business

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