

Rockwood Specialties Group Inc. Upgraded To 'BB-', Outlook Stable; Financial Profile Improves

Rationale

On Nov. 19, 2007, Standard & Poor's Ratings Services raised its ratings on Rockwood Specialties Group Inc., including its corporate credit rating, to 'BB-' from 'B+' (see list below). The outlook is stable. The upgrade follows strengthening in the financial profile as a result of continued strong operating performance, increasing free operating cash generation during the past few quarters, and debt reduction with asset sale proceeds.

Recent and planned changes in the business mix, including the January 2007 divestiture of Groupe Novasep and the announced sale of Rockwood's electronics business, should focus management attention and capital investment in a smaller number of high-performing businesses in which the company enjoys leading market shares. Moreover, we expect acquisition activity to be focused on additional moderate-size, bolt-on transactions financed with free cash flow and divestiture proceeds, such as Rockwood's August 2007 purchase of the global color pigments business of Elementis PLC for \$140 million.

Following the electronics sale, Princeton, N.J.-based Rockwood will have five major business lines:

- Specialty chemicals (primarily surface treatment chemicals and lithium);
- Performance additives (color pigments, timber treatment chemicals, clay-based additives, and water treatment chemicals);
- Titanium dioxide (primarily for textile fibers);
- Ceramics (used in medical applications, electronics, and cutting tools); and
- Specialty compounds (thermoplastic materials primarily for wire and cable).

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Key business strengths include broad product, geographic, and raw material diversity; minimal exposure to volatile petrochemical feedstocks; reasonable organic growth prospects; and consistently high operating margins in the 19% to 20% range before depreciation and amortization.

Despite strengthening in Rockwood's financial profile, the company remains highly leveraged. At Sept. 30, 2007, total debt, including about \$240 million of tax-effected postretirement obligations and \$70 million of capitalized operating leases, was about \$2.9 billion. Total adjusted debt to EBITDA was 5x, with funds from operations (FFO) to total adjusted debt of 12%, and EBITDA interest coverage of 2.6x. We expect these ratios to improve slightly as earnings and cash flow continue to gradually strengthen and excess cash is used for accretive acquisitions or to reduce debt. In particular, we expect adjusted FFO to adjusted total debt to approach 15%, with total adjusted debt to EBITDA declining toward 4x. Following a recently announced secondary offering of common stock, affiliates of Kohlberg Kravis Roberts & Co. L.P. will no longer have a majority interest in Rockwood.

Liquidity

At Sept. 30, 2007, Rockwood had \$222 million available under a \$250 million senior secured revolving credit facility maturing in 2010 and \$104 million of cash. The company was and should remain comfortably in compliance with financial covenants under this facility which included maximum total leverage of 5.5x and minimum interest coverage of 1.85x at Sept. 30, 2007. The sale of the electronics business, which management expects to close in the fourth quarter of 2007, should yield proceeds of \$315 million.

Liquidity should remain sufficient to meet foreseeable operating and financing requirements. These include annual capital expenditures of \$175 million to \$200 million (about half of which is required for maintenance), annual interest expense of about \$200 million, debt maturities averaging about \$80 million during each of the next three years, and working capital needs. Outlays with regard to other liabilities, including environmental, legal, and postretirement benefit obligations, appear manageable. The presence of discrete, salable assets and demonstrated access to capital markets provide additional financial flexibility.

Recovery analysis

The bank credit facilities consist of a \$250 million revolving credit facility maturing in 2010 and term loans with a remaining balance of about \$1.7 billion that mature in 2011 and 2012. The credit facilities are rated 'BB+', two notches above the corporate credit rating, with a '1' recovery rating. These ratings indicate our expectation for very high recovery (90% to 100%) in the event of a payment default. (For the complete recovery analysis, see Standard & Poor's Ratings Services' recovery report on Rockwood to be published on RatingsDirect immediately following this report)

Outlook

The outlook is stable. Leading shares in attractive and diverse end markets, solid profitability, and favorable business prospects should permit the company to continue to gradually strengthen credit measures. Although the business risk profile would support a higher rating, financial policies are likely to keep debt leverage high, limiting upgrade prospects. On the other hand, we could revise the outlook to negative or lower the ratings if business conditions deteriorate unexpectedly or the company undertakes larger-than-expected, debt-financed acquisitions.

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Ratings List

Ratings Upgrade

	To	From
Rockwood Specialties Group Inc.		
Corporate Credit Rating	BB-/Stable/-	B+/Positive/—
Senior secured debt	BB+	BB
Recovery	1	1
Subordinated debt	B	B-

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

