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PPW Aero Buyer Inc. Assigned 'B' Rating; Debt Rated; Outlook Stable

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- PPW Aero Buyer Inc. (Pursuit Aerospace) is a sponsor-owned manufacturer of aviation engine components.
- We assigned our 'B' issuer credit rating to Pursuit.
- At the same time, we assigned our 'B' issue-level rating and '3' recovery rating to the company's proposed term loan B.
- The stable outlook reflects our expectation that its S&P Global Ratings-adjusted debt to EBITDA will be above 5x throughout our forecast, but free cash flow will remain solidly positive.

NEW YORK (S&P Global Ratings) March 4, 2025—S&P Global Ratings today took the rating actions listed above.

Pursuit plans to refinance its existing debt and fund an acquisition with a new term loan. The company will pay down its existing revolver and term loan while making a $65 million acquisition with a new $790 million term loan B due 2032. Pursuit will also have access to a new $180 million revolving credit facility due 2030 and a $160 million delayed-draw term loan that we expect the company to use to fund future acquisitions. Owners Greenbriar and Clayton, Dubilier, and Rice combined two platforms to create Pursuit in 2023, and plan to drive earnings growth by realizing large cost savings within the components manufacturer.

The rating reflects Pursuit's modest size, and high leverage. With under $1 billion of annual revenue, Pursuit is among our smallest rated components manufacturers compared to competitors such as Goat Holdco LLC (Barnes Group), Ovation Parent Inc. (Arxis), and Chromalloy Corporation, which all post $1.1 billion-$1.6 billion. Only Novaria Group is smaller among the peer group, with annual revenue under $500 million.

Given costs associated with the transaction and potential acquisitions throughout the year, we expect leverage to be elevated in 2025 at about 7x. Without any further acquisitions, we'd expect leverage to be near 6x. Even as earnings grow and various costs run-off, we don't expect debt to EBITDA to decline below 5x during our forecast period.

Market conditions have Pursuit well-positioned to realize organic revenue growth. Pursuit's place as a vertically integrated components manufacturer is a differentiator when it comes to winning new business. Customers may prefer to work with one supplier for the entire process from casting and forging through fabrication and assembly. Working on "hot section" engine components creates various barriers to entry due to the technical requirements and rigorous regulatory approval process. Approximately three-quarters of sales are also covered by long-term supply agreements, leading to revenue visibility.

Next-generation narrowbody aircraft engines, including LEAP and GTF models, are leading growth in the commercial segment, with original equipment manufacturing (OEM) making up the first wave, and aftermarket opportunities to follow. Aviation engines tend to have lifespans of over 30 years, providing multiple opportunities to work on a single engine. These market conditions have resulted in a $2.6 billion backlog, representing more than two years of forecasted revenue and creating strong revenue visibility. We expect organic revenue growth of 6%-10% annually throughout our forecast.

Financial policy will help determine the rating's trajectory. A growing top line with improving margins could lead to stronger credit metrics. The magnitude depends on management's and the owners' financial policy. We forecast modest positive free cash flow in 2025 due to one-time expenses, increasing to $60 million-$70 million in 2026 and growing from there.

We think leverage reduction is more likely to stem from earnings growth than debt reduction. We anticipate that the company will pursue growth through opportunistic acquisitions, funded with the delayed-draw term loan and revolver borrowings, as well as internally generated cash flow. If the company is more aggressive than expected, debt to EBITDA could sustain above 7x if the company takes on additional debt to fund the growth.

The stable outlook reflects Pursuit's market position and favorable market dynamics, and our expectation that free cash flow should remain solidly positive while S&P Global Ratings-adjusted debt to EBITDA remains above 5x throughout our forecast.

We could lower our rating on Pursuit if debt to EBITDA sustains above 7x or free cash flow approaches breakeven. This could occur if:

- The company pursues growth through debt-financed acquisitions;
- The company fails to grow organically through new business wins;
- EBITDA margins do not improve as anticipated as the company is unable to realize pro forma cost savings; or
- The company pursues debt-financed dividends.

Although unlikely in the near term, we could raise the rating on Pursuit if the company's debt to EBITDA declines well below 5x and the sponsor shows a commitment to maintaining such credit metrics. This could occur if:

- EBITDA margins grow faster than expected as cost synergies are more substantial than anticipated;
- The company captures new business through organic growth; and
- The sponsor commits to maintaining improved credit ratios, even with potential acquisitions or dividends.

Related Criteria

- **Criteria | Corporates | General: Sector-Specific Corporate Methodology**, April 4, 2024
- **Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities**, Jan. 7, 2024
- **Criteria | Corporates | General: Corporate Methodology**, Jan. 7, 2024
- **General Criteria: Environmental, Social, And Governance Principles In Credit Ratings**, Oct. 10, 2021
- **General Criteria: Group Rating Methodology**, July 1, 2019
- **Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments**, April 1, 2019
- **Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers**, Dec. 16, 2014
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, Nov. 19, 2013
- **General Criteria: Principles Of Credit Ratings**, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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