STANDARD & POOR'S

COMMENTARY REPORT

Rockwood Specialties Group Inc.'s Secured Financing

Primary Credit Analysts:
Cynthia Werneth
CFA
New York
(1) 212-438-7819
cindy_werneth@
standardandpoors.com

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On Nov. 19, 2007, Standard & Poor's Ratings Services raised the ratings on ***Rockwood Specialties Group Inc.***'s senior secured credit facilities and subordinated notes. The ratings on the senior secured issues were raised to 'BB+' from 'BB', two notches above the 'BB-' corporate credit rating. The recovery ratings on the senior secured issues are '1', indicating expectations of very high (90%-100%) recovery in the event of a payment default. The ratings on the subordinated notes were raised to 'B' from 'B-'.

For the full discussion of the rationale of the corporate credit rating, please see "Rockwood Specialties Group Inc. Upgraded To 'BB-', Outlook Stable; Financial Profile Improves," published on Ratings Direct on Nov. 19, 2007.

Rockwood Specialties Group Inc.—Credit Profile				
Corporate credit rating	BB-/Stable/—			
Facility/Issue	Issue rating	Recovery rating	Expected recovery (%)	Maturity
Secured debt				
US$250 mil revolving credit fac	BB+	1	90-100	2010
US$250 mil term loan A	BB+	1	90-100	2011
US$1.139 bil term loan E	BB+	1	90-100	2012
EUR269.3 mil term loan G	BB+	1	90-100	2012
Unsecured debt				
EUR375 mil 7.625% sr sub nts	B			2014
US$200 mil 7.5% sr sub nts	B			2014

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.

Borrowers include Rockwood and Rockwood Specialties Ltd. (the U.K. borrower). The borrowers' obligations are guaranteed by Rockwood Specialties International Inc. (a parent holding company) and Rockwood's direct and indirect domestic subsidiaries. Obligations of the U.K. borrower are also guaranteed by Rockwood and certain of Rockwood's direct and indirect foreign subsidiaries. Borrowings by Rockwood are secured by the stock of and substantially all assets of Rockwood and its domestic subsidiaries, and 65% of the stock of first-tier foreign subsidiaries. Borrowings by the U.K. borrower are secured by the stock of and substantially all assets of certain foreign subsidiaries of Rockwood, including the U.K. borrower.

Recovery analysis

Simulated default scenario

We believe that a default would most likely be triggered by a broad-based economic downturn that would lead to reduced demand for Rockwood's products and a corresponding sharp drop in operating margins. According to our analysis, EBITDA would have to decline by about 25% from the current level for the company to be unable to meet required interest payments, scheduled debt amortization, and minimal capital spending requirements. At the time of default, we assume that interest rates would have risen both because of a rise in market rates and an increase in the interest margin because of the borrower's need to renegotiate terms.

Valuation

In evaluating recovery prospects, given the likelihood that the business would retain the most value as an operating entity in the event of a bankruptcy, Standard & Poor's employed its enterprise value methodology. In evaluating recovery prospects, we applied a 7x multiple to default-level EBITDA, consistent with the multiple used for other specialty chemical companies. We adjusted for the portion of enterprise value that is not pledged to the senior secured lenders, and we assumed the revolving credit facility would be fully drawn.

Results

Based on this analysis, we believe that the company’s collateral package would provide very high (90% to 100%) recovery to senior secured lenders in a default scenario.