Modulaire: Dismantling the Modules

Modulaire: I Can No Longer Write "Building through Modules" (previous post after Q2 results).

I return to Modulaire after my note last summer, and my view has not changed: the capital structure is unsustainable at current revenues and EBITDA, and I expect a sponsor-led LME or a broader recapitalisation. Since that note, and after the Q3 2026 results presentation on 11 November, both the senior secured and the unsecured instruments have repriced lower and yields to worst have widened further. Modulaire, acquired by Brookfield from TDR in 2021(1.4bn of equity for a total valuation of 4.4bn), has given no signal on deleveraging. With the sponsor silent and bondholders and term loan lenders still "passive", the market has moved slowly but steadily in one direction, downward, pricing wider spreads across the existing liabilities. Net leverage has risen year after year, and in my view sustainable debt for this business is about three turns of EBITDA below the current level. This analysis raises the obvious questions of where the equity value lies and where in the structure the value breaks. The central issue, which is complicating the overall framework, is the treatment of the EUR600m 6.500% senior secured notes due 2031 and the EUR1.3bn term loan B, also due 2031. Both carry a springing maturity linked to the SUNs, so the junior tranche-issued in 2021 that could be neither refinanced nor repaid for rating reasons- sets the real refinancing date and makes the SUNs the pivot of any negotiation. Weak documentation- someone calls it "sponsor-friendly covenant package"-gives the shareholder room for priming and drop-downs, which puts final recoveries of the debt in the balance sheet at risk. Liquidity is adequate in the short term but it is not improving, and the end-markets offer no support: construction and industrial demand remains weak, utilization and pricing are under pressure, and the UK continues to be difficult. The 2028 maturities, which held up in price until September, have since come under pressure as the credit market today prices the risk that they will be pulled into a broader restructuring. It is worth noting that the 2028 debt was issued in 2021 with net leverage below 5x, a level the group has since moved well away from (largely unnoticed; this has surprised me).

Uncertainty over the refinancing path has fractured the debt stack. The price gap between the 2028s and the 2031s (in euro) has widened to roughly 20 points, from about 5 in March, as the market starts to separate instruments by

their likely treatment in a restructuring. This dislocation creates relative-value opportunities. The YTW of the SUNs is above 40%.

Investors would do well to revisit the "Algeco precedent" (remember this name, right?)of 2017. The PIK was restructured through an English scheme of arrangement in which each PIK lender exchanged its positions for a combination of cash and limited partnership interests in the Algeco group. The sponsor committed USD250m of new equity, and the US business was monetised through the WillScot SPAC combination. That template points to the sponsor staying in alongside fresh equity, with junior creditors taking a mix of cash and equity. Modulaire's problem runs deeper; it is the leverage associated to a complex capital stack, and on that basis I expect the SSN and TLB to take a haircut through an amend-and-extend, while the SUNs carry most of the restructuring risk. The catalysts to watch are a statement from Brookfield on support, the formation of a creditor group, rating actions toward CCC (the rating agencies are behind the curve, partly because a move to CCC rating would add another stone to CLOs' pockets, already weighed down by their CCC buckets) and announcements of asset disposals.

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