STANDARD & POOR'S

Research Update

Compass Minerals Group Inc. Upgraded To 'BB-', Outlook Stable; $130M Term Loan Rated 'BB'

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Rationale

On Oct. 9, 2007, Standard & Poor's Ratings Services raised its ratings on Compass Minerals Group Inc. and its holding company, Compass Minerals International Inc., including raising its corporate credit rating to 'BB-' from 'B+'. In addition, Standard & Poor's assigned a 'BB' rating and '2' recovery rating to the company's proposed $130 million term loan B-2. At the same time, the 'BB' rating on the company's existing senior secured bank credit facility was affirmed. However, the recovery rating was revised to '2' from '1', indicating the expectation of substantial (70%-90%) recovery in the event of a payment default. The outlook is stable.

The upgrade reflects the combination of the company's continued steady operating performance and improved financial profile, as well as the recent announcement that it plans to refinance its high-coupon discount notes due 2012. The company is funding the $130 million in cash needed for the tender offer by exercising the accordion feature of the existing senior secured credit facility. Total debt (pro forma for the transaction and adjusted for operating leases and postretirement obligations) was about $600 million as of June 30, 2007.

The ratings on Overland Park, Kan.-based Compass Minerals International and its subsidiary, Compass Minerals Group, reflect the seasonality of its salt-production business, its limited product and mine diversity, and a somewhat aggressive financial profile. Still, the company maintains a leading position in the recession-resistant salt-production industry, possesses high margins, and has consistently generated steady annual cash-flow.

Compass Minerals is the second-largest producer of salt in North America and the largest in the U.K. In addition, it is the largest North American producer of sulfate of potash fertilizer, a niche market that generates about 17% of revenues. Compass Minerals produces salt for highway deicing, food-grade applications, water conditioning, and other industrial uses. Although salt sales are highly seasonal, they are not cyclical.

The company's healthy EBITDA margins have averaged about 25% over the past few years because of advantages associated with its strategic locations, use of low-cost waterway transportation, and the lack of cost-effective product substitutes. These factors are meaningful barriers to entry in the industry. To be competitive requires high capital costs up front, strategic mine locations, established distribution networks, and strong customer relationships. In addition, the company has offset the rise in natural gas and transportation costs with higher prices.

Compass Minerals operates three rock salt mines, one solar-evaporation facility, and four mechanical-evaporation facilities. Its two largest underground mines account for about 65% of its more than 14 million tons of annual mineral production. This concentration heightens the risk of operating disruptions that could impair financial performance. Although the business is quite stable because of the nondiscretionary nature of the product, it is also mature and subject to weather variability. The company's target markets are areas that face severe winter weather, typically the upper Midwest and Great Lakes regions. As a result, Compass Minerals generates the majority of its revenues from December to March. In addition, the market is concentrated, as competition includes mainly two rivals, each of which is somewhat financially stronger. However, the high cost of transportation largely constrains competitors to targeted regional markets.

Nevertheless, Compass Minerals is somewhat aggressively leveraged, with adjusted debt pro forma for the refinancing of about $600 million (including capitalized operating leases and postretirement benefits obligations). As a result, total debt to EBITDA for the 12 months ended June 30, 2007, was 3.6x, a level we would consider in line with the new rating. Although the company continues to apply some of its free cash flow to reduce debt balances, these amounts have been historically less than the accretion on its discount notes. However, the proposed refinancing of these securities will significantly reduce the company's total interest expense, despite an increase in cash interest expense.

Liquidity

At June 30, 2007, Compass Minerals had $31.3 million in cash and about $112.4 million available under its $125 million revolving credit facility due 2010. Liquidity also benefits from the company's ability to generate steady free cash flow and only $3.1 million per year of required debt payments through 2009. The interest on the company's remaining $162 million in holding company discount notes accretes until 2008 and requires cash payment thereafter. They are callable beginning in June 2008.

Because of the seasonality of the business, the company typically consumes cash in the third quarter as it builds deicing salt inventories for the coming winter. Over the past few years, with modest capital spending of around $30 million annually, Compass Minerals has consistently generated free cash flows in the $35 million area but nominal discretionary cash flow when considering the $40 million dividend. The company recently completed a $12 million expansion of its magnesium chloride production facility in Ogden, Utah, and the replacement of a salt mill and capacity expansion at the company's Goderich, Ont., mine. We expect these projects to reduce production costs and increase production volumes. Discretionary cash flow will be modest or slightly negative during 2007 because of reduced sales volumes in the first half of the year following warmer weather, higher capital expenditures, and annual dividends.

Recovery analysis

We rate Compass Minerals' $605 million senior secured bank credit facility ($541 million outstanding as of June 30,2007) 'BB', one notch higher than the corporate credit rating, with a recovery rating of '2', indicating substantial (70%-90%) expectation of recovery in the event of a payment default. The bank credit facility consists of a $125 million revolving credit facility due 2010, a $350 million senior secured term loan due 2012 ($286 million outstanding as of June 30,2007), and an expected $130 million term loan B-2 due 2012 to fund the repurchase of its senior discount notes due 2012. (For the complete recovery analysis, see our recovery report on Compass Minerals Group Inc. to be published on RatingsDirect immediately following this report.)

Outlook

The outlook is stable. We expect the company to maintain its current level of operating and financial performance and to refinance its remaining high coupon discount notes at significantly lower rates. In addition, the recession-resistant characteristics and nondiscretionary nature of the company's products support ratings stability. We could revise the outlook to negative, or potentially downgrade the company if its leverage increases because of increased margin pressure or it sustains volumes at a lower level because of milder weather conditions and greater-than-expected spending levels that weaken its overall performance.

Ratings List

Upgraded/Outlook Action

	To	From
Compass Minerals Group Inc.		
Corporate Credit Rating	BB-/Stable/—	B+/Positive/—
Compass Minerals International Inc.		
Corporate Credit Rating	BB-/Stable/—	B+/Positive/—
Senior Unsecured	B	B-
Subordinated	B	B-

New Rating

Compass Minerals Group Inc.	
Senior Secured	
US$130 mil incremental term B-2	
bank ln due 2012	BB
Recovery Rating	2

Rating Withdrawn

	To	From
Subordinated	NR	B-

Ratings Affirmed

Senior Secured

US$125 mil revolving credit fac bank ln due 2010	BB
US$350 mil term loan bank ln due 2012	BB

Rating Revised

Senior Secured

Recovery rating	2	1

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