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Research Update:

Securus Holdings Inc. Ratings Placed On CreditWatch Negative Following Proposed FCC Regulation

Primary Credit Analyst:

Rose Askinazi, CFA, New York 212-438-0354; rose.askinazi@standardandpoors.com

Secondary Contact:

Michael P Altberg, New York (1) 212-438-3950; michael.altberg@standardandpoors.com

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Overview

- The U.S. Federal Communications Commission (FCC) has released a fact sheet outlining a series of proposed rate caps for inmate calling services, including inmate calling rates and ancillary service charges.
- We are placing our ratings on inmate telecommunications services provider Securus Holdings Inc., including our 'B' corporate credit rating, on CreditWatch with negative implications.
- We expect to resolve the CreditWatch placement once we receive further details from the release of the FCC order and review the company's strategy to address the ruling.

Rating Action

On Oct. 8, 2015, Standard & Poor's Ratings Services placed its ratings, including its 'B' corporate credit rating, on Dallas-based Securus Holdings Inc. on CreditWatch with negative implications.

Rationale

The CreditWatch placement reflects the uncertainty surrounding the upcoming FCC vote to cap rates for inmate calling services, and the ultimate impact this will have on credit metrics for Securus. The fact sheet that the FCC released on Sept. 30, 2015, outlines a series of proposed rate caps for inmate calling services and discourages facility commission payments, but it doesn't provide further clarity. We believe a FCC order that caps rates without a commensurate reduction or elimination of commissions could materially hurt the company's profitability and result in a materially higher debt to EBITDA compared to pro forma-leverage in the high-5x area in 2015. Under this scenario, the company would need to renegotiate a significant number of its contracts to reduce its existing commission payments.

We expect lower rates will increase call volume, allowing the company to partially offset the lower revenue per minute. In addition, we believe the company will continue to grow its ancillary service offerings, such as media and payment services, which are not currently subject to the same level of commissions and regulatory oversight as its traditional voice services. However, we are uncertain as to the extent that these factors could counter any negative impact of the order and over what time frame.

CreditWatch

The CreditWatch listing reflects the possibility of a one-notch downgrade if we determine that the FCC order will hurt the company's credit measures, pushing leverage above 6.5x on a sustained basis. We could affirm the rating if we believe the company could largely offset the impact of the rate caps with a combination of lower commissions and growth in ancillary services. We will continue to monitor developments, including the FCC's approach to discourage facility commission payments.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Revised Revolver Usage Assumptions For Recovery Analysis In Corporate Ratings, Nov. 20, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009

Ratings List

Ratings Affirmed; Placed On CreditWatch

	To	From
Securus Holdings Inc. Corporate Credit Rating	B/Watch Neg/--	B/Stable/--
Securus Technologies Holdings Inc. Senior Secured		
\$630 mil. term ln due 2020 Recovery Rating	B/Watch Neg 3H	B 3H
\$50 mil. revolver due 2018 Recovery Rating	B/Watch Neg 3H	B 3H
\$165 mil. 2nd lien term ln due 2021 Recovery Rating	CCC+/Watch Neg 6	CCC+ 6
Securus Technologies Inc. Senior Secured		
\$50 mil. revolver due 2016	B/Watch Neg	B

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Recovery Rating	3H	3H
\$291 mil. term ln due 2017	B/Watch Neg	B
Recovery Rating	3H	3H
\$105.5 mil. 2nd lien term ln due 2018	CCC+/Watch Neg	CCC+
Recovery Rating	6	6

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