

Rating Action: Moody's assigns definitive B2 ratings to N&W Global Vending; stable outlook

Global Credit Research - 18 Oct 2016

Frankfurt am Main, October 18, 2016 -- Moody's Investors Service has today assigned a definitive B2 corporate family rating (CFR) and B2-PD probability of default rating (PDR) to N&W Global Vending S.p.A ("N&W"), the leading European manufacturer of automatic vending machines, following the review of final documentation and successful completion of the post-completion merger. Concurrently, Moody's has assigned a definitive B2 instrument rating to the EUR300 million first lien senior secured notes raised by N&W Global Vending S.p.A, with upstream guarantees from certain operating subsidiaries. The outlook on the ratings is stable.

Concurrently, Moody's has withdrawn the provisional (P)B2 CFR and stable outlook for LSF9 Canto Investments S.p.A., which has merged with N&W Global Vending S.p.A as a part of the post-completion merger, with N&W Global Vending S.p.A being the surviving entity. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moody's.com.

"N&W's B2 CFR balances the company's strong operating profile evidenced by its very high profitability and its ability to generate good cash flows with high leverage and small operations in a fairly mature market", says Oliver Giani, the lead analyst on N&W.

RATINGS RATIONALE

The B2 CFR and B2-PD PDR are primarily constrained by N&W's (1) small size, with revenues of roughly EUR300 million and limited product diversification; (2) high leverage, with Moody's-adjusted debt/EBITDA of around 6.0x for the 12 months to June 2016 period, pro-forma for the transaction, which positions N&W weakly in the B2 rating category and includes the expectation of gradual improvements in the next 12-18 months; (3) some concentration risk in terms of geographies, with the majority of revenues being generated in Western Europe, and customers, with the top three customers representing almost one third of revenues; and (4) limited revenue visibility, with a backlog of around one month of sales.

The vending machines market is largely mature with limited growth potential, but following a period of operators' underinvestment, the park's average age is reaching the end of its useful life as per the company's expectation. This development could boost investments into the park and, with its strong and comprehensive offering, N&W would benefit from it. However, the timing of that development is uncertain. If there is no meaningful improvement in investments in the next 12-18 months, there is a risk that N&W's leverage on a gross debt basis will remain high, given the limited scope of further major profitability improvements from an already very high level. A further factor is that some players in the industry are going through financial difficulties, which could significantly limit their willingness and ability to invest into the machine park. However, even in such a scenario, we expect N&W to generate meaningful positive free cash flow, in line with its historical track record, which supports the company's positioning at B2 level.

The B2 ratings are further supported by the company's (1) clear market leadership in its key European markets; (2) very high profitability, with a Moody's-adjusted EBITA margin at approximately 19% in 2015, enabled by the breadth of the company's portfolio, constant innovation, profitable accessories and spare parts business, and strong ties to the key customers in the industry; and (3) asset-light business model, with fairly low tangible capex requirements and a variable cost structure that helps to maintain stability of margins and support free cash flow generation.

RATIONALE FOR INSTRUMENT RATING

The EUR300 million first lien senior secured notes issued by N&W Global Vending S.p.A are rated B2, in line with the CFR, despite the fact that they rank ahead of EUR100 million second lien senior secured notes (unrated) that could provide some rating uplift from the level of CFR. However, given the weak positioning of N&W at B2, we decided not to notch up the EUR300 million above the level of the CFR.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectations that in the next 12-18 months N&W will manage to maintain a Moody's-adjusted EBITA margin at around 20% and debt/EBITDA at around or below 6.0x, while generating positive free cash flow.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could upgrade N&W's ratings, if N&W shows the ability to sustain its strong profitability with Moody's adjusted EBITA margin at around 20% and healthy free cash flow generation, while improving Moody's adjusted gross debt/EBITDA sustainably below 5.0x (around 6.0x for the 12 months to June 2016 period, pro forma).

Moody's could downgrade N&W's ratings, if the company's (1) gross debt/EBITDA, as adjusted by Moody's, sustainably remains above 6.0x; (2) EBITA margin, as adjusted by Moody's, deteriorates well below 20%; (3) free cash flow, as adjusted by Moody's, deteriorates significantly towards breakeven; or (4) liquidity position tightens. In addition, any signs of deteriorating market conditions on a sustained basis could put pressure on the ratings.

The principal methodology used in these ratings was Global Manufacturing Companies published in July 2014. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Bergamo, Italy, N&W is the leading European manufacturer of automatic vending machines for hot and cold drinks and other food and beverage produces. It also produces coffee machines designed for use in hotels, restaurants, cafeterias and offices. The company operates under the two main brands: Necta (focused on Western and Southern Europe, US and Emerging markets) and Wittenborg (focused on Northern and Central Europe markets). In 2015, N&W reported revenue of around EUR300 million, employing more than 1,400 workforce. N&W was acquired by funds controlled by private equity firm Lone Star (unrated) for a total consideration of roughly EUR670 million in March 2016.

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