

Rating Action: Moody's downgrades Candy Intermediate Holdings' (d.b.a. Ferrara Candy Co.) CFR to B3 from B2; Outlook negative

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Approximately \$535 million of rated debt affected

New York, April 05, 2017 -- Moody's Investors Service, ("Moody's") today downgraded the Corporate Family Rating (CFR) and Probability of Default Rating (PDR) of Candy Intermediate Holdings, Inc. (a wholly owned subsidiary of Ferrara Candy Company Holdings, Inc.) to B3 from B2 and to B3-PD from B2-PD, respectively. As a result of this rating action, the company's \$535 million principal first lien term loan due 2023 was downgraded one notch to B3 from B2. The rating outlook has been changed to negative from stable.

The downgrade of the CFR is largely driven by the relatively rapid deterioration in credit metrics that occurred during the company's fiscal fourth quarter and Moody's expectation that metrics will remain challenged through at least the first half of FY17 before improving thereafter. The downgrade also incorporates Moody's expectation that the company will maintain an adequate liquidity profile supported by its \$150 million ABL facility. Moody's expects that the facility will be more than two-thirds drawn for much of the year owing to the company's peak working capital season spanning the May to September timeframe prior to being partially paid down by FYE17 when net working capital requirements ease.

The company's leverage for the twelve months ended December 31, 2016 (FY16) was approximately 6.4 times as measured by debt-to-EBITDA (all ratios are Moody's adjusted unless otherwise stated). However, this EBITDA calculation includes \$60 million of add-backs for non-recurring charges including approximately \$10 million for network optimization (i.e. plant realignment), organic start-up costs of nearly \$18 million, other corporate costs of roughly \$9.5 million, dividend refinancing and dual track sale/IPO process expenses of \$18 million, and non-cash asset write-downs of \$2 million.

"Ferrara Candy experienced a number of operational challenges in late 2016 that impacted both its top-line and profitability. Some were non-recurring, and management is taking action to address the other matters, but we need to see their efforts gain traction prior to stabilizing the rating outlook" said Moody's Vice President Brian Silver. "Also, the company remains highly reliant on its ABL facility. While we continue to anticipate liquidity will remain adequate over the next twelve months, additional operational missteps could weaken liquidity and lead to a downgrade," added Silver.

The following ratings have been downgraded at Candy Intermediate Holdings, Inc.:

Corporate Family Rating to B3 from B2;

Probability of Default Rating to B3-PD from B2-PD;

\$535 million principal senior secured first lien term loan B due 2023 to B3 (LGD3) from B2 (LGD3).

The rating outlook has been changed to negative.

RATINGS RATIONALE

The B3 Corporate Family Rating reflects Candy Intermediate Holdings, Inc.'s (a wholly owned subsidiary of Ferrara Candy Company Holdings, Inc. or "Ferrara") high leverage and moderate size relative to the rated packaged goods universe, and Moody's expectation that leverage will remain elevated through at least the first half of FY17 before improving thereafter. The company is also expected to maintain an adequate liquidity profile over the next 12 months, supported by maintenance of at least \$30 million of total liquidity under its \$150 million ABL at all times. Ferrara's business is characterized by a high degree of seasonality in its earnings and cash flow generation. Also, the company competes against both private label and larger players with greater financial resources and brand recognition in a challenging consumer spending environment. The rating also considers the company's private equity ownership and aggressive financial policy, highlighted by the relatively large dividend payment made in connection with the June 2016 recapitalization, as well as possible event risk from future dividend payments. At the same time, the rating recognizes the company's good

scale and market position in the US non-chocolate confectionary category. Ferrara maintains a solid product portfolio with a number of well-recognized brands while maintaining good channel diversification and a moderate degree of customer concentration.

The negative outlook reflects Moody's expectation that profitability will remain challenged through at least the first half of the year and that the company's liquidity position could weaken from adequate levels if operating performance does not improve. In order to change the outlook to stable Moody's would require evidence of stabilization of operating performance and improved liquidity.

The ratings could be upgraded if Moody's adjusted debt-to-EBITDA improves such that it approaches 5.5 times and EBIT-to-interest improves and is sustained above 1.5 times. Also, the company would be expected to reduce its ABL reliance prior to any upward rating movement.

The ratings could be downgraded if Moody's adjusted debt-to-EBITDA is sustained above 7.0 times and if EBIT-to-interest approaches 1.0 time. Also, if ABL reliance increases and cash flow generation does not materialize as anticipated, the ratings could be downgraded.

The principal methodology used in these ratings was Global Packaged Goods published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ferrara Candy Company Holdings, Inc. (Ferrara), parent holding company of Candy Intermediate Holdings, Inc., is primarily a manufacturer of branded non-chocolate products, private label confectionary products as well as a participant in various co-manufacturing programs. Ferrara was formed in May 2012 through the merger of Farley's and Sathers Inc. (F&S) and Ferrara Pan Candy Co, Inc. (Ferrara Pan). The company is understood to be the third largest US based non-chocolate confectionary company with one of the broadest product portfolios in the category. Ferrara's brands include Brach's, Bob's, Black Forest, Trolli, Lemonheads, Jujufruits, Atomic Fireballs, Boston Baked Beans, Chuckles, and Now and Later. The company is majority owned by Catterton Partners. Preliminary unaudited net sales for the twelve months ended December 31, 2016 were approximately \$859 million.

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