

**Rating Action: Moody's assigns first-time Baa2 rating to Esselunga S.p.A.; negative outlook**

---

Global Credit Research - 09 Oct 2017

London, 09 October 2017 -- Moody's Investors Service has today assigned a first-time Baa2 long-term issuer rating to Esselunga S.p.A. ("Esselunga"). Concurrently, Moody's has assigned a Baa2 senior unsecured rating to Esselunga's proposed senior unsecured bonds of up to EUR 1 billion. The outlook on the ratings is negative.

"The Baa2 long-term issuer rating reflects Esselunga's well-established position as Italy's fourth-largest grocery retailer position and its defensive business profile" says Ernesto Bisagno, a Moody's Vice President - Senior Credit Officer and lead analyst for Esselunga. "The rating also reflects the strong financial metrics offsetting the lack of international diversification", adds Mr Bisagno.

**RATINGS RATIONALE**

Esselunga's Baa2 long-term issuer rating reflects the company's (1) defensive business profile and low seasonality; (2) well-established position as Italy's fourth-largest grocery retailer; (3) exposure to some of the wealthiest parts of Italy; (4) strong track record in generating stable, above-average returns for the sector, with a Moody's-adjusted EBIT margin of 6.1% in 2016; (5) relatively low level of adjusted debt and conservative financial policy; (6) expectation that free cash flow (FCF) generation (after capital spending and dividends) will remain marginally positive despite the material investment programme.

The rating also reflects the company's (1) lack of international diversification and hence reliance on the economic conditions in Italy, although Moody's notes the company's resilient performance during the financial crisis; (2) relatively smaller size and higher geographical concentration than other rated European retailers.

Moody's expects macroeconomic conditions to be supportive of Esselunga's operating performance, also in light of the company's exposure to some of the wealthiest parts of Italy. However, the lack of diversification outside Italy could impair growth and leaves Esselunga exposed to the volatility in the domestic economy.

Moody's anticipates leverage (Moody's adjusted gross debt to EBITDA) at December 2017 to be 2.3x. The calculation includes around EUR 1.3 billion of debt of which almost EUR 900 million funding the acquisition of the 67.5% stake in Villata Partecipazioni S.p.A. ("Villata Partecipazioni"), and EUR 417 million of adjustments for operating leases and pensions. In addition, the rating agency notes the existence of EUR 300 million of debt at the level of the holding company Supermarkets Italiani SpA (Supermarkets) and the significant minority stake of 32.5% in Villata Partecipazioni. While the EUR 300 million debt is not factored in Moody's credit metrics, the holding company Supermarkets largely relies on dividend payments from Esselunga to service the debt. Positively, this is mitigated by the conservative financial policy with management focused on maintaining a level of reported net debt to EBITDA below 1.5x.

Moody's anticipates Esselunga to continue to grow its sales each year in the low-to-mid single digit range (as a combination of positive organic growth and contribution from its new stores) and maintain relatively stable margins, supporting steady operating cash flow generation.

Moody's expects FCF generation to be broadly neutral in 2018, owing to discretionary capex plan and working capital needs due to changing value-added tax payables, and to improve in 2019-20 at EUR 50 million- EUR 100 million each year. As a result, Moody's expects leverage to decline marginally towards 2.2x by 2019, with the decline driven by a combination of higher EBITDA and stable gross debt. On a reported net debt to EBITDA calculation, that would be equal to 1.3x in 2019, down to 1.1x in 2020, within the company's targets to maintain reported net leverage below 1.5x.

**LIQUIDITY ANALYSIS**

Moody's views Esselunga's liquidity profile as good, underpinned by the existing cash in excess of EUR 200 million and limited refinancing needs until their bilateral revolving credit facilities of EUR 300 million mature in August 2022. Moody's understands that those facilities do not contain any material restrictive covenants.

The liquidity assessment assumes that the company will complete the refinancing of the EUR 900 million facility on the capital markets. In addition, Moody's liquidity analysis takes into account the expectation that FCF will be neutral in 2018 and marginally positive in 2019, and factors in modest seasonality and limited working capital volatility over quarters.

#### RATIONALE FOR THE NEGATIVE OUTLOOK

Metrics are comfortable for the rating category so the negative outlook instead reflects the business concentration in Italy and mirrors the negative outlook on Italy. If the sovereign was downgraded we do not see Esselunga as being absolutely constrained by Italy's rating and might consider positioning the rating above the sovereign if justified by an expectation of sufficiently strong and resilient performance. However in view of the domestic concentration we would not expect the rating to be positioned more than one notch above Italy, even if performance and metrics are very strong.

#### WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade to Baa1 is now considered unlikely at this point. However, upward rating pressure would reflect a combination of: (1) continued improvement in the company's financial profile, resulting in adjusted (gross) debt/EBITDA to trend below 2x and retained cash flow ("RCF")/net debt above 30% on a sustained basis; (2) simplification of the financial structure in particular with regard to the existence of debt at Supermarkets level. Any potential upgrade would also be considered in the context of the prevailing macroeconomic conditions and the Government of Italy's rating.

Conversely, negative pressure on the rating could materialize if (1) Esselunga's credit metrics deteriorated with adjusted (gross) debt/EBITDA trending above 2.5x and retained cash flow/net debt below 20% on a sustained basis. Any potential downgrade to the Government of Italy's rating could also exert negative pressure on Esselunga's rating.

The principal methodology used in these ratings was Retail Industry published in October 2015. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for additional regulatory disclosures for each credit rating.

Ernesto Bisagno  
VP - Senior Credit Officer

Corporate Finance Group  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Marina Albo  
MD - Corporate Finance  
Corporate Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454



© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary

of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.