

**Rating Action: Moody's assigns B2 CFR to Bormioli Pharma; stable outlook**

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Global Credit Research - 30 Oct 2017

**Moody's assigns (P)B2 rating to the proposed EUR275 million senior secured floating rate notes due 2024**

London, 30 October 2017 -- Moody's Investors Service, (Moody's) has today assigned a B2 corporate family rating (CFR) and a B2-PD probability of default rating (PDR) to the Italian plastic and glass pharmaceutical packaging company Bormioli Pharma Bidco S.p.A. ("Bormioli Pharma" or the "company"). Concurrently, Moody's has assigned (P)B2 rating to the EUR275 million senior secured floating rate notes due 2024 to be issued by Bormioli Pharma. The outlook on all ratings is stable.

A list of assigned ratings can be found at the end of this press release.

The proceeds from the notes together with approximately EUR120 million of cash equity will be used to support the acquisition of the pharmaceutical business unit of Bormioli Rocco S.p.A. by private equity firm Triton Partners ("Triton") and to pay the transaction fees. The capital structure also includes an unrated EUR40 million super senior revolving credit facility (RCF), expected to be undrawn at close, and EUR30 million of non-recourse factoring arrangements, drawn at close.

This is the first time that Moody's has assigned a rating to Bormioli Pharma. Moody's issues provisional ratings in advance of the final sale of securities and these ratings reflect Moody's preliminary credit opinion regarding the transaction only. Upon a conclusive review of the final documentation, including any possible changes during the syndication process, Moody's will endeavor to assign a definitive rating to the facilities. A definitive rating may differ from a provisional rating.

**RATINGS RATIONALE**

Today's assignment of the B2 CFR to Bormioli Pharma reflects (1) its small scale relatively to other packaging rated peers and to its global competitors in the context of the highly competitive pharmaceutical packaging industry with ongoing pricing pressure; (2) a degree of geographic concentration in mature markets such as Italy and Western Europe accounting for 81% of FY2016 revenues; (3) the exposure to fluctuations in raw material prices, in particular energy and resin, albeit a part of it is passed through to customers but with a lag; (4) the high financial leverage expected at close of 5.8x and Moody's expectation for slow deleveraging; (5) the capital intensity of furnace maintenance and working capital needs which will continue to absorb majority of the cash flow going forward; and (6) the risk that the separation from Bormioli Rocco S.p.A. and the set-up of the stand-alone structure could be more costly than what the management envisages.

Conversely, Bormioli Pharma's B2 CFR is positively supported by (1) the company's established leading market positions in Italy and Western Europe in the niche segments of borosilicate and soda glass as well as in products like child proof closures and eye-drops; (2) a moderately diversified customer base of 900 customers with 10 largest accounting for 25% of sales in 2016 and long-standing customer relationships; (3) some switching costs and barriers to entry from products that require validation processes and regulatory approval; and (4) a resilient and growing pharmaceutical packaging industry with positive fundamentals.

Moody's considers Bormioli Pharma's liquidity position to be adequate for its near-term needs. This is supported by (1) EUR10 million of balance sheet cash at close; (2) EUR40 million of the undrawn RCF; (3) the presence of factoring arrangements which are expected to be renewed on an ongoing basis; (4) Moody's expectation of marginally positive free cash flow despite expected increased capital expenditures for the refurbishment of a furnace at Bergantino plant in FY2018-2019; and (5) no debt amortisation until 2024. The super senior RCF has one springing financial covenant (net leverage ratio), set with large headroom at 7.9x, to be tested on quarterly basis when the RCF is drawn by more than 35%. The non-compliance with the leverage test will not constitute an event of default but a draw-stop.

Using Moody's Loss Given Default methodology, the B2-PD PDR is in line with the CFR. This is based on a 50% recovery rate, as is typical for transactions with bank debt and bonds. The 2024 notes, will be issued by Bormioli Pharma, the entity at the top of the restricted group. They will not be guaranteed at close but they will

be at the level of the main operating company Pharma Newco once the merger between Pharma Newco with the issuing entity Bormioli Pharma Bidco S.p.A. completes, while remaining structurally subordinated to the liabilities of Bormioli France and the other operating subsidiaries. The notes, will be secured, post-merger, from pledges over the shares and certain operating bank accounts of the merged entity. The notes rank junior to the super senior RCF upon enforcement under the provisions of the intercreditor agreement.

#### RATIONALE FOR THE STABLE OUTLOOK

Bormioli Pharma is weakly positioned in the B2 rating category. The stable outlook reflects Moody's view that will continue to benefit from a benign trading environment over the next 12 to 18 months and slowly deleveraging. The stable outlook also assumes that the company will not lose any material customer and it will not engage in material debt-funded acquisitions or shareholder distributions.

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

Upward pressure on the ratings is unlikely in the near term but could arise over time if (1) the company improves scale; (2) Moody's adjusted Debt/EBITDA falls below 4.5x on a sustainable basis; and (3) Free Cash Flow to Debt trends above 5%.

Conversely, downward ratings pressure could be considered if (1) Moody's adjusted Debt/EBITDA rises above 6.0x; (2) the free cash flow turns negative; or (3) if liquidity concerns arise.

#### LIST OF ASSIGNED RATINGS

##### Assignments:

- .. Issuer: Bormioli Pharma Bidco S.p.A.
- .. Corporate Family Rating, Assigned B2
- .. Probability of Default Rating, Assigned B2-PD
- .. Senior Secured Floating Rate Notes, Assigned (P)B2

##### Outlook Actions:

- .. Issuer: Bormioli Pharma Bidco S.p.A.
- .. Outlook, Assigned Stable

The principal methodology used in these ratings was Packaging Manufacturers: Metal, Glass, and Plastic Containers published in September 2015. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Headquartered in Italy, Bormioli Pharma is an European producer of plastic and glass pharmaceutical packaging serving approximately 900 customers in 90 countries. Bormioli has five manufacturing facilities, four in Italy and one in France and had 985 full time employees as at June 2017. For the last twelve months to 30 June 2017, Bormioli Pharma generated EUR221 million of revenues and EUR53 million of pro-forma adjusted EBITDA.

The company, which is the former pharma business unit of Bormioli Rocco S.p.A., is being acquired by the private equity firm Triton.

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