MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns B1 to Fabric (BC) S.p.A. (Fedrigoni); stable outlook

20 Apr 2018

Frankfurt am Main, April 20, 2018 -- Moody's Investors Service, ("Moody's") has today assigned a B1 corporate family rating (CFR) and B1-PD probability of default rating (PDR) to Fabric (BC) S.p.A. ("Fedrigoni"), an Italian paper producer focused on labeling and specialty papers. Concurrently Moody's has assigned a B2 (LGD4) rating to the EUR455 million proposed senior secured notes issued by Fedrigoni. The outlook on the ratings is stable.

RATINGS RATIONALE

RATIONALE FOR CFR

Fedrigoni's B1 CFR, which is initially weakly positioned, is primarily constrained by the company's (1) moderate scale with revenues of around EUR1.1 billion; (2) exposure to volatile pulp prices, as it is not integrated into pulp; (3) albeit reducing, some exposure to structurally declining and margin dilutive coated and uncoated woodfree paper, representing roughly a quarter of the group's EBITDA in 2017; (4) risk of limited deleveraging at least initially in Moody's view before the company starts reaping benefits of efficiency measures following the recent change in ownership. The agency calculates Fedrigoni's starting leverage at 5.0x for 2017 pro forma for the new capital structure and the run-rate negative effect on EBITDA coming from the loss of a tender and a customer's decision to reduce volumes in the security business.

Fedrigoni's B1 CFR is primarily supported by (1) a number of market leading positions in premium niches, such as specialty graphic paper, art paper and pressure sensitive and self-adhesive labels for example for the premium wine industry, with well-established brands that allows Fedrigoni to operate with a profitability comparing well with the majority of other paper producers (Moody's adjusted EBITDA margin of 11.7% in 2017); (2) prospects for good positive free cash flow generation given the relatively limited amount of maintenance capex; and (3) good customer diversification enabled by its proprietary distribution network.

Despite the fact that Fedrigoni will start operating with a relatively limited amount of cash after the refinancing, Moody's considers Fedrigoni's liquidity to be adequate, primarily on the basis the expectation of positive free cash flow generation in the next four to six quarters, supported by a fairly sizeable revolving credit facility that has been put in place with a total commitment of EUR100 million and a six year maturity. The facility will contain a springing covenant tested only when the facility is more than 35% drawn, with initial headroom of 30%. Moody's considers these sources to be sufficient to cover any seasonality of cash flows. After the envisaged refinancing there will be no maturities until 2024, when the bond matures.

RATIONALE FOR PDR AND INSTRUMENT RATING

The B1-PD PDR, in line with the CFR, reflects Moody's standard assumption of 50% family recovery, given the existence of both bond and bank debt. The B2 rating for the proposed EUR455 million senior secured notes, one notch below the CFR, reflects the fact the notes are effectively subordinated to the EUR100 million super senior revolving facility, that has a priority over security enforcement proceeds. The facility is sizeable enough to cause the notching down of the bond. In our loss given default assessment the bond ranks behind the facility as well as sizeable trade payables of roughly EUR200 million. Even though both instruments are secured, the strength of the security is relatively weak as it will essentially consist only of share pledges, material bank accounts and intra-group receivables. However, upstream guarantees are provided from all material entities representing together at least 80% of consolidated EBITDA.

RATIONALE FOR OUTLOOK

The stable outlook reflects the rating agency's expectation that over the next 12-18 months Fedrigoni will operate with Moody's adjusted EBITDA margin in the low teens in % terms and Moody's adjusted debt/EBITDA not sustainably above 5.0x, while keeping good liquidity.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could downgrade Fedrigoni's rating if its (1) Moody's adjusted debt/EBITDA will sustainably move above 5.0x, (2) Moody's adjusted EBITDA margin deteriorates sustainably below 10%; (3) free cash flow generation turns negative; or if (4) liquidity deteriorates.

Moody's could upgrade Fedrigoni if (1) it demonstrates the existence of financial policies aimed to keep its debt/EBITDA ratio (as adjusted) sustainably below 4.0x, (2) its EBITDA margin remains sustainably in low teens in % terms (as adjusted); (3) it builds a further track record of material positive free cash flow generation; or if (4) it strengthens its liquidity by building sufficient cash balances.

The principal methodology used in these ratings was Paper and Forest Products Industry published in March 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Verona, Italy, Fedrigoni is a producer of specialty and commodity papers, self-adhesive labels as well as security paper and features for banknotes and documents. With around 2,700 employees and 14 manufacturing facilities in Italy (8), Spain (2) and Brazil (2), US (2) the group sells its products in 128 countries around the world. Fedrigoni was founded in 1888 and currently operates through its three business segments: Paper (51% of 2017 revenues), Converting (31%) and Security (15%). For the fiscal year 2017 Fedrigoni reported revenues of EUR1.1 billion. Fedrigoni is being sold to a private equity firm Bain Capital for enterprise value of EUR655 million.

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.moodys.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.moodys.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.moodys.com for additional regulatory disclosures for each credit rating.

Martin Fujerik
Vice President - Senior Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Matthias Hellstern
MD - Corporate Finance

Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

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.