MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Officine Maccaferri's CFR to Caa3; outlook negative

Global Credit Research - 06 Dec 2019

Milan, December 06, 2019 -- Moody's Investors Service (Moody's) has today downgraded the corporate family rating (CFR) of Officine Maccaferri S.p.A. (Maccaferri or the company) to Caa3 from Caa1, and its probability of default rating (PDR) to Caa3-PD from B3-PD. Concurrently, Moody's has downgraded to Caa3 from Caa1 the rating of the €190 million senior unsecured notes due June 2021 issued by Maccaferri. The outlook changed to negative from stable.

"The downgrade to Caa3 with a negative outlook reflects a further deterioration in Maccaferri's liquidity due to delays in the debt restructuring process pursued by its parent company, exacerbated by a weak operating performance in the first nine months of 2019," says Donatella Maso, Moody's lead analyst for Maccaferri. "As a result, the risk of default because of missed payment or distressed exchange in the coming months is very high," adds Ms. Maso.

A full list of affected ratings is provided at the end of this press release.

RATINGS RATIONALE

The downgrade of Maccaferri's ratings to Caa3 reflects the negative implications that the delays in the restructuring process of its ultimate parent - SECI S.p.A. - is having on the company's liquidity and strategic plans. The timeline of this process has been extended and the restructuring plan shall now be submitted to court on or before 3 January 2020. The search for a strategic partner that could inject equity into Maccaferri and the potential refinancing of the 2021 bond have been put on hold until the court approval is granted.

More importantly, Maccaferri's access to external financing has become and will likely remain severely constrained as a result of SECI's restructuring, resulting in a deterioration of its already weak liquidity position. Maccaferri relies on short-term uncommitted bank facilities and supply chain financing instruments, including factoring and reverse factoring. According to the company, in the third quarter of 2019 it was unable to extend €20 million of credit and factoring lines. In addition, Maccaferri faced shorter payment terms requested by its suppliers and a reduced use of reverse factoring.

As a result, as of 30 September 2019, the company's cash balances eroded to €28 million from €56 million as of 31 December 2018. This cash balance is materially smaller than the €82 million of short-term debt. In addition, the company has to pay €5.5 million interests on its €190 million notes due 2021 in December and June. Maccaferri's liquidity position is especially weak in Italy, where the company had only €3 million of cash and €7 million of available credit lines as of the same date. Moody's also notes that Maccaferri's €35 million factoring line, which was the company's only source of committed financing, has only been extended on an uncommitted basis.

These factors create significant uncertainty over the company's ability to manage its liquidity in the first quarter of 2020, given that the first quarter of the year is typically characterized by near-zero funds from operations and around €30 million of net working capital absorption.

Maccaferri's operating performance significantly deteriorated in the first nine months of 2019, with a 32% year-on-year drop in reported EBITDA, mainly driven by the loss of high-margin sales of defense products in the US and underperformance across Latin America and EMEA markets. As a result, Moody's expects that the company's leverage (measured as Moody's-adjusted gross debt to EBITDA ratio) will rise to 7.5x in 2019 from 6.1x in 2018 and its interest coverage (measured as

Moody's-adjusted EBIT to interest expense ratio) will weaken to 0.7x from 1.3x over the same period (2018 metrics exclude non-trading-related one-off items). In Moody's view, this deterioration in credit profile poses additional challenges to the company's ability to execute a timely and cost-effective refinancing of the 2021 bond.

The rating action incorporates material governance considerations affecting Maccaferri's credit profile, including (1) the fact that Maccaferri's parent company is undergoing a debt restructuring, which translates into a weakening of the company's liquidity due to growing risk aversion of its creditors; and (2) the company's aggressive liquidity management, which creates an elevated risk of debt restructuring.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects a heightening risk of near-term default on upcoming debt payments or service obligations, as a result of continuing deterioration in the company's liquidity profile.

WHAT COULD CHANGE THE RATINGS UP/DOWN

The ratings could be downgraded if the company fails to make debt-related payments within the applicable time periods, or if Moody's expectations of expected losses for the company's creditors become higher than those implied by the Caa3 CFR.

Upward pressure on the ratings is unlikely in the short term but could arise if the company (1) restores its liquidity position, including the company's ability to arrange external credit facilities and supply chain financing, and boosts its depleted cash cushion; (2) successfully completes the search for a strategic partner that provides equity and allows the refinancing of the 2021 bond; and (3) demonstrates signs of improving its operating performance.

LIST OF AFFECTED RATINGS

..Issuer: Officine Maccaferri S.p.A.

Downgrades:

....Long-term Corporate Family Rating, Downgraded to Caa3 from Caa1

....Probability of Default Rating, Downgraded to Caa3-PD from B3-PD

....Senior Unsecured Regular Bond/Debenture, Downgraded to Caa3 from Caa1

Outlook Action:

....Outlook, Changed To Negative From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Building Materials published in May 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Officine Maccaferri S.p.A. (Maccaferri), incorporated in Bologna, Italy, is a leading designer and manufacturer of environmental engineering products and solutions, with a global footprint. It reports under four divisions: the Double Twist Mesh products, the Geosynthetics polymer materials, the Rockfall and snow protections nets and the Other Products division, which includes a range of tunneling and wall reinforcing products, as well as engineering solution services and wire products. For the twelve months ended 30 September 2019, the company reported revenue of €513 million and EBITDA of €37 million.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

Donatella Maso
Vice President - Senior Analyst
Corporate Finance Group
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ivan Palacios
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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.

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 ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

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