MOODY'S
INVESTORS SERVICE

Announcement: Moody's B2 senior secured notes rating of Rhiag's remains unaffected by EUR50 million tap issuance

Global Credit Research - 23 Oct 2014

London, 23 October 2014 -- Moody's Investor Service says the B2 rating of the senior secured floating rate notes due 2019 issued by Rhino Bondco S.p.A., a subsidiary of Rhiag remains unaffected by the EUR50 million upsize. The tap issuance is added to the existing debt structure that consist of EUR200 million senior secured floating rate notes due 2019 and EUR215 million senior secured notes due 2020. The proceeds will be used to repay the drawings under its EUR75 million Revolving Credit Facility (RCF) partly used to fund the acquisition of ERA S.p.A.

Moody's expect the tap issuance to slightly increase debt-based ratios, with an expected Moody's-adjusted leverage around 5.7x at the end of fiscal year 2014, pro forma for the ERA acquisition and excluding synergies. However, Moody's expect this acquisition to enhance the Company's business profile by (1) increasing its geographic footprint given that 60% of ERA S.p.A. revenues are generated outside Italy, Rhiag's historical market; and by (2) widening its product portfolio with private label brands and electronic parts.

The acquisition of ERA, a distributor specialized in the growing market for electric parts, will enable Rhiag to access new markets such as Russia or Western European countries, which should improve the geographic diversification of the Company in the medium to long term. For the fiscal year 2013, ERA reported sales and EBITDA of EUR39 million and EUR6 million, respectively.

Rhiag's YTD June 2014 revenue of EUR 374million improved by 5% compared to the same period in 2013. Growth was driven by good performance in CEE and Italy, thanks to extension of its product range, good penetration of Rhiag's private brand "Starline" in Italy, and the opening of 10 new branches in CEE. The solid growth in CEE and Italy was somewhat offset by difficult market conditions in Switzerland, where sales declined by 3% in Q2 2014.

With reported YTD June 2014 EBITDA of EUR 42 million, EBITDA growth of 7% was stronger than revenue, as a result of continued tight cost management and improved margins driven by an increased private brand penetration that has offset continued price pressure and higher operating cost following the opening of new branches in Eastern Europe.

Compared to last year, YTD June 2014 free cash flow generation turned negative at EUR20 million, due to higher investment in working capital with longer payment terms granted to Italian customers and higher inventories levels to support growth, as well as the impact of EUR8 million of one-off costs paid in H2 2013 related to the refinancing and change of ownership.

However, pro forma for the tap issuance, Moody's considers Rhiag's near-term liquidity position to be adequate, supported by a cash balance of EUR23 million as of June 30 2014, and the EUR75 million revolving credit facility (RCF). The capital structure benefits from a springing net leverage covenant test on the RCF that is triggered when more than 25% of the RCF is drawn.

OUTLOOK

The stable rating outlook is based on Moody's expectation that Rhiag will successfully integrate ERA S.p.A. and will continue to grow in its key markets and generate modest but positive cash flow despite ongoing margin pressure.

WHAT COULD CHANGE THE RATINGS UP

Positive pressure on the ratings could arise if Moody's-adjusted gross debt/EBITDA ratio decreases below 5.0x and (EBITDA-capex)/interest ratio rises above 2.0x.

WHAT COULD CHANGE THE RATINGS DOWN

Negative pressure could arise if due to underperformance with Moody's-adjusted gross debt/EBITDA ratio rising towards 6.0x or (EBITDA-capex)/interest ratio falling towards 1.5x.

Based in Italy, Rhiag is the leading B2B distributor of spare parts primarily for passenger cars as well as commercial vehicles in the independent Italian aftermarket, and one of the largest players across Eastern Europe. The company generated EUR733 million gross reported sales in 2013 and employed around 3,000 people in 8 countries as of December 31, 2013.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Pieter Rommens
Asst Vice President - Analyst
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Peter Firth
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 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
SUBSCRIBERS: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

information.