

**Rating Action: Moody's assigns B3 CFR to TeamSystem; outlook stable**

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London, 06 March 2016 -- Moody's Investors Service (Moody's) has today assigned a B3 corporate family rating (CFR) and a B3-PD probability of default rating to Barolo MidCo S.p.A. (TeamSystem, the company). Concurrently, Moody's has withdrawn the B2 CFR of TeamSystem Holding S.p.A. including its B2-PD probability of default rating. Moody's has also affirmed the B2 rating on the EUR430 million senior secured notes issued by TeamSystem Holding S.p.A. and assigned a Caa2 rating to the EUR150 million senior notes issued by Barolo MidCo S.p.A. The outlook on the existing EUR430 million senior secured notes was changed to stable from negative and a stable outlook was assigned to the new CFR and new EUR150 million senior notes.

The proceeds from the transaction have been used to partially finance the acquisition of TeamSystem by funds managed by Hellman & Friedman LLC (H&F) and pay related fees. Barolo MidCo S.p.A. is the top company within the restricted group in relation to the senior notes. As part of the transaction the company has also issued a new super senior revolving credit facility (RCF) of EUR65 million. H&F owns approximately 77% stake of TeamSystem with the remainder held by HG Capital and management.

**RATINGS RATIONALE**

The B3 CFR reflects (i) TeamSystem's strong market position in the Italian ERP market supported by high retention rates; (ii) the high proportion of recurring revenues provided by its maintenance services and frequent fiscal and accounting upgrades; (iii) the complex local accounting and legal framework which provides a degree of protection against larger international competitors; (iv) the high profitability, with Moody's adjusted EBITDA margins above 30%; and (v) the strong track record of performance with positive growth prospects in its micro and cloud division.

However the rating is constrained by (i) TeamSystem's high opening leverage, with pro forma Moody's adjusted debt to EBITDA at 7.7x as of December 2015; (ii) the amount of adjustments made in arriving at pro forma EBITDA; (iii) its geographic concentration which exposes the company to the Italian economy; and (iv) the weak free cash flow generation due to its high finance costs.

Pro forma for the transaction Moody's adjusted leverage is at 7.7x as of December 2015. This includes part of the bad debt provisions and exceptional costs which we consider recurring whilst adding EUR9 million run rate adjustments for cost savings and synergies that the company reports it has already actioned. Whilst the leverage is high, Moody's takes comfort from the revenue growth visibility in the mid-term given the high level of recurring revenues and strong track record of growth. Moody's recognises the complex and transformational nature of the acquisitions integration processes which have incurred large exceptional costs and expected to reduce going forward. Furthermore we understand that the synergies and costs saving initiatives associated with recent acquisitions and further rationalisation of operations have been completed or are well advanced, which should support a gradual deleveraging pace towards 7.0x within the next 12-18 months. We do however consider there to be an element of risk in achieving the forecast cost savings given the wide scope of the initiatives.

For FY2015, TeamSystem is expected to report an organic revenue growth of approximately 8% compared to the same period last year, primarily driven by its core software business as well as strong growth from its micro and cloud segment. This is partially supported by the improved macroeconomic environment in Italy and the ongoing regulatory changes and updates resulting in increased number of customer upgrades and add-ons. The slow but increased adoption of cloud-based solutions will also provide further opportunities to penetrate new markets. Margins are expected to improve as cost saving measures and synergies are realised with some benefits from future operational leverage as the company continues to grow.

The company's liquidity position is adequate. Pro forma for the transaction cash on balance sheet is nil with access to the EUR65 million RCF. Moody's expects a small RCF drawing of approximately EUR15-20 million in the first quarter to support working capital movements and for the facility to be undrawn during the rest of the year. Free cash flow (FCF) generation is expected to improve over the next 12-18 months although it will remain limited. The company is expected to maintain a good headroom under its minimum EBITDA springing

covenant test, only applicable when the RCF is drawn above 35%.

Using Moody's Loss Given Default (LGD) methodology, the PDR is in line with the CFR based on a 50% recovery rate. The existing senior secured notes due 2020 are rated B2, one notch above the CFR, whilst the private senior notes due 2023 are rated Caa2, two notches below the CFR, reflecting their junior position in the capital structure.

## RATING OUTLOOK

The stable outlook reflects Moody's expectation that the company will gradually reduce leverage backed by its well progressed cost saving initiatives and will sustain its current operating performance. It also assumes that the company will maintain a conservative financial policy with no large debt-funded acquisitions or dividend distributions.

## WHAT COULD CHANGE THE RATING -- UP

Positive ratings pressure could develop if TeamSystem reduces Moody's adjusted leverage towards 6.5x on a sustainable basis, whilst improving its FCF generation and liquidity profile.

## WHAT COULD CHANGE THE RATING -- DOWN

Negative rating pressure could arise if Moody's adjusted leverage moves above its opening level on a sustainable basis, if liquidity profile deteriorates, or if FCF stays negative for a prolonged period.

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

TeamSystem is primarily a provider of enterprise resource planning (ERP) software to small and medium-sized enterprises (SMEs) and professionals in Italy. The group is expected to generate around EUR258 million in revenues in 2015.

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