

**Rating Action: Moody's assigns B3 rating to Biofarma, outlook stable**

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03 May 2022

Paris, May 03, 2022 -- Moody's Investors Service (Moody's or the agency) has today assigned a B3 corporate family rating (CFR) and B3-PD probability of default rating (PDR) to Kepler S.p.A. ("Biofarma" or "the company"), the top entity of Biofarma's restricted group, following the planned refinancing. At the same time, Moody's has assigned a B3 instrument rating to Biofarma's new EUR345 million guaranteed senior secured floating rate notes (FRNs) due 2029. The outlook on all ratings is stable.

On 22 March, funds managed by Ardian and Victoria, in partnership with management, have acquired Biofarma for an enterprise value of EUR1,170 million. Proceeds of the new guaranteed senior secured FRNs, along with EUR877.7 million of shareholder funding (of which EUR37.5 million represents a vendor loan and EUR106 million representing payment-in-kind (PIK) notes), will be used to fund the acquisition, including the payment of transaction-related fees and expenses and EUR17 million of cash overfunding that will be kept on balance sheet.

#### RATINGS RATIONALE

The B3 rating reflects Biofarma's leading position in the European contract development and manufacturing organization (CDMO) niche segment of nutraceuticals with an specific expertise in probiotics; the company's broad product offering across several dosage forms and good technological capabilities; some barriers to entry and the company's good track record in terms of quality and reliability, which are two important social considerations that are key in the industry; and the company's strong R&D and regulatory capabilities that has allowed Biofarma to form longstanding relationships with its main customers.

Conversely, the rating is constrained by the company's small scale with high geographic concentration in Italy where 55% of revenue is derived, and with some customer concentration as the top two customers represent around 22% of revenues; its high financial leverage with a Moody's-adjusted gross leverage of 6.6x for the last twelve months to March 2022 and pro forma the new capital structure with deleveraging dependent on earnings growth; its limited free cash flow (FCF) generation because the agency considers the sector requires high levels of capex spending; and execution and integration risks related to potential future acquisitions, given the fragmented nature of the sector and the company's history of being a consolidator in the nutraceutical segment, which could delay deleveraging.

Under its ESG framework, Moody's regards the company's high tolerance for leverage as a governance risk.

Moody's expects Biofarma's revenue will grow in the low-double digits in percentage terms over the next two years. Growth will be mainly driven by the agency's expectations of sustained market growth, the launch of five new product projects in 2022, continued penetration of the company's current product portfolio, and cross-selling opportunities from its latest acquisition of International Health Science (IHS).

#### RATING OUTLOOK

The stable outlook reflects Moody's expectation that Biofarma's operating performance will continue to be strong over the next 12 to 18 months, allowing earnings growth, and that Moody's adjusted gross debt will improve to below 6x by end-2022. The outlook assumes that the company will not undertake any major debt-funded acquisitions or shareholder distributions.

#### LIQUIDITY

Moody's expects Biofarma will have adequate liquidity over the next 12-18 months, supported by cash balances of EUR16.5 million pro forma the transaction, access to its super senior revolving credit facility (SSRCF) of EUR60 million, which Moody's expects to be undrawn at closing, annual Moody's adjusted FCF of around EUR5-10 million, and no debt maturities until 2028.

Under the loan documentation, the SSRCF lenders benefit from a springing super senior net leverage covenant of 1.35x tested only when the RCF is drawn by more than 40%. Moody's anticipates that the

company will have significant capacity against this threshold if tested.

## STRUCTURAL CONSIDERATIONS

The PDR of B3-PD reflects Moody's assumption of a 50% recovery rate for covenant-lite debt structures. The B3 rating of the guaranteed senior secured floating-rate notes due in 2029 is in line with the B3 CFR, reflecting their positioning in the capital structure, with only the EUR60 million SSRCF ranking ahead of them.

The top entity of the restricted group is Kepler S.p.A., the issuer of the guaranteed senior secured floating-rate notes. All debt instruments share the same collateral package on first and second priority. In particular, the debt instruments benefit from guarantees by the parent company and significant subsidiaries, which must represent at least 80% of consolidated EBITDA.

Shareholder funding in the restricted group is in the form of equity. Additionally, there are EUR106 million of PIK notes and a EUR37.5 million vendor loan issued outside of the restricted group, which have not been taken into consideration in Moody's calculation of leverage metrics.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward rating pressure could materialize if Biofarma increases its scale and geographic diversification, while maintaining good operating performance; and if its Moody's-adjusted leverage decreases below 5.5x on a sustained basis supported by a prudent financial policy, and its Moody's-adjusted FCF is positive and liquidity remains adequate.

Downward rating pressure could develop if industry fundamentals become less favorable and Biofarma's operating performance deteriorates, leading to below-market revenue growth and significant margin deterioration; or if the company's Moody's-adjusted leverage remains above 6.5x; or if its Moody's-adjusted FCF is consistently negative and liquidity weakens; or if the company embarks on significant debt-funded acquisitions or shareholder distributions.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1287897](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1287897). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## COMPANY PROFILE

Biofarma is the leading European player in the niche CDMO segment of nutraceuticals and probiotics, specialized in the development, production and distribution of nutraceuticals, medical devices and cosmetics, with four production sites in Northern Italy. The company serves more than 500 customers, mainly in Italy and the rest of Europe. The company generated pro forma revenue of EUR233 million and a company-adjusted EBITDA of EUR57 million in 2021, and its majority owned by Ardian since 2022.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1288235](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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