



Rating Action: **Moody's changes LimaCorporate's outlook to stable from negative; ratings affirmed at B3**

26 Jan 2023

Paris, January 26, 2023 -- Moody's Investors Service ("Moody's") has today affirmed the B3 corporate family rating (CFR) and B3-PD probability of default rating (PDR) of Limacorporate S.p.A. ("LimaCorporate" or "the company"). Moody's has also affirmed the B3 instrument rating of the EUR295 million backed senior secured floating rate notes (FRNs) due 2028. The outlook on all ratings has changed to stable from negative. Moody's will withdraw the instrument ratings of the existing B3-rated EUR275 million backed senior secured FRNs and Ba3-rated EUR60 million backed senior secured revolving credit facility (RCF), both due in 2023, at redemption.

RATINGS RATIONALE

The change in outlook to stable primarily reflects the successful placing of the EUR295 million of backed senior secured FRNs to refinance the backed senior secured debts due in 2023. This in turn has improved the company's liquidity because LimaCorporate will now have access to a multi-year RCF which will be partially drawn at closing, and long-dated maturities. The previous negative outlook reflected the heightened refinance risk associated with these maturities. The company's financial strategy and risk management policies, including liquidity management, which has now improved, is considered a governance risk under Moody's ESG framework. The EUR48 million equity injection from the company's shareholders to support the refinancing is also credit positive.

The rating affirmation considers the company's continued improved operating performance, which the rating agency expects will continue over the next 12-18 months, following a sharp decrease in earnings in 2020 because of the coronavirus pandemic. Moody's expects the company's Moody's-adjusted gross leverage to decline below 5.5x over the same period driven by a continued recovery in trading, and market penetration of the company's latest technologies.

The rating agency continues to expect limited Moody's-adjusted free cash flow (FCF) generation over the next 12-18 months, driven mainly by Moody's expectations of continued high capital spending and higher interest payments related to the refinancing. The rating agency forecasts that LimaCorporate's Moody's-adjusted FCF will trend around the break-even level over the period.

RATING OUTLOOK

The stable outlook reflects Moody's expectations that the company's operating performance remains good over the next 12-18 months with Moody's-adjusted gross leverage declining below 5.5x, and continued adequate liquidity. It also reflects the extension of LimaCorporate's debt maturity profile.

LIQUIDITY PROFILE

Pro forma the refinancing, LimaCorporate's liquidity is adequate, supported by cash balances of EUR13 million and access to the new EUR65 million RCF which is EUR12.5 million drawn at closing. However, Moody's estimates that FCF generation will remain limited, remaining at around break-even levels over the next 12-18 months, thus constraining future liquidity improvement, in the rating agency's view. With the refinancing, the maturity of LimaCorporate's debt is extended with its EUR 295 million backed senior secured notes maturing in 2028.

The new RCF includes a springing super senior net leverage ratio set at 1.53x and only tested when the RCF is drawn by more than 40%. Moody's base case assumes that the company will maintain adequate capacity under its financial covenant, if tested. Liquidity is strained by TechMah's outstanding milestone payments of which EUR9 million remain as of September 2022. Because these payments depend on certain performance targets, Moody's has limited visibility into the timing of these.

STRUCTURAL CONSIDERATIONS

The probability of default rating is B3-PD, in line with the CFR, reflecting Moody's assumption of a 50% recovery rate, as is customary for capital structures that include notes and bank debt. The backed senior secured FRNs are rated B3, in line with the CFR, because there is a limited amount of super senior RCF in the structure.

Both the backed senior secured notes and the RCF benefit from a senior-ranking security package incorporating guarantees from all material group entities and some asset security. Shareholder funding in the restricted group is in the form of equity. Additionally, there are EUR154 million of payment-in-kind (PIK) notes issued outside of the restricted group, which maturity will be extended to 2029, pro forma the refinancing, and which have not been taken into consideration in our calculation of leverage metrics.

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

Positive rating pressure could occur if the company's Moody's-adjusted leverage declines below 6x on a sustained basis, while maintaining a good operating performance, and LimaCorporate Moody's-adjusted FCF/debt increases above 5% on a sustained basis.

Downward rating pressure could occur if its Moody's-adjusted leverage increases above 7x for a prolonged period; the company's liquidity deteriorates, including negative Moody's-adjusted FCF on a sustained basis; or the company undertakes debt-financed acquisitions or shareholder distributions.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Medical Products and Devices published in October 2021 and available at <https://ratings.moodys.com/api/rmc-documents/75796>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in San Daniele del Friuli, Italy, LimaCorporate is a global orthopedic medical device company with subsidiaries in 24 countries and sales across 44 countries. The company manufactures and markets innovative joint replacement and repair solutions in the Hips, Extremities and Knees segments. In the last twelve months ending September 2022, the company reported revenue of EUR238 million and company-adjusted EBITDA of EUR64 million. The company has been ultimately majority-owned by EQT Partners since 2016.

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 on <https://ratings.moodys.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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

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