MOODY'S RATINGS

Rating Action: Moody's Ratings assigns first-time B1 ratings to La Doria; stable outlook

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Milan, April 29, 2024 -- Moody's Ratings (Moody's) has today assigned a first-time B1 long-term corporate family rating (CFR) and B1-PD probability of default rating (PDR) to La Doria S.p.A (La Doria or the company), a leading European producer and distributor of shelf-stable private label food, based in Italy. At the same time, Moody's has assigned B1 instrument rating to La Doria's proposed €500 million backed senior secured floating rate notes due 2029. The outlook is stable.

Proceeds from the proposed instruments will be used to refinance the company's existing debt, fund a shareholder payment of around €125 million and fund related transaction fees and expenses.

"The B1 rating is supported by La Doria's leading market position in selected food categories, relatively good operating margins and flexible cost structure. These strengths are offset by the company's high financial leverage of around 4.4x, a degree of geographical concentration, with sales mainly in the UK and a substantial client concentration," says Valentino Balletta, a Moody's Analyst and lead analyst for La Doria.

"The rating assumes that the company's Moody's adjusted leverage will remain around 4.0x – 4.5x which is high for the rating category, leaving limited room for potential weaker than expected operating performance. High leverage, is however compensated by a good liquidity profile and projected positive free cash flow generation," adds Mr. Balletta.

RATINGS RATIONALE

The B1 rating considers La Doria's leading market position in selected private-label product categories; its relatively good operating margins, particularly considering its private-label business; its flexible cost structure, pass through capabilities and hedging strategy; and its good liquidity profile and projected positive free cash flow (FCF).

At the same time, the B1 rating reflects the company's high Moody's-adjusted total debt to EBITDA estimated to remain around 4.0x – 4.5x on an ongoing basis. Moody's anticipates, on the back of underling earnings growth driven by volume increase, a focus on profitable categories and strategic actions.

La Doria's operating performance have improved substantially since the pandemic, supported by strong revenue growth, mainly driven by a material increase in volume due to higher in-home consumption and more recently by the increasing shift to private label products by cost conscious consumers, but also because of a better mix and continued operating efficiencies. Moody's expects the company's profitability to remain relatively good because of its defensible category leadership in some of its products, but also because of investment in production capacity and efficiency done in the past, which support margins and its cost leadership. This profitability, coupled with limited capital spending supports positive Moody's-adjusted FCF expectations of more than €30 million in 2024 and around €50 million per year thereafter, on the back of resilient underlying EBITDA and lower capital spending.

However, Moody's believes and factors in that tough competition in some of the company's key markets, with the associated price pressures, might slow down the improvement in profitability, though increasing demand for more affordable private label food products in a challenging macro environment should support pricing near term.

The rating also takes into account a degree of geographical concentration, with sales mainly in the UK, despite exposures to other countries, which along with its focus on private label in the retail channel, create a substantial client concentration, with top 3 customers representing around 49% of sales. However, the company has solid relationships with its largest customers and benefits from its leading position as a producer of shelf stable private labels. Nonetheless, such concentration remains a risk because making it susceptible to potential fluctuations or adverse changes in private labels demand that could hinder the company's growth trajectory.

ESG CONSIDERATIONS

ESG and specifically governance is a key driver of the rating action. This reflects the weight placed on La Doria's financial policy and concentrated ownership under private equity ownership by Investindustrial. Moody's expects the sponsor to maintain a high level of tolerance for leverage as demonstrated by recent adoption of a shareholders friendly financial policy with a dividend recapitalization transaction and right sizing of the capital structure. Exposure to environmental and social risks exist but have less influence on the rating.

LIQUIDITY

La Doria is expected to have a good liquidity profile, supported by an expected cash balance of €90 million post-closing of the transaction, and access to a €85 million super senior revolving credit facility (RCF) which is expected to remain undrawn. We also expect the company to generate consistently positive Moody's adjusted free cash flow around €30 million in 2024 and increasing overtime.

The company usually experiences net working capital fluctuations in the second half of the year due to elevated stock levels linked to the tomato harvest and purchasing campaign. However, the company has access to multiple receivables factoring programmes for a total committed amount of €143 million, renewable every year (used for around €70 million as of December 2023) to manage this seasonality. This allows the company to minimize its working capital needs during the year and release cash.

There are no significant debt maturities until 2029, when the €500 million senior secured notes are due.

STRUCTURAL CONSIDERATIONS

La Doria's probability of default rating of B1-PD incorporates the use of a 50% family recovery rate assumption.

The B1 rating of the backed senior secured floating-rate notes due in 2029 and issued by La Doria S.p.A., is in line with the CFR. The super senior revolving credit facility ranks at the top of Moody's Loss Given Default (LGD) waterfall, followed by the €500 million backed senior secured notes and trade payables. The size of the revolving credit facility is not significant enough to warrant a notching of the bonds below the CFR according to our loss given default waterfall.

The RCF and the senior secured notes share the same collateral package, consisting of shares in all material operating subsidiaries of the group, representing at least 98% of consolidated EBITDA.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectations that La Doria's credit metrics will remain resilient, with its Moody's-adjusted gross leverage to remain below 4.5x over the next 12 to 18 months, also supported by increasing free cash flow generation that could potentially be utilized for strategic bolt-on acquisitions. The stable outlook also assumes that the company will not embark in any material debt funded acquisitions or further shareholders distributions and will maintain at least an adequate liquidity profile.

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

Upward rating pressure is currently limited in light of the company's business concentration and high leverage. Potential upward pressure could materialize over time if La Doria continues to successfully execute its strategy and deliver on organic sales and EBITDA growth supporting deleveraging and business diversification. Quantitatively, that would translate into Moody's-adjusted gross leverage sustainably below 3.5x, a Moody's-adjusted free cash flow-to-debt in high single digit in percentage terms, and a Moody's-adjusted EBITA to interest expense above 2.75x, on a sustainable basis. It also requires maintaining a prudent financial policy and good liquidity.

Downward rating pressure could develop if La Doria's operating performance weakens with a material decline in EBITDA margins. Quantitatively, this would translate into a Moody's-adjusted gross leverage sustained above 4.5x, or its Moody's-adjusted FCF to-debt ratio moving into low single digit in percentage terms, or its Moody's-adjusted EBITA to interest expense declining below 2.25x, for a prolonged period of time. In addition, the ratings could be lowered if financial policy becomes more aggressive and if the company's liquidity profile deteriorates.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Consumer Packaged Goods published in June 2022 and available at https://ratings.moodys.com/rmc-documents/389866. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Angri, Italy, La Doria S.p.A. is the leading European producer and distributor of shelf-stable private label products. The company's key products include tomato-based products, ready-made sauces, canned pulses, juices and fruit drinks. To a lesser extent, product offering also include dried pasta, canned tuna and salmon, and other related products, which are manufactured by third-party producers and distributed through its logistic distribution platform in the UK. The company operates six production sites and markets its products in Italy and abroad, principally in the UK, Germany, Japan and Australia, with established long-lasting customer relationships with many of the leading European grocery retailers. The company generated revenues of €1.2 billion and company-reported EBITDA of €148 million in 2023, and is majority owned since 2022 by the private equity firm Investindutrial.

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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At least one ESG consideration was material to the credit rating action(s) announced and described above. 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_1355824 .

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

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