COMUNICATO STAMPA

PRO-GEST: STANDARD & POOR'S MIGLIORA IL RATING A BB E CONFERMA OUTLOOK STABILE

Istrana (TV), Italia, 29 novembre 2018

Pro-Gest comunica che l'agenzia di rating Standard & Poor's ha rilasciato la valutazione annuale del profilo di credito di Pro-Gest comunicando l'upgrade da BB- a BB del *long-term corporate credit rating*.

Standard & Poor's ha inoltre comunicato l'upgrade da BB- a BB del rating delle obbligazioni emesse nell'ambito del prestito obbligazionario *€250 million 3.25% senior unsecured*.

L'agenzia ha inoltre confermato l'outlook stabile.

Il comunicato integrale di Standard & Poor's è allegato.

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S&P Global
Ratings

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Research Update:

Italy-Based Packaging Company Pro-Gest Upgraded To 'BB' On Improving Performance; Outlook Stable

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Research Update:

Italy-Based Packaging Company Pro-Gest Upgraded To 'BB' On Improving Performance; Outlook Stable

Overview

- The Italian packaging group Pro-Gest outperformed our expectations in 2017 and 2018 to date in terms of revenue, EBITDA, and leverage. We expect credit metrics to continue improving over the next two years as containerboard production ramps up at its Mantova plant.
- We are raising our long-term issuer credit rating on Pro-Gest SpA to 'BB' from 'BB-'. We are also raising our issue rating on its fixed-rate senior unsecured notes to 'BB' from 'BB-'.
- The stable outlook reflects our view that Pro-Gest will maintain S&P Global Ratings-adjusted EBITDA margins at around 22% and adjusted leverage below 3x over the next 12 months. We expect funds from operations to debt to increase to over 30% by the end of 2019 from around 20%-25% in 2018.

Rating Action

On Nov. 29, 2018, S&P Global Ratings raised the long-term issuer credit rating on Italy-based Pro-Gest SpA to 'BB' from 'BB-'. The outlook is stable.

We also raising the issue rating on the €250 million 3.25% senior unsecured notes due 2024 to 'BB' from 'BB-'. The recovery rating remains unchanged at '4'. The recovery rating indicates our expectation of average (30%-50%; rounded estimate 40%) recovery of principal in the event of payment default.

Rationale

The upgrade follows Pro-Gest's strong operating performance in 2017 and 2018 so far, which have facilitated a reduction in financial leverage that we expect to be sustainable for at least the next 24 months.

The company's outperformance reflects favorable market conditions. Since China started restricting waster paper imports in the fourth quarter of 2017, containerboard producers have benefitted from low input prices (old corrugated cardboard [OCC] and waste paper). We don't expect this to change in the near term.

However, new capacity additions (including from Pro-Gest) and a potential slowdown in the European economy have led to a slight decline in containerboard prices in fourth-quarter 2018, which we expect to continue over the near term.

Pro-Gest has now largely finalized the conversion of a former newspaper plant to a state-of-the-art containerboard plant in Mantova. Production testing began in October 2018 and is scheduled to fully start in January 2019, slightly after our initial expectations of July 2018. We expect the plant to break even in 2018, based on an output of 30,000 tons. From 2019 onward, we expect output to increase to 192,000 tons.

The Mantova plant will produce light-weight containerboards (70-160 grams per square meter), which are increasingly popular and well suited for e-commerce. This will entail a reduction of revenues per square meter (containerboard prices are weight-based), but we expect this to be more than offset by higher volumes.

The group expects to receive approval in 2019 to increase the plant's production to 400,000-450,000 tons per year. Because approval is still pending, we have not factored this higher production into our projections.

Pro-Gest benefits from its leading niche position, technological know-how, cost leadership, strong EBITDA margins, good manufacturing footprint, and long-standing customer relations. Our assessment of its business risk profile also takes into account its small size and strong reliance on Italy. Pro-Gest has high operational leverage and some customer concentration, particularly in the containerboard segment. We also consider the standardized nature of Pro-Gest's products and its exposure to volatile input costs (including energy, OCC, and containerboard prices).

We assess Pro-Gest SpA's financial risk profile as significant, reflecting our expectation that S&P Global Ratings-adjusted leverage will drop to around 2.9x by December 2018 and that free cash flows will be positive from 2019 onward. The negative free cash flows in 2017 and 2018 primarily related to the build-out of the Mantova plant, which has now been completed.

Our base case assumes:

- Ongoing economic recovery in Italy with real annual GDP growth of 1.0% over 2018-2020. We expect this growth to be supported by consumer spending but constrained by the ongoing uncertainties in Italy's economic and political future.
- Broadly flat revenues in 2018 followed by revenue growth of about 14.3% in 2019 due to the ramp-up of production (to the approved capacity of 200,000 tons) at the Mantova plant. In 2019, we assume a slight decline in containerboard prices, broadly flat corrugated board prices, and a slight rise in packaging prices.
- Adjusted EBITDA margins of around 22% in 2018 and 22.6% in 2019. We expect EBITDA margins to grow once Mantova is up and running. Adjusted

EBITDA margins include maintenance costs (3-4% of sales), which the company expenses (instead of capitalizing them).

- Adjusted EBITDA of €108.3 million for the financial year ending Dec. 31, 2018 reflects our expectations of reported EBITDA of €104.5 million adjusted for operating leases (€3.8 million). By 2019, we expect adjusted EBITDA to increase to €125 million-€130 million due to the additional volumes at Mantova.
- Expansion capex of approximately €80 million in 2018 and €40 million in 2019. The expected reduction in capex in 2019 reflects the completion of the Mantova mill.
- No material acquisitions or dividend payments in 2019 or 2020.

Based on these assumptions, we arrive at the following credit measures:

- Forecast adjusted funds from operations (FFO) to debt of 20%-25% in 2018 and 30%-35% in 2019
- Adjusted debt to EBITDA of 2.9x in December 2018 and 2.2x in December 2019. Our net leverage ratios reflect the company's material cash on balance sheet.
- Negative free operating cash flow (FOCF) in 2018 and positive FOCF of around €34 million in 2019.

Liquidity

We assess Pro-Gest's liquidity position as adequate, and calculate that sources should exceed uses by more than 1.2x over the next 12 months. Our assessment is supported by significant cash on balance sheet and availabilities under credit facilities.

We estimate Pro-Gest's principal liquidity sources over the next 12 months will include:

- €155 million cash on balance sheet;
- €140 million available under committed credit lines; and
- Estimated FFO of around €90 million.

We estimate the company's principal liquidity uses over the next 12 months (to December 2018) will include:

- €40 million capex;
- Working capital outflows of €15 million; and
- €35 million-€40 million debt repayments under bilateral facilities.

The documentation of the unsecured notes does not include any maintenance covenants. Nevertheless, the bilateral loan and mini-bond agreement include maintenance covenants, notably capping net leverage at 4.25x at year-end 2018 and year-end 2019. We expect the company to have ample headroom under this covenant over the forecast period.

Outlook

The stable outlook reflects our expectation that Pro-Gest will continue to capitalize on its solid client relationships and leading niche position in Italy. In 2019, we expect revenues to grow by around 14% and EBITDA margins to improve as containerboard production ramps up in Mantova. Although FOCF will remain undermined by heavy investments at Mantova in 2018, we expect positive FOCF starting from 2019.

Upside scenario

We could raise the rating upon the successful ramp-up of production at the Mantova plant, the realization of the expected margin improvements, and generation of sustainably positive FOCF with FFO to debt comfortably above 37%. We would also expect a financial policy that supports such ratios, and to see track records of steady earnings growth and the ability to consistently meet its budget, including top-line growth and profit margins.

Downside scenario

We could lower the rating if FOCF remains negative in 2019, for example due to delays in the ramp-up of production at Mantova. We could also lower the rating if FFO to debt falls below 20% or EBITDA margins decline below 19%. This would most likely result from unexpected costs at Mantova, a strong decline in containerboard prices, or significant legal claims. A more aggressive financial policy--if the company made a large payment to shareholders or a large debt-funded acquisition that prevented material deleveraging--could also trigger a downgrade of the rating.

Issue Ratings--Recovery Analysis

Key analytical factors

- The 'BB' issue and '4' recovery ratings on the €250 million 3.25% fixed rate unsecured notes due 2024 reflect the notes' unsecured status and their subordination to a significant amount of prior-ranking liabilities. The recovery rating reflects our expectations of average (30%-50%; rounded estimate: 40%) recoveries in the event of payment default.
- Due to restrictions under Cartiere Villa Lagarina (CVL) bilateral facility agreements, the unsecured notes are not be guaranteed by that entity, which accounts for 34% of the company's EBITDA. In addition to this, dividend payments by CVL are prohibited before September 2019 and very restricted thereafter. The company's bilateral debt agreements include maintenance covenants, notably a leverage cap (4.25x) for December 2018 and December 2019.
- Our hypothetical default scenario assumes increased competition and oversupply in containerboards and corrugated cardboards, as well as an

unexpected and significant rise in energy and raw material prices, which we assume the company would not be able to pass through to customers.

- We value the company on a going concern basis, given its leading niche positions, patented products, and strong and longstanding customer relations.

Simulated default assumptions

- Year of default: 2022
- Jurisdiction: Italy (Group B)

Simplified waterfall

- Emergence EBITDA: €50 million (maintenance capex assumed at 4% of revenues, standard cyclical adjustment of 10% for the sector, operational adjustment of 10% due to low leverage versus peers)
- Distressed EBITDA multiple: 5.5x
- Gross recovery value: €235 million
- Net recovery value after admin. expenses (5%): €224 million
- Estimated priority claims (factoring and bilateral facilities): €99 million*
- Remaining recovery value: €124 million
- Senior unsecured debt claims: €285 million*
- Recovery range: 30%-50% (rounded estimate 40%)
- Recovery rating: 4

*All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Corporate Credit Rating: BB/Stable/--

Business risk: Fair

- Country risk: Moderately High
- Industry risk: Moderately High
- Competitive position: Fair

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Forest And Paper Products Industry, Feb. 12, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded

	To	From
Pro.Gest SpA		
Issuer Credit Rating	BB/Stable/--	BB-/Stable/--
Pro.Gest SpA		
Senior Unsecured	BB	BB-
Recovery Rating	4(40%)	4(40%)

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.