MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Pro-Gest's CFR to Caa1 from Caa2; positive outlook

26 Jan 2021

Milan, January 26, 2021 -- Moody's Investors Service (Moody's) has today upgraded Pro-Gest S.p.A.'s ("Pro-Gest" or the "company") corporate family rating (CFR) to Caa1 from Caa2, its probability of default rating (PDR) to Caa1-PD from Caa2-PD and the rating on the company's €250 million guaranteed senior unsecured notes due 2024 to Caa2 from Caa3. Pro-Gest is an Italian vertically integrated producer of recycled paper, containerboard, corrugated cardboard and packaging solutions. The outlook on all ratings has been revised to positive from negative.

"The ratings upgrade with a positive outlook reflects the improvement in the company's capital structure and liquidity profile following the issuance of new private debt provided by Carlyle's Global Credit Fund, our expectation for performance recovery stemming from the reopening of the Mantova plant and stabilization of selling prices, although the pace of such recovery remains uncertain," says Donatella Maso, a Moody's Vice President -- Senior Analyst and lead analyst for Pro-Gest.

A list of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

On 23 December 2020, Pro-Gest announced the issuance of €125 million privately placed senior secured notes due 2025 provided by Carlyle's Global Credit Fund and the commitment from Carlyle for additional up to €75 million notes to be issued by the end of 2021. Moody's views this refinancing transaction as credit positive because it has simplified the company's capital structure and improved its liquidity profile with the repayment of all debt instruments containing financial covenants. The additional committed €75 million funds will support the company strategic growth plan. However, the cost of the new notes, which is significantly higher than the debt repaid, will offset the benefits of removing the amortising debt from the structure. Furthermore, the new liquidity will be sufficient only if the company successfully executes its growth plan including the ramp-up of Mantova, following the authorization to resume the production in November 2020, while ongoing reliance on short term uncommitted credit lines will continue to weigh on the company's liquidity.

Pro-Gest also obtained the authorisation to repay the €47.5 million antitrust fine for engaging in alleged anti-competitive practices in 30 monthly instalments instead of 20, another credit positive. The payment could be resumed after the hearing on the appeal of the merit requesting the annulment or reduction of the fine, scheduled for March 2021, where the company could appeal in case of negative outcome.

Pro forma for the new capital structure, Pro-Gest's gross leverage, as adjusted by Moody's, is expected to be high at around at 7.6x at 2020 year-end. However, the company has the potential to show good progression towards deleveraging below the upgrade trigger of 6.5x in the next 12 to 18 months but also to improve the other credit metrics, as its operating performance will benefit from the ramp up of Mantova's paper mill, and the expected improvement of the underlying trading conditions, following first signs of price stabilisation in the market. The future contribution of Mantova to the group earnings remains however uncertain at this stage in the context of the prolonged partial lockdowns imposed by the Italian government to tackle the coronavirus pandemic and the recovery in the macro conditions for the country which could affect the near term developments in demand but also prices and ultimately affect the pace of recovery.

Moody's notes that in the first nine months of 2020, Pro-Gest's core revenues and EBITDA dropped by only 5% and 6% respectively year-over-year. The performance indicates some resilience to the pandemic as majority of the company's earnings are generated in the stable food and pharma end-markets. However, these trends add to 2019, which was the weakest year of trading since the assignment of the rating.

LIQUIDITY

Pro-Gest's liquidity remains weak although improving. Pro forma for the funds from Carlyle and as of October 2020, the company has access to €49 million of balance sheet cash and €75 million of committed funds which are expected to be drawn during 2021 to support's strategic growth project. Furthermore Pro-Gest has no material amortising debt until 2024, when the senior unsecured notes are due and no financial covenants. However, the company continues to rely on uncommitted short term lines to fund its near term liquidity needs including the working capital required for the ramp-up of Mantova, the anti-trust fine, and capital investments. The company currently utilises €105 million of uncommitted facilities out of €160 million total lines available. Moody's expects Pro-Gest will be able to reduce the utilization of these lines if its performance recovers, thus improving its liquidity.

STRUCTURAL CONSIDERATIONS

The Caa1-PD PDR is in line with the CFR. This is based on a 50% family recovery rate, as typical for transactions with both bond and bank debt. The Caa2 rating on the senior unsecured notes due 2024 is one notch below the CFR, reflecting the large amount of debt ranking senior or sitting at operating subsidiaries that are not guaranteeing the notes and considered senior to the notes.

The 2024 notes are unsecured and guaranteed by the issuer and certain subsidiaries, which accounted for 63% of total assets on an aggregated basis, 86% of consolidated revenue and other income, and 75% of EBITDA on an aggregated basis as of September 2020.

RATIONALE FOR THE POSITIVE OUTLOOK

The positive outlook on Pro-Gest's ratings reflects Moody's expectation that the company's operating performance will improve in the next 12 to 18 months on the back of the restart of Mantova and improving trading conditions, which will result in improved credit metrics and liquidity.

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

Upward pressure on the ratings could develop if Pro-Gest's operating performance steadily recovers driven by increasing volumes and selling prices and the successful ramp-up of Mantova which will result in its EBITDA margin to increase towards the high teens in percentage terms; its Moody's-adjusted debt/EBITDA to fall below 6.5x on a sustainable basis; its free cash flow generation to materially improve; and in a lower reliance on uncommitted lines.

Conversely, downward pressure on the ratings could develop if the company's operating performance deteriorates resulting in weakening credit metrics and liquidity.

LIST OF AFFECTED RATINGS:

..Issuer: Pro-Gest S.p.A.

Upgrades:

.... LT Corporate Family Rating, Upgraded to Caa1 from Caa2

.... Probability of Default Rating, Upgraded to Caa1-PD from Caa2-PD

.... Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Caa2 from Caa3

Outlook Action:

....Outlook, Changed To Positive From Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Paper and Forest Products Industry published in October 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1105007 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Treviso (Italy), Pro-Gest S.p.A. is an Italian vertically integrated producer of recycled paper, containerboard, corrugated cardboard and packaging solutions. The company operates three recycling plants, six paper mills, four corrugators, eight packaging plants, and two tissue converting plants or overall 23 production facilities, all located in Italy, and employs over 1,100 people.

For the last twelve months ended 30 September 2020, Pro-Gest reported core revenues of around €409 million and EBITDA of €75 million (as adjusted by Moody's, before the disposal proceeds). The company is owned by the Zago family, who founded Pro-Gest in 1973.

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.

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