



## Rating Action: Moody's downgrades Pro-Gest's CFR to Caa2; changes outlook to negative from stable

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Frankfurt am Main, October 02, 2023 – Moody's Investors Service (Moody's) has today downgraded the long term corporate family rating (CFR) of Pro-Gest S.p.A. (Pro-Gest) to Caa2 from Caa1 and the probability of default rating (PDR) to Caa2-PD from Caa1-PD. Concurrently, the instrument rating on the €250 million backed senior unsecured notes due 2024 was downgraded to Caa3 from Caa2. Pro-Gest is an Italian vertically integrated producer of recycled paper, containerboard, corrugated cardboard and packaging solutions. The outlook on all ratings has been changed to negative from stable.

### RATINGS RATIONALE

Today's rating action mainly reflects our heightened concern regarding liquidity, particularly in light of the upcoming maturity of the €250 million backed senior unsecured bond due in December 2024. The company continued to consume cash – in the last 12 months ended June 2023 Moody's adjusted free cash flow was negative €41 million, in 2022 negative €51 million. As of June 2023, the company's cash balance has dwindled to a mere €49 million, a significant drop from the €154 million on the balance sheet at the end of 2021. The decrease in available liquidity, which for Pro-Gest is solely cash, is also attributed to a reduction in short-term bank loans. However, with €94 million remaining at the end of Q2 2023, short-term debt still outweighs the cash balance.

Despite a notable improvement in Moody's adjusted gross leverage in 2022, driven by an over 30% boost in EBITDA, the ratio rapidly deteriorated in H1 2023 – reaching 7.8x in H1 2023, compared to 5.4x in 2022 and 7.1x in 2021. This deterioration is attributed to a weakening macroeconomic environment, unusually high customer destocking activity in recent quarters, and the company's reduced competitiveness during last year's energy crisis. We anticipate the destocking will gradually conclude in the second half of 2023 and that lower energy prices will enhance Pro-Gest's competitiveness, potentially reducing leverage to 6-7x by year-end 2023.

However, the primary constraint on the rating is not leverage at this stage, but rather a weak interest cover (EBIT/Interest). A recent squeeze on earnings, coupled with a significant increase in interest expenses (Moody's adjusted) - €57 million LTM Jun 2023 compared to a mere €21 million in 2020 – has resulted in a nearly zero interest coverage ratio in June 2023. Even with a potential earnings recovery, we do not foresee the ratio improving over 1x in the near future, indicating an unsustainable capital structure with potential for debt restructuring. During a recent earnings call, management mentioned potential assets disposals that would support the company's efforts to reduce the debt burden and facilitate refinancing. However, the impact of these measures on Pro-Gest's business and financial profiles as well as the liquidity position remains to be seen.

Pro-Gest's rating is mainly constrained by its weak liquidity, with reliable liquidity sources consisting of cash on balance sheet insufficient to cover the short-term debt. The liquidity risks are further amplified by the upcoming €250 million backed senior unsecured bond maturity in December 2024. The rating is further constrained by weak credit metrics, particularly in terms of interest coverage; the company's limited scale and geographic diversification and its exposure to volatile input costs and periods of oversupply.

The rating is supported by the company's leading position as one of the largest and vertically integrated producers of containerboard and corrugated board in Italy; diversified customer base; and its exposure to stable end markets, such as food and beverage and healthcare.

## LIQUIDITY

Moody's views Pro-Gest's liquidity profile as weak. As of June 2023, the company's cash balance stood at €49 million, while its short-term debt due within a year amounted to €94 million. Pro-Gest has a track record of weak free cash flow generation, which in the last 12 months ending June 2023 was at negative €41 million (Moody's adjusted), even though its capital expenditure was at the lowest level since 2014. Furthermore, the company is faced with a repayment of €250 million backed senior unsecured bonds in December 2024 and €220 million privately placed notes to Carlyle in the subsequent year. The Pro-Gest group has entered into certain receivables financings for an aggregate principal amount equal to €25 million, committed up to June 2025.

## STRUCTURAL CONSIDERATIONS

The Caa2-PD probability of default rating (PDR) is in line with Pro-Gest's CFR. This is based on a 50% family recover rate, typical for transactions with both bonds and bank debt. The Caa3 rating of 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.

## RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects Moody's concerns that Pro-Gest might be required to pursue a debt restructuring as refinancing of its €250 million December 2024 backed senior unsecured bonds proved to be complicated given the weak market environment, but also the company's weak credit metrics and liquidity position.

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

Positive rating pressure could arise if:

- Pro-Gest's operating performance improves and
- The company refinances its upcoming debt maturities.

Conversely, negative rating pressure could arise if:

- Increased likelihood of debt restructuring and default;
- Further deterioration of liquidity profile with inability to timely address upcoming debt maturities.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Paper and Forest Products published in December 2021 and available at <https://ratings.moodys.com/rmc-documents/360648>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## COMPANY PROFILE

Headquartered in Treviso, Italy, Pro-Gest S.p.A. is a vertically integrated producer of recycled paper, containerboard, corrugated cardboard and packaging solutions. The company operates four recycling plants, six paper mills plants, four corrugators plants, eight packaging plants and two tissue converting plants or overall 24 production facilities in Italy. It employs about 1,200 people. In the last 12 months that ended June 2023, Pro-Gest generated €566 million of revenue and around €82 million of EBITDA (Moody's-adjusted). 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

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