MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Manutencoop CFR to B3, stable outlook

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London, 01 February 2016 -- Moody's Investors Service, ("Moody's") has today downgraded Manutencoop Facility Management S.p.A.'s ('Manutencoop' or the 'company') corporate family rating (CFR) to B3 from B2 and probability of default rating (PDR) to B3-PD from B2-PD. Concurrently, the rating agency has downgraded to B3 from B2 the instrument rating on the senior secured notes issued by Manutencoop Facility Management S.p.A.. The outlook on the ratings is stable.

RATINGS RATIONALE

"The downgrade has been triggered by the announcement of the Italian Competition Authority (ICA) to levy a €48.5 million fine against Manutencoop Facility Management S.p.A. and the company's potential resulting tight liquidity profile.", says Pieter Rommens, Moody's lead analyst for Manutencoop.

Manutencoop's B3 CFR reflects the company's (1) limited access to committed liquidity facilities; (2) sole exposure to the Italian economy; (3) strong reliance on the Italian public sector and Italian public authorities' payment discipline; (4) potential negative reputational impact from the ICA verdict; (5) additional potential credit negative effects from the Brindisi and Milan Expo 2015 investigations; and (6) expected Moody's-adjusted gross leverage increasing towards 5.0x by the end of FY2016 driven by debt funded liquidity requirements.

However, the rating also reflects the company's (1) leading position in the fragmented Italian facilities management sector; (2) relative size compared to other local players, manifesting itself in a dense regional network and the benefits of economies of scale; (3) sizeable order book with approximately 70% of expected FY2016 revenues already contracted and only one of the top ten contracts up for renewal before 2017; (4) improved net working operational capital position as a result of the Italian government paying overdue receivables of EUR 140 million in 2013 and 2014.

On 20 of January 2016, the ICA has announced it has found 4 companies guilty of the infringement of competition rules in the tender arranged by Consip for the cleaning services of school buildings. Manutencoop announced it will appeal (of first degree at Regional Administrative Tribunal) (1) the merits of the decision, and (2) request the suspension of the obligation to pay the fine. The company expects the appeal process on the merits (1) to take 12-18 months (including all possible levels of appeal), while the fee suspension appeal (2) could take up to 6 months.

In addition, the company informed investors of a performance bond contract of €24.5 million between Manutencoop and Consip. The performance bond can be triggered by the ICA decision (at the discretion of Consip) and therefore could become payable. In practice, Manutencoop management reasonably expects Consip to await the final outcome of the appeal process before claiming eventually under the bond. Until further notice, Manutencoop continues to service the Consip scuole contract. The contract was won in late 2013, worth €174 million over a four year period between 2014-2017.

Although the timing and the requirement of the payment of fine and performance bond is unknown today and the company has recently shown improvements in working capital, we consider the current liquidity position as very tight.

This is the result of (1) the potential €48.5 million ICA fine and €24.5 million performance bond payments due if Manutencoop's appeals are overruled and (2) no additional liquidity headroom as the €10 million committed bank facility is fully drawn and the company's EUR 30 million RCF was voluntarily cancelled in July 2014. As of September 2015, the company reports a net cash position of EUR 32 million, based on EUR 55 million of cash on balance sheet balanced by approximately EUR23 million drawings under EUR 52 million uncommitted short term bank facilities (invoice advancing and overdraft facilities) and its fully drawn EUR10 million committed bank debt facility. In addition, the company has EUR 50 million uncommitted factoring facility (undrawn).

Rating Outlook

The stable outlook reflects Moody's view that Manutencoop will manage its liquidity position through drawings under its uncommitted short term debt facilities and factoring lines. In addition, we expect the company to counter the accelerating pressure on revenue and margin decline by implementing its cost reduction programme, while defending its leading position in the Italian market and generate modest (albeit still positive) free cash flow.

What Could Change the Rating - Up

Positive pressure on the ratings could materialise if Manutencoop sustainably improves its liquidity position through signing additional committed liquidity facilities and operational cash flow. This includes a positive final outcome of the ICA appeal. Quantitatively, positive pressure could materialise if the company (1) maintains its current operating performance in relation to EBITDA margins; (2) generates sustained positive free cash flow; and (3) maintains leverage profile such that its Moody's-adjusted debt/EBITDA ratio stays below 5.0x.

What Could Change the Rating - Down

Conversely, negative pressure could be exerted on the ratings if Manutencoop's liquidity profile and credit metrics deteriorate as a result of (1) weakening operational performance or loss of material contracts; (2) additional penalty payments or significant legal cost; or (3) an aggressive change in its financial policy. Quantitatively, we would also consider downgrading Manutencoop's ratings if its adjusted debt / EBITDA sustainably increases above 6x; or if the company reports negative free cash flow on a sustained basis.

Furthermore, any negative consequences resulting from the investigations ranging from management distraction to reputation risk or even financial damage would create negative pressure on the company's rating position.

The principal methodology used in these ratings was Business and Consumer Service Industry published in December 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

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