PRESS RELEASE

Spread Research reaffirms its SR3 short-term rating to the NEU CP instrument of Verallia with a Stable outlook

Lyon, July 17, 2019 – Credit rating agency Spread Research reaffirms its SR3 short-term rating to Verallia's NEU CP program (for up to €400m) with a Stable outlook.

Rating rationale

Spread Research has analysed the credit profile of Verallia in order to review its short-term rating. The outcome is a reiteration of an SR3 short-term rating, the fourth-highest grade in Spread Research's rating scale.

Credit profile

Verallia has a solid business profile, with strong market positions in Southern & Western Europe (68% of sales), Northern & Eastern Europe (22%) and Latin America (10%), as well as resilient sales volumes thanks to its exposure to the non-cyclical food and beverage industry. Our rating is supported by the industry's high barriers for new entrants, as well as by the group's strong know-how and highly diversified portfolio of clients, with strong and long-standing relationships. Furthermore, we value Verallia's strong focus on premium products such as wine and spirits, which entails higher margins than competitors while reducing substitution risks from other containers. There is real growth potential in our view thanks to increasing exports from European wine and spirits producers. However, we would note the potential for adverse currency fluctuations in Russia and Latin America, which may negatively affect results.

Verallia's business is highly capital-intensive, requiring significant investments to maintain the quality of assets, as well as a large amount of raw materials, the prices for which tend to be volatile. There are also potential operational risks that could affect profitability. Mitigating this, the group has a satisfactory track-record of preserving its profitability through hedging against raw material prices volatility and of generating positive free cashflow.

Our rating is constrained by Verallia's high leverage, resulting from the aggressive financial policy with the LBO in 2015 and two large dividend distributions since then. That said, the group has made some efforts to reduce its indebtedness over the last two years, which could help in view of a potential IPO of the company on Euronext Paris in 2H19, subject to market conditions.

Liquidity profile

Liquidity is strong. This assessment is driven by the large undrawn revolving credit facility, the long-term debt maturity profile, high cash on balance sheet and headroom under factoring lines, and our expectation that Verallia will generate strong free cashflow.

Credit outlook

Our Stable outlook reflects our expectation that credit metrics will slightly improve over the next twelve months, supported by EBITDA growth as well as good free cashflow generation.

Our methodology for short-term ratings is available at:

https://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf

Verallia

Verallia, third global producer of glass packaging for food and beverages, offers innovative, customized and environmentally friendly solutions to more than 10,000 customers around the world. In 2018, Verallia achieved sales of 2.4 billion euros and produced approximately 16 billion bottles and jars intended mainly for still and sparkling wines, spirits, food products, beers and nonalcoholic beverages.

Verallia's operational model is based on the combination of the strength of its international network (industrial presence in 11 countries, 5 technical and 13 product development centers) and the proximity maintained in its relations with customers through approximately 10,000 employees.

Spread Ratings

Spread Ratings is the trademark under which Spread Research operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Spread Research itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Spread Research capitalizes on over fourteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Spread Research is one of the few rating agencies approved by the Bank of France to provide financial ratings for NEU CP (short-term) and NEU MTN (medium-term) programs.

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Affirming our short-term NEU CP rating at SR3

SPREAD RATINGS

Company: Verallia
Sector: Packaging

SR Rating	Outlook
SR3	Stable

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Rating rationale

We reaffirm our SR3 short-term rating to Verallia's NEU CP instrument for up to €400m. Based in Paris, France, Verallia is the world's No. 3 manufacturer of glass packaging. The group produces a wide range of glass bottles, containers and jars for around 10,000 customers, ranging from local wine producers to global food and beverage brands.

Our SR3 rating reflects the group's solid business profile and excellent liquidity. In 2018, results were positive with revenues of €2,416m, down 2.3% yoy on a reported basis but up 5.7% like-for-like, and adjusted EBITDA of €544m, up 7.8% yoy on a reported basis and 14.4% like-for-like.

Verallia holds strong market positions in Southern & Western Europe (68% of sales), Northern & Eastern Europe (22%) and Latin America (10%), serving the non-cyclical food and beverage industry, which is characterized by stable demand. Consequently, the group's sales by volume have been resilient over recent years. We would argue that Verallia's market shares are quite well protected by high barriers for new entrants, as well as by a highly diversified portfolio of clients with strong and longstanding relationships. However, the adverse currency fluctuations in Russia and Latin America may negatively affect results.

Verallia has a special focus on wine and spirits (around 60% of sales), being the No. 1 glass packager in Europe. This premium positioning entails higher margins than competitors while reducing substitution risks from other containers like metal and plastic.

We expect Verallia to continue benefitting from its positioning, with increasing exports from European wine and spirits producers, as well as from its presence in Latin America, including Brazil, Argentina and Chile.

The glass packaging industry is highly capital-intensive. The company has to incur high maintenance CapEx (8% of sales or around €200m per year) to maintain the quality of its assets. Furthermore, it needs a significant amount of raw materials, including recycled glass and silica sand, as well as energy, the prices for which tend to be volatile. However, we would argue that the group is satisfactorily hedged against energy price fluctuations and has a good ability to pass on cost inflation to clients, with the use of swap instruments and pass-through mechanisms included in some contracts in LatAm.

Verallia is also subject to operational risks with any defects in the utilization and the maintenance of its furnaces capable of affecting its profitability. That said, Verallia has a satisfactory track record of (i) improving its adjusted EBITDA margin, to 22.5% in 2018 from 18.0% in 2012, with only one compression in 2014 following production issues, and (ii) generating positive free cashflow before dividends despite high maintenance CapEx.

Our rating is constrained by Verallia's high adjusted leverage (net adjusted debt/adjusted EBITDA) of 4.5x as of March 2019, resulting from the aggressive financial policy with the LBO in 2015 and two large dividend distributions in 2016 and 2017. That said, we would highlight that the ratio has improved over the past year from 5.1x as of March 2018, which could help in view of a potential initial public offering of the company on Euronext Paris in 2H19, subject to market conditions.

Debt structure

In March 2019, the company made a voluntary early repayment of €150m on its €1,275m Term Loan B maturing in October 2022.

Total reported debt reached €1.9bn as of March 2019, including (i) Term Loan B and C for a total amount of €1.7bn with maturities ranging from 2022 to 2025, (ii) NEU CP instrument for €80m, out of a program of €250m, and (iii) recourse factoring and other of €162m. In addition, the group benefits from €325m of undrawn committed revolving credit facility. Net of €107m of cash on balance sheet, net reported debt stood at €1.8bn, or a reported net leverage of 3.1x.

The company intends to increase its €250m NEU CP program to up to €400m in 2H19.

Adjusted for the €350m PIK toggle notes issued by the top holding Horizon Parent Holding outside of the restricted group, pension deficits and non-recourse factoring lines, our adjusted net leverage stood at 4.5x as of March 2019.

Excellent liquidity profile

The liquidity profile is excellent. This is driven by the large undrawn revolving credit facility, the long-term debt maturity profile, high cash on balance sheet and headroom under factoring lines, and our expectation that Verallia will continue to generate strong free cash flow.

Credit outlook: Stable

Our Stable outlook reflects our expectation that credit metrics will slightly improve over the next twelve months, supported by adjusted EBITDA growth as well as good free cashflow generation.

Rating sensitivity

Verallia is well positioned in the SR3 category. An upgrade to SR2 could be considered if several key rating factors improved markedly on a sustainable basis, i.e. greater scale and business diversification, increased operating margins, improved financial policy, and/or lower leverage.

A downgrade to SR4 could be triggered by a significant deterioration of the financial risk profile, such as sustained decline in operating margins following production issues and/or inability to pass on raw materials price rises to clients, as well as any sustained increase in leverage.

REGULATORY DISCLOSURES

SPRR/2019/000396/RAT/17/07/2019

Report review on NEU CP instrument rating

Rating initiation: SR3 on 17 July 2018.

Last rating action: SR3 on 17 July 2018.

Rating nature: Solicited short-term public rating (the rating report was published after having been reviewed by the issuer).

Name of the rating committee chair: Maxime Guionie, Senior Credit Analyst.

Material sources used to support the rating decision:

- Annual and quarterly reports
- Discussions with Verallia management

Limitation of the Rating action:

Spread Research believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

Spread Research has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research available at www.spreadresearch.com:

https://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf

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