PRESS RELEASE

Qivalio reaffirms its SR3 short-term rating for the NEU CP instrument of Verallia with a Stable outlook

Lyon, October 23, 2019 – Credit rating agency Qivalio reaffirms its SR3 short-term rating for Verallia's NEU CP program (for up to €400m) with a Stable outlook.

Rating rationale

Qivalio 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 Qivalio'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 for preserving its profitability through hedging against raw material prices volatility and of generating positive free cashflow.

Our rating takes into account the additional improvement in the company's financial profile following its successful IPO on Euronext Paris in October. The largest shareholder Apollo sold a portion of its shares, with the proceeds being used to repay the PIK toggle notes. Simultaneously, the company has refinanced its capital structure at lower interest costs. Net leverage reported by the company remained unchanged from the June 2019 level of 2.9x. Our adjusted net leverage (including pensions and non-recourse factoring), which incorporated the PIK toggle notes, improved to 3.7x vs. 4.3x in June 2019. The company has committed to improve its reported net leverage to 2.7x by end-2019, and maintain the figure between 2.0x and 3.0x over 2020-22.

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, the third-largest 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 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 Qivalio operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Qivalio itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Qivalio 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. Qivalio 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.

Press contact

Qivalio

Nicolas Merigeau / NewCap - nmerigeau@newcap.fr

Verallia - Affirming our short-term NEU CP rating at SR3

Company: Verallia
Sector: Packaging

SR Rating	Outlook
SR3	Stable

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Joan SEHIM
Lead analyst
joan.sehim@spreadresearch.com

Rating rationale

We reaffirm our SR3 short-term rating for Verallia's NEU CP instrument of 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 takes into account the additional improvement in the company's financial profile following its successful IPO on Euronext Paris in October, with the listing of 17.9-20.7% of shares (depending on the over-allotment option). The largest shareholder Apollo sold a portion of its shares, with part of proceeds being used to repay the €350m PIK toggle notes due 2025. The shares are now held by Apollo and BPI (61.1-63.9%), Brasil Warrant Administração de Bens e Empresas S.A. (8.6%), managers (4.9%) and BPI directly (1.3%). Simultaneously, Verallia has refinanced its existing €1,125m term loan B and €550m term loan C with a new €1.5bn term loan and a €500m RCF (fully undrawn), both due 2024. Net leverage reported by the company remained unchanged from the June 2019 level of 2.9x. Our adjusted net leverage (including pensions and non-recourse factoring), which incorporated the PIK toggle notes, improved to 3.7x vs. 4.3x in June 2019. The company has committed to improve its reported net leverage to 2.7x by end-2019, and maintain the figure between 2.0x and 3.0x over 2020-22.

Results for 1H19 were positive with revenues of €1,329m, +6.9% on a reported basis (+9.6% like-for-like), and adjusted EBITDA of €313m, +13.4% on a reported basis (+16.6% 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, 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 (excluding IFRS16), to 22.8% in the LTM as at June 2019 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 (8% of sales).

Debt structure

The company has refinanced its existing €1,125m term loan B (E+2.75%) due 2022 and €550m term loan C (E+2.75%) due 2025 with a new €1.5bn term loan (E+1.75%) and a €500m RCF (fully undrawn), both due 2024.

Pro forma for the refinancing, total reported debt reached €1.9bn as of June 2019, including (i) Term Loan of €1.5bn, (ii) NEU CP instrument for €250m, out of a program of €400m, and (iii) recourse factoring and other debt of €148m. In addition, the group benefits from €500m of undrawn committed revolving credit facility. Adding in €173m of cash on balance sheet, net reported debt stood at €1.7bn, or a reported net leverage of 2.9x.

Adjusted for pension deficits and non-recourse factoring lines, our adjusted net leverage stood at 3.7x as of June 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, 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/2019/000445/RAT/23/10/2019

Report review on NEU CP instrument rating

Rating initiation: SR3 on 17 July 2018.

Last rating action: SR3 on 17 July 2019.

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
- IPO registration document
- Discussions with Verallia management

Limitation of the Rating action:

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

Qivalio 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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