CRIF Ratings affirms Iacobucci HFA S.p.A. 'CCC' issuer rating, Outlook Positive

Bologna - Italy, 30 September 2016 - Local time 13.30

CRIF Ratings ('CRIF') has affirmed the 'CCC' issuer rating assigned to Iacobucci HFA S.p.A. S.p.A. ('IHFA'). At the same time CRIF has removed the rating from Credit Watch and assigned a 'Positive' Outlook.

The rating affirmation reflects the persisting weak liquidity profile: despite the improvement of the operating performances during the first 8 months of 2016 (unaudited figures) derived from the business reorganization has resulted in a positive free cash flow generation, IHFA's financial flexibility remains constrained by the thin buffer available on the existing credit lines. Furthermore a material refinancing risk remains at time of maturity of two outstanding bonds, expiring in December 2017 and April 2018 respectively for about EUR11m overall.

During the first eight months of 2016 the cash generation has improved and the Free Cash Flow ('FCF') turned positive, allowing the net debt reduction to about EUR18m at the end of August 2016 from EUR23 at YE15. The net debt still includes EUR6m of overdue trade, tax and social security liabilities, largely subject to amortization plans agreed with the respective creditors.

IHFA's capital structure remains considerably unbalanced due to the losses recorded in the previous years, that reduced the net worth to EUR1.6m at YE15 with a Debt to Equity ratio at 15x. CRIF forecasts a break-even net result for 2016 and a D/E ratio of about 10x. Potential assets impairment, in particular with reference to the shareholding in MGS and the intercompany loan granted to it by IHFA, could further erode the net worth.

The Positive Outlook reflects CRIF expectations about the consolidation of the results achieved until August 2016 over the entire year, leading to a revenues' growth of c.5% and an operating margin above 20%. The achievement of these results will support the positive free cash flow generation, contributing to a further net debt reduction. CRIF expects that at YE16 the company will be compliant with the financial covenant included in the bonds' documentation (Net Debt / Ebitda <5x).

CRIF plans to review the rating and the outlook after the publication of FY16 financial statements.

Key Rating Factors

Consolidation of operating results – The strategy implemented by the management has re-focused the business on high margin products, especially in the Gain business line, and, coupled with cost savings measures, is enabling the progressive recovery of EBITDA margin, expected by CRIF above 20% in FY16 from 9% in FY15. The easing of the financial stress emerged in 2015 has also supported the increase of volumes and productivity, in particular with reference to sale of spare parts ('aftermarket'), which represented about 50% of revenues in the first eight months of 2016. In light of the sales performance until August 2016 and considering that the existing backlog covers c. 90% of 2016 revenues, CRIF deems accurate the management forecasts and estimates revenues around EUR29m in FY16 (about +5% vs 2015).

Consistently with the features of the reference industry, IHFA does not exhibit a significant backlog beyond FY16. However the increasing share of aftermarket sales, characterized by higher profitability, shorter production cycle and lower exposure to the demand of new airplanes, contributes to improve the visibility on future revenues and profitability, making more sustainable the consolidation of economic and financial performances over the medium term.

Free cash Flow and net debt reduction – The positive trend of economic performances, in particular the significant increase of profitability, will restore according to CRIF a positive free cash flow in 2016 from a negative FCF for EUR5m in 2015. However CRIF highlights that part of cash generated will be used to pay financial charges and extraordinary costs. The latter, estimated at about EUR2m for FY16, are mainly related to the corporate restructuring (also through 'Cassa Integrazione Guadagni Straordinari') and to the fees linked to bonds

renegotiation. Nevertheless CRIF envisages that the cash generation will support a net debt reduction below EUR20m by YE16 from EUR23m at YE15.

EBITDA net leverage is expected to decrease below 4x in FY16 from over 9x in FY15, thus being compliant with covenant provided by bonds documentation (Net Debt/Ebitda <5x) with adequate headroom. The improvement of operating results will also strengthen the interest coverage above 3x, both on EBITDA and FFO, from less than 2x in FY15. IHFA's interests, in excess of EUR1m p.a. are mostly related to the bond coupons.

Unbalanced capital structure and refinancing risk – Due to the break-even net result expected by CRIF in FY16, the net worth will remain low, broadly in line with YE15 (EUR1.6m), with a D/E ratio around 10x at YE16 (from 15x at YE15). Potential assets impairment could lead to a further erosion of the net worth, in particular with reference to the shareholding in MGS and the intercompany loan granted to it by IHFA (EUR9.1m in total).

Besides the two bonds for EUR12.5m overall, net debt includes a significant amount of overdue trade, tax and social security payables (EUR6m at August 2016), albeit progressively declining according to the respective repayment plans. In FY16 CRIF expects that IHFA will incur into a moderate amount of overdue tax and social security liabilities, these will be dealt by signing new repayment plans with the relevant creditors.

The approaching bonds maturity, with the final repayment of the first bond in December 2017 for EUR3.5m and the bullet repayment of the second bond for EUR7.5m in April 2018, heightens the refinancing risk for IHFA, as CRIF estimates that the future cash flows will not be sufficient to cover all the debt maturities over the next 24 months. The presence of material tax and social security debts and the significant amount of total liabilities, in excess of EUR33m at YE15, impact negatively the bonds' recovery prospects, which CRIF considers very modest in the case of default.

Liquidity Profile

The liquidity profile of the company is still weak, albeit improving compared to 2015 and the beginning of 2016, when the financial stress forced the company to negotiate the covenant on the second bond and to postpone EUR1m of capital installments on the first bond from December 2016 to the first semester of 2017.

At the end of August 2016 IHFA reported EUR3.4m of cash on balance, up from EUR0.6m at YE15 and EUR1.8m in June 2016. The headroom on available bank lines (uncommitted) remains very tight (around EUR0.5m in August 2016), even if the past overdraft on the bank credit lines has been remedied.

CRIF envisages that the available cash allows IHFA to face the debt maturities in 4Q16, amounting in total to c. EUR2.5m and including the bond coupons of EUR272k in October 2016 and EUR198k in December 2016, the repayment of the first tranche of EUR0.5m on the first bond in December 2016 and the repayment of ca. EUR200k of bank debt. In addition, the company must deal with the repayment plans for overdue trade, tax and social security liabilities for a total amount of around EUR1m.

In 2017 and in the first half of 2018, IHFA will have to raise new financial resources to reimburse the outstanding bonds: the first bond, on top of the installments of EUR0.5m in March and June 2017, has a final repayment of EUR3.5m in December 2017, while the second bond has a bullet maturity of EUR7.5m in April 2018.

Rating Sensitivities

Future events that might collectively lead to a rating upgrade include:

- Net Financial Position/Net Worth < 5x
- Net Debt/EBITDA < 4x
- FFO Interest Coverage > 3x
- Strengthening of the liquidity profile to cover the financial commitments for the following 12 months and to mitigate the refinancing risk

Future events that might, individually or collectively, negatively affect the rating or Outlook include:

- Net Debt/EBITDA > 5x
- FFO Interest Coverage < 2x
- Deterioration of the liquidity profile
- Further erosion of the net worth, also due to impairments or other write-downs

Company Profile

IHFA, based in Ferentino (FR), operates in the Civil Aviation sector (mainly Commercial and Business Aviation) as a manufacturer and distributor of electrical and mechanical components for aircraft interior fittings. The product lines are divided into three Business Units: (i) GAINs (80% of FY15 turnover), which mainly comprises Espresso and Cappuccino Makers, Coffee and Tea Makers, Trash Compactors and Induction Ovens; (ii) SEATs (15%), comprising seats; and (iii) NELIs (5%), which mainly includes trolleys.
The products offering targets almost exclusively a market niche characterized by clients with high budgets. The production is carried out mainly in Italy, while from a commercial perspective the company has also an overseas branch in the US.

In FY15 IHFA reported a turnover of EUR27.2m, of which around 80% was generated outside Europe (USA, Asia, North Africa and the Middle East), with an EBITDA margin of around 9%.

IHFA, whose majority shareholders are Lucio Iacobucci through Filacapital S.r.l. (65.15%) and Idea Capital (34.85%), issued two bonds in 2013 and 2015 for EUR5m and EUR 7.5m, maturing respectively in 2017 and 2018.

Contacts

Lead analyst
Simone Mirani, Associate Director - Corporate Ratings
Tel.: +39-051 417 6808
Email: s.mirani@crif.com

Secondary analyst
Ilaria Ottoboni, Rating Specialist - Corporate Ratings
Tel.: +39-051 417 5859
Email: i.ottoboni@crif.com

Press Office
Edoardo Caprino
Tel.: +39 339 59 33 457
Email: e.caprino@bovindo.it

Giulia Fabbri
Tel.: +39 345 61 56 164
Email: g.fabbri@bovindo.it

Regulatory and legal disclosures

Information to be provided pursuant to Regulation (EC) No. 1060/2009 on Credit Rating Agencies and subsequent amendments

Credit Rating Type	The rating was **solicited** by the Rated Entity or by a related Third Party, and so CRIF Ratings received payment for the analysis performed.
Responsibilities	CRIF Ratings is a business unit of CRIF S.p.A. with registered office at Via M. Fantin 1/3, 40131 Bologna (Italy) Lead Rating Analyst: Simone Mirani, Associate Director - Corporate Ratings Responsible for rating approval: Francesca Fraulo, Rating Committee Chairperson
Rating history	Date of first issue 05/11/2013 Date of last update 30/09/2016 List of rating actions (https://www.crifratings.com/en/rating-list/)
Methodology, rating category and historic default rates	Methodological information used for the rating, including the meaning of the each rating category and default definition, are available in the CRIF Rating Methodology document: Corporate Issuers (www.crifratings.com). Information concerning historic default rates and their interpretation can be consulted on the CEREP website (**https://cerep.esma.europa.eu/**). CRIF Ratings states that the Outlook indicates the most probable direction of the rating over a time horizon of 12-24 months.
Disclosure of the rating to the Rated Entity prior to publication	Before publication, the Rated Entity has been provided with the opportunity to examine the rating and rating drivers, including the main assumptions on which the rating or rating outlook are based. The Rated Entity was given at least one full working day to report any factual errors or appeal against the rating decision, providing additional new information in support of the assessment. Following the disclosure, the rating or rating outlook was not amended.
Conflicts of Interest	The rating action issued by CRIF Ratings was performed independently. On the basis of its procedures, CRIF Ratings has not identified any conflicts of interest. The analysts, members of the rating committee involved in the process, and CRIF S.p.A. shareholders do not have any conflicts of interest in relation to the Rated Entity or Related Third Party. If in the future a potential conflict of interest is identified in relation to the persons reported above, CRIF Ratings will provide the appropriate information and if necessary will withdraw the rating.
Information sources used	Confidential information received from the rated entity, interviews with the rated entity and access to internal accounts. CRIF Ratings considers satisfactory the quality of the available information on the Rated Entity. However, CRIF Ratings is not responsible for the accuracy of this information and does not carry out any audit activities on the information examined.
Ancillary services provided by CRIF Ratings	The Rated Entity or related Third Party has not received ancillary services from CRIF Ratings as described on the Agency website.

Disclaimer