

**Rating Action: Moody's upgrades Selecta's CFR to B3 from Caa1; outlook stable**

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**Global Credit Research - 21 Mar 2018**

London, 21 March 2018 -- Moody's Investors Service, ("Moody's") has today upgraded the corporate family rating (CFR) of Switzerland-based vending machine operator Selecta Group B.V. (Selecta or the company) to B3 from Caa1. Today's action concludes the review initiated on 15 January 2018 and reflects:

- The refinancing of Selecta's capital structure in February 2018
- deleveraging following the refinancing of the company's Intercompany PIK Proceeds Loan, which was classified as debt, with new instruments meeting Moody's criteria for equity treatment
- Improved liquidity and extended maturity of the company's financing
- The closing of the acquisition of Gruppo Argenta S.p.A. (Argenta)
- a review of final documentation in relation to the refinancing

Concurrently Moody's has upgraded Selecta's probability of default rating to B3-PD from Caa1-PD. It has also assigned definitive ratings of B3 to the company's €765 million senior secured notes, €325 million senior secured floating rate notes and CHF250 million senior secured notes, all due 2024, and a definitive rating of B1 to the company's €150 million super senior secured revolving credit facility (SSRCF) due 2023. Moody's definitive ratings for the new senior secured notes, senior secured floating rate notes and SSRCF are in line with the provisional ratings assigned on 15 January 2018. The final terms of the instruments were substantially in line with the drafts reviewed for the provisional instrument rating assignments.

**RATINGS RATIONALE**

The ratings reflect the company's: (1) leading market position as a pan-European vending operator; (2) high renewal rates and contracted installed base; (3) recent revenue and EBITDA growth and new contract wins in Selecta's standalone business; and (4) potential upside in EBITDA and capital expenditure from synergy savings and operational improvements.

The ratings also take into account the: (1) execution risks in the integration of Pelican Rouge; (2) turnaround actions ongoing within certain Selecta and Pelican Rouge regions; (3) the fragmented and competitive market; (4) continuing decline in same site sales; and (5) high leverage, significant levels of machine capital expenditure and exceptional costs, and limited cash flow generation.

As part of the refinancing and acquisition transactions in completed in February 2018, the company repaid its existing Intercompany PIK Proceeds Loan of approximately €300 million, using proceeds from a new Intercompany PIK Proceeds Loan issued by Selecta Midco S.a r.l., Selecta's parent company. The existing Intercompany PIK Proceeds Loan was classified within the company's debt for rating purposes, whereas the new Intercompany PIK Proceeds Loan qualifies for equity treatment under Moody's hybrid debt methodology. This significantly reduces Moody's-adjusted leverage by approximately 1x EBITDA.

**Structural Considerations**

Selecta's debt structure comprises a €150 million SSRCF and approximately €1.3 billion (euro equivalent) senior secured notes (SSN), all issued by Selecta Group B.V. The SSRCF is rated at B1, two notches higher than the SSN, at B3, reflecting its priority ranking. Both the SSRCF and SSN are guaranteed by group companies representing at least 80% of consolidated EBITDA and are secured principally by share pledges over the guarantors, in each case subject to legal limitations. The probability of default rating (PDR) is in line with the CFR, based on a 50% recovery rate, as is typical for transactions with senior secured debt.

**Rating Outlook**

The stable outlook reflects Moody's expectation that free cash flows will become positive and that liquidity will remain adequate. It assumes that the market will remain relatively stable with limited declines in same site

sales. It also reflects the balance of high synergy potential with execution risks in integrating and turning around the two businesses.

#### WHAT COULD CHANGE THE RATING -- UP

Upward pressure on the current ratings could occur if Selecta successfully integrates Pelican Rouge and Argenta and demonstrates a sustained period of revenue and EBITDA growth with stable or growing same site sales. Quantitatively the rating could be upgraded if Moody's-adjusted debt/EBITDA falls sustainably below 4.5x, with free cash flow / debt increasing towards 5% and adequate liquidity.

#### WHAT COULD CHANGE THE RATING - DOWN

The ratings could be downgraded if Moody's-adjusted debt/EBITDA increases sustainably above 5.5x, if free cash flow / debt remains negative for a sustained period or if liquidity concerns arise.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Service Industry published in October 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### Corporate Profile

Selecta is the leading operator of vending machines in Europe by revenue, with operations in 16 countries (pro forma for the acquisitions of Pelican Rouge and Argenta). It operates a network of snack and beverage vending machines on behalf of a broad and diverse client base. For the last 12 months ended September 2017 and pro forma for the acquisitions, the company reported sales of €1.5 billion and Moody's adjusted EBITDA of €335 million.

Selecta is ultimately owned by KKR, who acquired the company from Allianz Capital Partners in December 2015.

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