



## **COMUNICATO STAMPA**

Torino, 30 gennaio 2013

Comunicazione ai sensi del Regolamento dei mercati organizzati e gestiti da Borsa Italiana art. 2.6.2 nr. 15.

In data odierna la società di rating Standard & Poor's ha assunto la decisione di modificare il corporate rating di Seat da B- a CC, e il rating del senior secured notes da B a CC.

*(Per completezza d'informazione si allega il comunicato di Standard & Poor's)*

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## Research Update:

# Classified Directories Publisher SEAT Downgraded To 'CC' On Interest Payment Suspension; Outlook Negative

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## Research Update:

# Classified Directories Publisher SEAT Downgraded To 'CC' On Interest Payment Suspension; Outlook Negative

## Overview

- The board of directors at Italy-based classified directories publisher SEAT PagineGialle SpA (SEAT) has announced unexpectedly that it will suspend upcoming payments of interest to its bondholders.
- Under our criteria, we consider the extension of a due payment of interest or principal as tantamount to a default if the payment falls later than five business days after the scheduled due date.
- We are therefore lowering our long-term corporate credit rating on SEAT to 'CC' from 'B-'. We are also lowering our issue rating on SEAT's senior secured debt to 'CC' from 'B'.
- The negative outlook reflects our view of the likelihood of a downgrade to 'SD' (selective default) if SEAT does not make the upcoming payments on its 2017 bonds on the due date of Jan. 31, 2013, and if we believe that it will not make the payments within the following five business days.

## Rating Action

On Jan. 30, 2013, Standard & Poor's Ratings Services lowered to 'CC' from 'B-' its long-term corporate credit rating on Italy-based classified directories SEAT PagineGialle SpA (SEAT). The outlook is negative. At the same time, we lowered to 'CC' from 'B' our issue rating on SEAT's €750 million senior secured notes; €65 million new senior secured notes; and €686 million new senior secured facilities (including a new €90 million revolving credit facility [RCF]). In addition, we revised our recovery ratings on these instruments downward to '3' from '2', reflecting our lower recovery expectations. We now expect meaningful (50%-70%) recovery for creditors in the event of default, versus substantial recovery (70%-90%) previously.

## Rationale

The downgrade follows SEAT's announcement, on Jan. 28, 2013, that it has suspended its interest payments to its bondholders. We understand that the group has a semiannual interest payment of €42.3 million due on Jan. 31, 2013, on its senior secured bonds. We also understand that the next interest payments on SEAT's senior secured bank facilities are not due until Feb. 6, 2013.

Under our criteria, we consider the extension of a due payment of interest or principal as tantamount to a default if the payment falls later than five business days after the scheduled due date. (See "Timeliness of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings," published Dec. 23, 2010, on RatingsDirect on the Global Credit Portal). This is irrespective of any grace period stipulated in the debt documentation.

In our view, the timing of SEAT's decision to suspend its upcoming interest payments is unexpected, particularly because its operating trend for full-year 2012 does not appear to us to be materially different from our base-case assumption. We see SEAT's decision as an indication of a possible acceleration of further restructuring discussions only few months after the implementation of its first financial restructuring. The board's decision to accelerate a reassessment of the sustainability of the capital structure, could, in our opinion, imply a more severe deterioration in revenues and earnings than we anticipated. In November 2012, we forecast EBITDA of about €280 million-€290 million in 2013.

In our view, the recent events highlight a lack of clear management communication. Therefore, we consider that SEAT's financial policy decisions are increasing risks for all stakeholders and market participants. We believe that SEAT has sufficient liquidity to meet its upcoming interest payments from some cash flow generation capacity and reported balance-sheet cash of approximately €200 million on Dec. 31, 2012. (More than €90 million of this cash is at SEAT's subsidiary Telegate AG and not immediately available for debt service). However, we take a strict view of any payment deferral. We consider an extension of a due payment of interest or principal as equivalent to a debt restructuring below par by a distressed issuer, and therefore as tantamount to a default.

SEAT's decision not to pay its upcoming interest follows further deterioration in the operating environment in the fourth quarter of 2012. We envisage this deterioration will continue in the coming quarters. SEAT's announcement is also in the context of the board's decision to reassess the forward-looking sustainability of the group's capital structure on the basis of a reassessment of the business and an updated two-to-three year operating plan.

#### Liquidity

We assess SEAT's liquidity as "weak" under our criteria. This primarily reflects the board's decision to delay interest and debt amortization payments on the group's outstanding debt instruments.

That said, we note that SEAT has material cash on the balance sheet of about €200 million. In our view, SEAT's liquidity profile would allow it to meet its short-term financial needs. In addition, despite the negative operating trend, we believe that the group currently has sufficient headroom under its covenants. This is thanks to Telegate's successful litigation with Deutsche

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Telekom, and a carve-out option that allows SEAT to remove some research and development costs (up to €30 million in 2013) from EBITDA for covenant calculation purposes. That said, the board's decision to suspend interest payments on the bonds might imply materially weaker forecasts for 2013 operating trends and liquidity than we initially envisaged.

#### Recovery analysis

We rate at 'CC' SEAT's €750 million senior secured notes; €65 million new senior secured notes; and €686 million new senior secured facilities (€661 million after a voluntary €25 prepayment on Nov. 6, 2012). The latter facilities include a new €90 million RCF. The recovery rating on these debt instruments is '3', indicating our expectation of meaningful (50%-70%) recovery in the event of a payment default.

Our downward revision of the recovery rating reflects our acceleration of the hypothetical year of default to 2013 from 2015, and is mostly driven by our assumption that a higher level of senior debt than we previously projected will be outstanding at the point of default.

The main factors underpinning our recovery ratings are the secured nature of the debt instruments; the level of numerical coverage in a going-concern valuation; and our assessment of the most likely legal framework under which a restructuring would be implemented.

#### Outlook

The negative outlook reflects the possibility of a downgrade to 'SD' if SEAT misses its interest payment due on Jan. 31, 2013, on the senior secured bonds, and if we believe that it will not make this payment within five business days following the scheduled due date.

The negative outlook also takes into account our opinion that SEAT's capital structure may become unsustainable over the medium to long term, especially in light of ongoing deterioration in the trading environment, with limited likelihood of any turn-around in the short term. On the basis of SEAT's suspension of interest payments and its upcoming debt maturity wall in 2016-2017, we do not exclude the possibility of management implementing credit-dilutive restructuring measures that we would view as tantamount to a default under our criteria.

We are unlikely to revise the outlook to stable in the short term, because of the continuous pressure on SEAT's revenues and profits, and above all, the group's unwillingness to make upcoming interest payments.

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## **Ratings List**

Downgraded

To From

SEAT PagineGialle SpA

Corporate Credit Rating CC/Negative/-- B-/Negative/--

Senior Secured CC B

Recovery Rating 3 2

SEAT PagineGialle Italia SpA

Senior Secured\* CC B

Recovery Rating 3 2

\*Guaranteed by SEAT PagineGialle SpA.

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