PRESS RELEASE

GRUPPO EDITORIALE L'ESPRESSO S.p.A.
S&P Revises Long-term Rating from BB to BB-

Rome, 16 April 2013 – In its periodic review, Standard & Poor's (S&P), the credit-ratings agency, has announced that it has reduced the long-term rating of Gruppo Editoriale L'Espresso S.p.A. from "BB" with a negative outlook to "BB-" with a negative outlook.

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Research Update:

Italy-Based Gruppo Espresso Downgraded To 'BB-' On Persistently Decreasing Profitability; Outlook Negative

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Research Update:

Italy-Based Gruppo Espresso Downgraded To 'BB-' On Persistently Decreasing Profitability; Outlook Negative

Overview

- The structural weakness we see in Italy's economy has triggered declines in advertising spending in the media sector.
- We consider that the business risk profile and earnings generation capacity of Italy-based newspaper and magazine publisher Gruppo Espresso has persistently weakened.
- We are lowering our long-term rating on Gruppo Espresso and our issue rating on its senior unsecured debt to 'BB-' from 'BB'.
- The negative outlook reflects our view that a scenario of ongoing economic weakness in Italy could prompt durable and significant deterioration in Gruppo Espresso's earnings and credit metrics.

Rating Action

On April 16, 2013, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Italy-based newspaper and magazine publisher Gruppo Editoriale L'Espresso SpA (Gruppo Espresso) to 'BB-' from 'BB'. The outlook is negative.

We also lowered our issue rating on Gruppo Espresso's senior unsecured debt to 'BB-' from 'BB'. The '3' recovery rating on this senior unsecured debt is unchanged, indicating our expectation of meaningful (50%-70%) recovery for debtholders in the event of a payment default.

Rationale

The downgrade reflects our view that the glum economic backdrop in Italy has led to a decline in advertising spending that has durably weakened Gruppo Espresso's profitability. Consequently, we anticipate that Gruppo Espresso's credit metrics will weaken by year-end 2013, with a ratio of Standard & Poor's adjusted debt to EBITDA at about 4.5x from 3.7x in 2012. This ratio would come close to the 2009 range, when Gruppo Espresso's adjusted debt to EBITDA had spiked to 4.5x-5.0x owing to the steep downturn.

Given the general downward spiral in advertising spending in Italy, and in the print segment in particular, we think it unlikely that Gruppo Espresso's EBITDA margin will quickly return to historic levels of 15%. We have therefore revised our assessment of the company's business risk profile to "weak" from "fair" as we see the EBITDA margin narrowing further this year to about 10%. Still, Gruppo Espresso's leading positions in the Italian newspaper markets, as reflected in its market share of 18%, and its ability to cross sell its content through a variety of distribution channels continue to support its competitive position.

Under our base-case scenario, we anticipate that the Italian print advertising market will likely decline by low double digits in 2013, on the back of our forecast -1.4% GDP contraction in Italy, versus -0.7% GDP previously (see " Entrenched In Recession, Europe Seeks A Balance Between Deleveraging And Growth ," published March 26, 2013, on RatingsDirect). Despite our anticipation of increasing leverage for the company in 2013, we believe that Gruppo Espresso will generate marginally positive free operating cash flow in 2013 in our base case. In addition, we believe that even with lower profitability, the company would have the ability to restore financial metrics to levels below 4.0x, once the economy improves. We consequently continue to assess Gruppo Espresso's financial risk profile as "significant."

Liquidity

We assess Gruppo Espresso's liquidity as "adequate," according to our criteria. We expect that Gruppo Espresso's sources of liquidity, including cash and marketable securities, will exceed uses 1.2x or more in the next 12 months, even if EBITDA declines by 20%-30%.

Liquidity sources include:

- Gruppo Espresso's existing cash balances, which stood at about €150 million on Dec. 31, 2012; and
- Our anticipation that the group will generate approximately €45 million of funds from operations (FFO) in 2013.

However, we note that cash is the group's sole source of liquidity, given the absence of any committed bank facilities, which could point to limited external financial flexibility.

Liquidity uses for the next 12 months mainly comprise:

- Our assumptions of marginal working capital needs;
- €20 million of capital expenditure (capex) on average;
- No dividend payments in 2013, in line with management's guidance; and
- Debt maturities of €11 million, namely principal amortization payments relating to the group's remaining €28 million of mortgages due in 2015, and the absence of financial covenants according to Gruppo Espresso's management.

The company's next large debt maturity is in October 2014, when the remaining €228 million of the senior unsecured bond becomes due. Liquidity could fall short of our guidelines for the current "adequate" qualifier if Gruppo Espresso failed to address the refinancing of this bond at least one year ahead of the maturity and to maintain an adequate liquidity buffer.

Recovery analysis

The issue rating on Gruppo Espresso's senior unsecured notes due 2014 is 'BB-', in line with the corporate credit rating. The recovery rating on these notes is '3', indicating our expectation of meaningful (50%-70%) recovery for noteholders in the event of a payment default.

Our issue and recovery ratings are supported by our valuation of Gruppo Espresso as a going concern, given its leading market position in the Italian publishing market, highly recognized brands, and well-diversified customer base. On the other hand, the recovery prospects are limited by the unsecured nature of the debt. In addition, we consider that the center of main interests (COMI) would be Italy in an event of default. Italy is a jurisdiction that we view as not very favorable to creditors (see "Debt Recovery For Creditors And The Law Of Insolvency In Italy," published May 17, 2007).

In our hypothetical default scenario we envisage a default in 2016, assuming Gruppo Espresso would be able to refinance its €228 million unsecured notes due in 2014 with a debt instrument of similar size. Under this scenario we assume deterioration in the group's credit metrics as a result of worsening macroeconomic conditions in Italy. Our assumptions also include some potential cash outflows after 2014 in the event of a negative outcome of the pending tax ruling. Under this scenario, we assume that these factors would trigger a payment default in 2016, at which point we forecast EBITDA to have dropped by about 50% compared with the current level.

We have calculated a stressed enterprise value of about €245 million at our simulated point of default, which translates into an enterprise value to EBITDA multiple of 5.0x.

After deducting priority liabilities, mainly comprising enforcement costs and a portion of the pension deficit, we estimate that recovery prospects for the unsecured noteholders would be in the 50%-70% range, which yields a recovery rating of '3'.

We note that recovery prospects for the noteholders could be impaired if Gruppo Espresso were to raise a committed credit facility, given that this liquidity line would likely rank either pari passu with, or above, the unsecured notes in an event of default. Lastly, we consider that if the group was to default earlier, notably because of refinancing issues in 2014, the recovery prospects for the noteholders would still be in the 50%-70% range.

Outlook

The negative outlook reflects our view that deterioration in the domestic advertising market in excess of our current expectations in the second half of 2013 could further erode Gruppo Espresso's earnings capacity, and cause its adjusted debt to EBITDA ratio to increase beyond the level of 4.5x. We also factor in the risk that the group may not address its upcoming 2014 debt maturities in a timely manner, which could result in Gruppo Espresso's liquidity falling short of our guidelines for the current assessment of "adequate" after October 2013.

We could consider lowering the ratings on Gruppo Espresso if we saw the decline in the Italian advertising market exceeding low-double-digit levels in the second half of 2013, resulting in the group's operating performance falling below our projection in our base-case scenario and leverage exceeding our current expectations. We could also consider a downgrade if Gruppo Espresso failed to maintain its liquidity at "adequate." This could occur if the group did not proactively address the refinancing of upcoming debt maturities, or if its liquidity sources eroded as a result of operational setbacks or other extraordinary cash outflows.

We could revise the outlook to stable if the group at least maintained its adjusted debt-to-EBITDA ratio in the corridor of 4.0x-4.5x, supported by a stabilizing or recovering advertising spending trend in Italy. This would in turn help steady Gruppo Espresso's operating performance. Preserving liquidity at "adequate" is also a key factor for a stable outlook.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Methodology And Assumptions On Risks In The Newspaper And Magazine Industries, Aug. 18, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

Ratings Lowered; Recovery Rating Unchanged

	To	From
Gruppo Editoriale L'Espresso SpA		
Corporate Credit Rating	BB-/Negative/--	BB/Negative/--
Senior Unsecured	BB-	BB
Recovery Rating	3	3

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