

Rating Action: Moody's changes ratings outlook on TeamSystem's (B2 CFR) to negative

Global Credit Research - 15 Apr 2014

London, 15 April 2014 -- Moody's today affirmed TeamSystem Holding S.p.A.'s B2 CFR, B2-PD PDR, and also the B2 rating on the company's senior secured notes due 2020. The ratings outlook was changed to negative from stable.

RATINGS RATIONALE

The rating action follows the company's announcement of a EUR130 million tap on its EUR300 million senior secured notes due 2020. The new notes will be used primarily to fund the acquisition of Il Sole24Ore's Software business, and replenish the revolving credit facility that it drew to fund the acquisition of ACG in December 2013.

The change in outlook reflects the fact the wholly debt-funded nature of the company's acquisitions will result in an increase in the company's leverage, with deleveraging not happening in the timescale Moody's originally anticipated. Moody's now anticipates leverage of around 6.3x by the end of 2014. The company has also demonstrated a greater appetite for significant M&A than Moody's originally expected.

TeamSystem's revenues grew by 3% in 2013 to EUR156 million, mainly via its Software and Services business unit, despite a 9% decline in its Education business unit as SMEs cut corporate spending. However, free cash flow generation remains close to zero, and will remain constrained through 2014 due to the substantial capital expenditure as part of the Product Renewal project. The company's credit profile is supported by its satisfactory liquidity position, with EUR25million cash plus the EUR45 million revolving credit facility replenished through the tap.

Given the company's weak position within the B2 rating category, an upgrade is unlikely in the short term. However, positive pressure on the ratings could develop if TeamSystem managed to show a track record of improving operating performance leading to a financial leverage below 4.5x and an RCF to net debt above 10%. Conversely, negative pressure on the ratings could occur if Moody's no longer believes leverage will fall below 6.0x by the end of 2015, if its liquidity profile deteriorates, or if FCF stays negative for a prolonged period.

The principal methodology used in this rating was the Global Software Industry published in October 2012. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

Founded in 1979, TeamSystem is the leading provider of information management software in Italy to SMEs and professionals. In 2013, the group generated EUR155.7 million of revenues, EUR53.2 million of EBITDA and employed 1,174 people. Based on the number of end user, the company accounted for 17% of the Italian SME software market and 31% of the Italian professional advisor software market at the end of 2013 with approximately 126,000 end customers.

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