MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Ontex to B2; stable outlook

17 May 2024

Milan, May 17, 2024 -- Moody's Ratings (Moody's) has today upgraded Ontex Group NV's (Ontex or the company) long-term corporate family rating (CFR) to B2 from B3 and its probability of default rating (PDR) to B2-PD from B3-PD. Concurrently, Moody's has upgraded to B2 from B3 the rating on the €580 million senior unsecured notes due July 2026 issued by Ontex. The outlook on all ratings remains stable.

The ratings upgrade reflects Moody's expectation that Ontex will maintain positive momentum in operating performance over the next 12-18 months, leading to improved credit metrics more commensurate with a B2 rating. "The strong operating results in 2023 and the so far successful implementation of its business transformation plan have increased Ontex's financial flexibility to withstand the intrinsic volatility of the markets where it operates and to compensate for the smaller business perimeter, now focused on the retail-branded disposable personal hygiene products in Europe and North America", says Giuliana Cirrincione, Moody's lead analyst for Ontex.

The rating agency now expects that the Moody's adjusted leverage for Ontex, including the EBITDA contribution from non-core operations yet to be divested, will range between 5x-5.5x by the end of 2024, which is well below the 6.5x Moody's had previously anticipated. Moody's-adjusted free cash flow will turn sustainably positive from 2025, supported by business expansion in North America, continued focus on cost-efficiencies and lower restructuring charges.

RATINGS RATIONALE

Ontex's financial performance has improved significantly since Q3 2022, as the company has been able to restore its profitability close to pre-pandemic levels and reduce financial leverage – measured as Moody's adjusted gross debt to EBITDA – to below 6x as of December 2023, which marks the lowest point ever achieved since 2019.

While price increases in 2022 and 2023 were key to grow EBITDA and improve margins in response to the high input cost inflation, the company has also started to successfully execute on its business transformation plan. This has resulted in large cost-savings and close to neutral (on a Moody's adjusted basis) free cash flow in the year, despite the restructuring costs incurred to improve operational efficiency. Operating performance has also improved within the group's held-for-sale subsidiaries in the emerging markets, while at the same time Ontex has managed to divest a large portion of its non-core assets and used the proceeds to repay financial debt, further supporting leverage reduction. As of April 2024, held-for-sale operations in Pakistan, Brazil and Turkey have not been divested yet and, according to the company's plans, further progress will be made in 2024.

The rating agency now expects that the Moody's adjusted leverage for Ontex – including both core and non-core operations yet to be divested – will range between 5x-5.5x by the end of 2024, which is well below the 6.5x Moody's had previously anticipated. Leverage trajectory in 2024 will, to a degree, hinge on the timing of planned business divestitures. It also reflects primarily Moody's assumption that sales decline in Europe due to lower selling prices will be modest and will be fully offset by sustained volume growth in North America, where the private label segment for disposable personal hygiene products is still underpenetrated.

Cost-savings will continue to support profit margin improvement, more than offsetting the restructuring costs which will be substantial in 2024 and will then reduce steadily from 2025. Moody's also assumes a lower EBITDA contribution from non-core operations as they progressively exit the group's perimeter over the next 12-18 months.

According to Moody's forecasts, adjusted free cash flow will turn positive in 2025 in the range of €15 million to €30 million, to reflect continued volume gains in North America and profit margin expansion driven by lower restructuring charges. This is despite the company is increasing its capital spending to around 6% of its core market sales (compared to minimum capex needs of around 3% of core market sales) to support further business growth in North America. Ontex's operations in the region are already up and running and current trading conditions provide some comfort that volume ramp-up will continue. However, Moody's cautions that Ontex's expansion plan in North America carries some execution risk due to its relatively small regional footprint and the competitive industry landscape, which is also highly susceptible to changes in raw materials prices.

Furthermore, upon refinancing of its €580 million 3.5% senior unsecured fixed-rate bond due in July 2026, the company will likely experience an uptick in the interest cash bill. This increase is expected to constrain the improvement in free cash flow going forward. Nonetheless, Moody's anticipates that the rise in interest costs will be manageable, given the continued EBITDA growth in core markets and adequate liquidity, including tight working capital management and potential further divestments.

Ontex's B2 CFR reflects (1) its leading position in the disposable personal hygiene products market in Europe, with good product diversification; (2) the less cyclical nature of its products, especially in the retailer-branded segment which is Ontex's core business; (3) the organic growth prospects associated with the expansion plan in North America; and (4) the financial flexibility coming from the potential disposal of the remaining noncore assets in its emerging markets, which partly mitigates the smaller perimeter.

Ontex's CFR is constrained by (1) the exposure to significant raw material price volatility and to foreign currency fluctuations, which add pressure on profitability and cash flow generation; (2) the price-competitive nature of the industry and the strong bargaining power of large retailers; and (3) a degree of execution risk on the company's expansion plan in North America and its ongoing value-creation initiatives.

LIQUIDITY

Ontex's liquidity is adequate, backed by €180 million in cash as of March 2024 (including cash from discontinuing operations), and approximately €130 million available under its €242.5 million revolving credit facility (RCF) due in December 2025. The adequate liquidity assessment is also underpinned by Moody's assumption that Ontex will address the refinancing of its 2026 notes in a timely fashion, that is, at least a year before maturity.

According to Moody's forecasts, the available cash balance and the progressively improving internal cash generation capacity will abundantly cover all basic cash requirements, including ongoing restructuring costs in 2024, modest working capital needs to support growth (incl. the use of factoring), and both maintenance and expansionary capital spending of around €140 million annually (incl. the portion related to the lease repayment). While the exact timeline for the divestiture of the company's operations in Brazil and Turkey remains uncertain, the rating agency notes that Ontex does not rely on these sale proceeds to finance any of its mandatory cash needs.

Ontex's RCF is subject to a minimum liquidity covenant, and a net leverage covenant tested semiannually with progressive step-downs over time. Moody's anticipates the company will maintain adequate capacity under these covenants.

STRUCTURAL CONSIDERATIONS

The B2 rating on the €580 million senior unsecured 3.5% fixed-rate notes due July 2026 is in line with the CFR. All liabilities within the capital structure rank pari passu among themselves and the notes are guaranteed by material subsidiaries representing a minimum of 70% of consolidated EBITDA.

We assume the standard 50% family recovery rate to reflect the presence of both notes and bank debt within the company's capital structure.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Ontex will improve its Moody's adjusted leverage to 4.5x-5x over the next 12-18 months and its adjusted free cash flow to moderately positive levels, on the back of stable operating performance in Europe, business expansion in North America and continued focus on cost controls. The stable outlook also assumes that Ontex will refinance its 2026 bond in a timely fashion and with a manageable increase in the cost of debt, as well as a moderately positive earnings contribution from non-core operations until these are fully divested.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ontex's ratings could be upgraded if business expansion in North America and the ongoing business transformation plan result in materially higher-than-expected sales and EBITDA growth, leading to a Moody's adjusted leverage sustainably below 5x, consistently positive free cash flow, and Moody's adjusted EBITA margin maintained in the mid-to-high single digit percentages. An upgrade would also require that the company improves its liquidity, including long-dated debt maturities and comfortable capacity under financial covenants.

Ontex's ratings could be downgraded if operating performance weakens significantly as a result of fierce competition in core markets or poor execution of the company's transformation plan. Quantitatively, this would require a Moody's adjusted leverage sustained above 6x, consistently negative free cash flow, Moody's-adjusted EBITA/interest expense declining below 1.5x and Moody's adjusted EBITA margins declining in the low-single digit percentage for a prolonged period. A deterioration in liquidity due to reduced capacity under financial covenants could also lead to a downgrade.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Consumer Packaged Goods published in June 2022 and available at https://ratings.moodys.com/rmc-documents/389866. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Ontex Group NV, headquartered in Aalst-Erembodegem, Belgium, is a leading manufacturer of mainly retailer-branded hygienic disposable products with operations across Europe, in North America, Brazil and Turkey. Ontex operates in three product categories: baby care, adult incontinence and feminine care. In 2023 Ontex generated net sales of around €1.8 billion and company-reported EBITDA (i.e. before restructuring costs) of €174 million. Including non-core operations in emerging markets still to be divested, sales and company-reported EBITDA in 2023 were €2.3 billion and €223 million, respectively. Ontex is a public company listed on the

Euronext Brussels stock exchange.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Giuliana Cirrincione
Analyst
Corporate Finance Group
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan, 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simone Zampa
Senior Vice President/Manager
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan, 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.