RATING COMMUNICATION

Cerved Rating Agency S.p.A. confirms the public rating

B1.2

assigned to **C.M.D. COSTRUZIONI MOTORI DIESEL S.p.A**

Nucleo Industriale Valle di Vitalba – Atella (PZ)

On 04/04/2019 Cerved Rating Agency confirmed the rating B1.2 assigned to C.M.D. S.p.A.

Date of first issuance of the rating: 27/02/2015

C.M.D. Spa ("The Company") operates in the mechanical processing field for the automotive and industrial sector, as well as in the marine engines field with the brand FNM, Energy and Aeronautics. Since January 2017, the Chinese company Loncin Motor Co. Ltd (listed on the Shanghai Stock Exchange) acquired a majority stake of 67%, the shareholders Mariano Negri and Giorgio Negri hold the remaining amount, respectively 26.81% and 6,19%.

Key rating factors

- ***Business model and market positioning***

The company offers a wide range of engineering services, providing global support to the transport industry through the design, prototyping and development of technologically advanced engines. The major amount of Company turnover (about 84%) derives from the sale of mechanical components, such as basements, headers, exhaust manifolds, flywheels, camshafts and crankshafts, oil sumps, common rail injection pumps and gearboxes. C.M.D. has diversified its business lines to reduce the incidence of the Mechanical Machining BU, expanding the customer portfolio, growing both in terms of business and in terms of market, which led to the achievement of higher margins. During 2018, C.M.D. operated a reorganization of the Energy BU by outsourcing production to third parties, which allowed the company to focus on the Avio BU's investment growth plan. The development of synergies with Loncin in 2019 will permit the company to achieve revenues with the Avio BU, for such reason they will build a new production unit in Atella (PZ), destined to the production of aeronautical piston engines CMD22 (EASA certificates in the January 2018) and GF56. However, because of some commercial agreements, that are now almost complete, the Energy BU will be the main growth driver for 2019 thanks to the sale of pyro gasifiers to public customers through Public and Private Partnerships.

- ***Key financial results***

Revenues as at December 2018 amount to Euro 31.0 million showing a reduction of -2.80% compared to prior year; this is mainly due to the lower turnover generated from the Energy division which strategical reorganization has negatively affected its productivity. In 2018, the company shows an adjusted EBITDA amounting to Euro10 million (Euro8.5 million in 2017), adjusted EBITDA margin of 25.3% (21.5% in 2017) recording an improvement, due to the containment effect of variable costs, in particular purchases, and service costs. The Net Financial Position (NFP), including debts for leasing, at December 2018 shows an increase reaching Euro16.1 million (+ 30.0% YoY), due the combined effect of the increase of short-term bank debt (+ 28.0% YoY) and the reduction of cash and cash equivalents (from Euro 5.8 million in 2017 to Euro 3.1 million). The NFP / Equity and NFP / EBITDA ratios resulted in 0.37x and 1.60x respectively, showing a slight reduction compared to prior year (1.45x and 0.30x in 2017). Expected Revenues in 2019 amount to Euro 37 million, thanks to the higher turnover generated by the Energy BU and the consolidation of the 2018 EBITDA margin values.

The NFP should increase thanks to new long-term financing agreements, which have been signed to support the investment plan related to the Invitalia development project for the launch of the Avio business.

- ***Liquidity***

The Net Operating Cash Flow of C.M.D. in 2018 shows an improvement reaching Euro1.2 million (compared to Euro 488 thousand in 2017), due to the lower cash absorption mainly generated by tax receivables, tax payables and inventory amounts. Based on the Business Plan, the company estimates a Gross Operating Cash Flow growth during 2019, whilst the working capital will produce positive results only from 2020.

Key risk factors

- ***Market risk***

C.M.D. faces the risk of frequent changes related to regularity requirements through engineering and production flexibility. The company should operate a strategy of business diversification and reduce customer's concentration level, to prevent a negative impact on business operations.

- ***Operational risk***

The company production capacity is not at its maximum level and the good machineries conditions allows its use in different situations.

- ***Financial risk***

The company benefits of bank support since it has always shown a compliant attitude; C.M.D. faces the interest rate risk with hedging derivatives. The credit risk is limited thanks to a customer portfolio mainly characterized by major industrial companies.

Rating assumptions

- In 2019, revenues are expected to grow by 20%, primarily driven by the energy sector
- Maintenance of the investment plan in the Avio BU to support PFN increase which is expected to reach Euro 22 million
- Improvements in Operating Cash Flows even if not supported by positive Trade Working Capital levels

Rating sensitivities

- A more efficient management of working capital, capable to improve the company ability of self-financing could lead to an upgrade of the rating
- The non-pursuit of the goals set for 2019, a significant deterioration in the financial situation and consequent breach of the covenants established by the bond loan regulations will cause a negative rating action.

The methodology used can be consulted on Cerved Rating Agency's website: www.ratingagency.cerved.com

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