by Sergio Grasso

Guala Closures: sealing the cost of debt

Guala Closures, a producer of lids and closures for the wine and spirits industry, executed the 2021 LBO at around 4.8x adjusted net leverage. By the end of 2023, leverage had fallen below 4.0x, supported by the strong performance of the luxury-closures business, which kept overall EBITDA solid and the margins resilient despite challenging market conditions characterised by destocking and weaker underlying demand (see management presentation). In June 2024, the company added €150 million to its existing debt through another FRN, while adjusted net leverage continued to hover around 4.5x. By the end of 2025, however, leverage had increased to approximately 4.9x. This was not a major deterioration in the ratio, with management attributing the increase to some minor operational issues during the year.

The new SS bond recently issued has been marketed at around 4.8x net leverage, according to management's presentation. Looking through some of the adjustments and including the factoring line, however, underlying leverage is arguably higher, probably above 6.3x. This would put Guala among the more highly leveraged names in the high-yield packaging universe, with the company also being smaller in scale than many of its main peers. The new 7NC1 FRN priced at par at Euribor +375bp. The bond printed inside the IPTs despite being upsized from €500 million to €1 billion, with the proceeds being used to refinance the existing 2028 and 2029 maturities. The market appears to have given considerable credit to Guala's defensible niche position, the extended debt maturity, the high EBITDA margins and consolidation strategy, particularly the potential to reduce the company's dependence on European demand through further international acquisitions. There are of course other positive factors supporting the name’s profile. What seems less well reflected in the pricing are some of the negative credit considerations: leverage has remained persistently high even on an adjusted basis, and the business has not meaningfully delevered, partly because acquisitions have offset the benefits of EBITDA generation; the company continues to operate against a backdrop of soft demand and volatility between stocking and destocking cycles; commodity price swings could remain an additional source of earnings volatility; and the bond documentation appears relatively lite and permissive even on a quick and superficial review. The leverage profile looks aggressive from a relative-value perspective when compared with similar HY names in the packaging universe. I will not set out my specific thoughts on the credit strengths and weaknesses, but I think the pricing of this bond is definitely worth studying. It also raises a broader question about the investment strategy pursued by credit managers sitting on CLO investment committees: was the 375bp margin on the FRN the main factor driving the investment decision, particularly when the cost of CLO liabilities is hovering around Euribor +180bp, or did the underlying credit KPIs and risk assessment play a meaningful role in justifying the underwriting of the risk?