

Pasubio Change Seats for Better Visibility

When Pasubio, a leading supplier of premium leather for automotive interiors, came last time to the bond market in 2021 with the issuance of its €360 million 2028 notes, the company reported net leverage of approximately 4.7x. At the time, Pasubio (B1-B rated) generated close to 90% of its revenues from the automotive sector and operated in an industry already facing significant structural and cyclical headwinds. PAI Partners acquired the business from CVC.

At break, the new bond quoted 101,25-101,75.

For some credit investors, the principal concern was the company's high exposure to premium and luxury automotive OEMs, resulting in substantial dependence on vehicle production volumes within a relatively concentrated customer base. While this positioning had historically supported resilient margins and long-term revenue visibility through established customer relationships, it also increased earnings volatility during periods of weakness in global automotive production.

The credit was never an easy story, also for its total debt trading in the secondary market judged relatively small. A portion of the HY investors, however, subscribed to the view that automotive suppliers would experience a strong recovery and sustained outperformance following the difficult post-COVID period. That was not a thesis I shared.

The risks identified at issuance subsequently materialized. Vehicle production in Europe experienced a combination of cyclical slowdown, inventory adjustments and weaker consumer demand, particularly within certain premium segments. At the same time, the automotive interiors market underwent a structural transformation driven by sustainability requirements, ESG considerations and changing consumer preferences.

Pasubio faced pressure on volumes. The combination of lower production levels, supply-chain disruptions, inflationary pressures (see year 2022) and elevated operating leverage negatively affected profitability and credit metrics. By year-end 2022, reported net leverage had increased to approximately 5.4x, according to company figures. This deterioration

highlighted the vulnerability of a business model characterized by significant fixed costs and a high dependence on a limited number of automotive customers. Customer concentration remained a recurring credit concern, as production cuts, sourcing changes, or operational disruptions—such as the cyberattack that affected Jaguar Land Rover—had the potential to materially impact earnings generation.

Leverage remained elevated in the years that followed the bond issue. According to company calculations, pro forma adjusted net leverage remained well above 5.0x during 2025 and approached 6.0x by the end of last year. While the company continued to generate positive EBITDA and cash flow, the pace of deleveraging was slower than originally anticipated, largely reflecting the challenging operating environment.

Consequently, the market's focus gradually shifted from the resilience of the automotive franchise to the sustainability of Pasubio's capital structure. Many investors applied more conservative EBITDA assumptions than those reported by the company, resulting in leverage estimates above management's calculations. At the same time, enterprise value multiples across the sector were trending lower, further weighing on sentiment. As a result, attention increasingly centered on the company's refinancing capacity ahead of the 2028 maturity.

Management responded by pursuing a strategic diversification of the business model. Through a series of targeted acquisitions, Pasubio expanded its exposure to the luxury fashion and leather goods industry, a market characterized by lower cyclicity, higher value-added products, stronger margins and generally superior valuation multiples compared with automotive suppliers. The rationale was compelling from both an industrial and credit perspective. Diversification reduced dependence on automotive production volumes, broadened the customer base and increased exposure to end markets with structurally higher profitability and lower capital intensity (one strong point in Pasubio's case).

Today, the fashion segment represents approximately 25% of consolidated revenues, creating a more balanced revenue mix and improving the overall business risk profile.

As Pasubio embarks on its upcoming non-deal roadshow, investors are likely to acknowledge the strategic merits of this diversification strategy. However, leverage will remain the primary topic of discussion. Credit investors will focus on the quality and sustainability of EBITDA generation, free cash flow conversion, acquisition integration performance and the extent to which reported EBITDA adjustments translate into “genuine cash flows”. Recent

experience with another Italian issuer has demonstrated that EBITDA adjustments cannot indefinitely mask rising debt burdens.

Particular attention will be paid to the trajectory of net leverage, the company's ability to delever organically through earnings growth and cash generation, and its refinancing strategy for the 2028 notes.

Pasubio has been recently downgraded to B3, broadly in line with my expectations, as leverage remains elevated (I cannot write here my debt/EBITDA ratio estimate). However, improved operating performance and a supportive credit market backdrop should help differentiate the current situation from the negative sentiment that prevailed in mid-2025.

Ultimately, the credit thesis has evolved and has rewarded the investors who remained invested in the name (roughly 15 figures up in one year from the lows). Unlike peers such as Antolin and Adler Pelzer, which struggled to change the operational drivers, Pasubio has already made meaningful progress in diversifying its business, representing a notable point of differentiation. The key question now is whether management can demonstrate a credible path toward (credible) leverage levels supported by sustainable EBITDA and robust free cash flow generation. If management succeeds in delivering that message convincingly, refinancing risk for its debt should remain manageable. Pasubio's future will hinge on the messages it delivers and what it achieves.

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