

Reno de Medici

Reno de Medici (RDM) is the second-largest European producer and distributor of coated recycled carton-board, with sales in over 100 countries worldwide. The company operates across both food (approximately 50% of total sales) and non-food end markets, maintaining a low customer concentration. RDM's white-lined chipboard and solid board packaging products are manufactured entirely from recycled paper.

In 2021, RDM was acquired by Apollo at a time when its adjusted EBITDA stood at around €120 million and net leverage at 3.9x. The acquisition, however, faced skepticism from parts of the investment community due to significant EBITDA adjustments. Many investors, stripping out these adjustments, perceived leverage to be excessive and ultimately passed on the credit—despite RDM's solid operational performance, strong market position, and positive trajectory.

The company's five-year bond issued in November 2021 was refinanced in March 2024 through a new floating rate note maturing in 2029, which remains outstanding today. By 2024, adjusted EBITDA had risen to roughly €160 million, with reported net leverage of 3.7x. Yet again, investors expressed concern over the extent of EBITDA adjustments, coupled with volatile demand conditions and a bond document package perceived as aggressive (the shareholder embodied its investment philosophy). Despite RDM's guidance for revenue and earnings growth in 2024, investors' appetite remained cautious. The FRN priced at 98 with a 5% spread—roughly in line with comparable European paper and packaging credits. The CLO demand proved to be a key supporting factor for the deal's placement (to note the ratings B2/B/BB-).

The credit story in 2024 proved far more difficult to digest than it had been in 2021. The calculation of leverage remained the focal point of all investor discussions, with persistent uncertainty around the validity of management's adjustments. I participated in the original bond issuance in 2021 because I knew the corporate's track record, but I advised to pass on the refinancing, as the results from 2023 were downbeat and the structure raised several concerns under my point of view if we take them in the context of two years ago. In particular, the RCF net senior covenant test was poorly designed from a creditor's standpoint, offering limited protection against high leverage metrics for the sector and due to the fragile company's capacity to repay debt and to honor interest payments under the weight of excessive amount of liabilities.

There were further, equally compelling considerations for avoiding exposure to this borrower in 2024, though they are not written in this post.

Positively at the bond's launch, RDM demonstrated resilient operating fundamentals: strong net sales (though softer in 2023), improving contribution margins, and a stable EBITDA (adj) margin of around 18%. Operating cash flow had remained positive every year since 2016, and a recovery in sales volumes was anticipated following the 2023 destocking cycle.

Unfortunately, the anticipated rebound failed to materialize. Weaker-than-expected pricing, persistent overcapacity, and sluggish demand created a "perfect storm" in late 2024. EBITDA declined to levels similar to those seen in 2021, but the company was now carrying substantially more debt. Due to continued reliance on adjustments, transparency suffered, and effective leverage was estimated around 10x. RDM's 2029 FRN ended 2024 trading below 90, following a year marked by approximately €130 million in cash burn (the bond continued to trade incredibly at 100 in Q3 2024 despite the bad results and negative FCF generation; another evidence of very poor credit analysis from the market players).

Despite the challenges, some investors viewed RDM as a potential recovery story entering 2025, citing expected demand normalization and improved pricing conditions. The name even appeared as a "top trade idea" at several high-yield conferences early in the year. (upon review, the only reason for considering the position was the possible upside of 15 figures to par; HY conferences tend to surface always the best ideas).

The first half of 2025 failed to deliver the expected turnaround. EBITDA remained flat, working capital optimization and low capex provided limited relief, and cash flow stayed weak. Secured net debt stood at €657 million (higher than June and December 2024), including €95 million drawn under the RCF-recently upsized to 147 million. The persistence of significant adjustments again drew scrutiny from existing investors and Rating Agencies: Moody's downgraded RDM to CCC in June 2025, followed by Fitch to B- in August (\$&P's last report, published in December 2024, was based on expectations of a recovery in 2025 and a return to positive FFO. Given how the situation has evolved, that assumption now looks increasingly optimistic — and it may suggest that a rating action or update could be imminent).

The RDM 2029 FRN is now trading below 70, reflecting persistent market concern, though the price has rebounded somewhat from the low-60s levels seen at the trough. Reports of the company engaging legal and financial advisors have further pressured bond prices, reflecting ongoing market concerns about liquidity and company's capital structure. The sector worries

persist: the cyclical and exposure to input costs, demand swings, and capacity overhang. The ability of Reno de Medici to counter the ongoing headwinds through pricing strategies for final products will ultimately depend on the strength of its market position, the resilience of its supply chain, and the behavior and overcapacity of its competitors. The key pressure point remains operational liquidity, particularly as the company's bond matures in 2029.

The central question is whether the 2029 bond is fairly priced. Its recent decline followed news of discussions with debt advisors, but investors should consider the following points before drawing conclusions:

1. Operational Context and Market Conditions

For nearly two years, Reno de Medici (RDM) has been navigating a persistently difficult operating environment. Tariff frictions, together with broader macroeconomic and geopolitical pressures—which pressure the final clients—, continue to weigh on performance. Management's H1 2025 presentation confirms that some doubts remain there.

Although higher production volumes have helped stabilize revenues, rising input costs — particularly for raw materials, transportation, energy, and labor — continue to compress margins. On the demand side, visibility remains weak, reflecting ongoing volatility in customer ordering patterns together with the risk of stocking–destocking cycles, as observed in 2023 versus 2022. Most of RDM's customers operate on short-term procurement arrangements, offering little pricing or volume predictability. The absence of long-term contractual relationships is a structural feature of the recycled board industry, leaving earnings and, more important, cash flows exposed to sudden shifts in market sentiment and input costs.

2. Liquidity and Asset Sale Options

Assessing Reno de Medici's capacity to bolster liquidity through asset disposals—such as a potential sale of the Barcelona mill, which could free up an estimated €60–70 million—will be a crucial factor in evaluating the company's short-term financial flexibility. The scale, timing, and structure of any transaction will determine whether such measures provide meaningful relief or merely bridge temporary funding needs. Nevertheless, any asset sale would inevitably challenge the strategic coherence of RDM's long-standing “multi-mill, multi-country” operating model. This model has been central to the company's value proposition, ensuring supply chain resilience, customer proximity, and production flexibility—key differentiators in a cyclical and regionally fragmented

industry. From the outset, Apollo's ownership strategy has emphasized horizontal consolidation, aiming to capture synergies and strengthen RDM's competitive position through selective M&A in adjacent or complementary markets. Divesting a production site like Barcelona would therefore signal a departure from that consolidation narrative, potentially weakening RDM's industrial footprint and eroding the scale advantages built over time.

3. Valuation Benchmarks and Apollo's Position

Comparing RDM's trading multiples with those of European sector peers is essential. Determining an appropriate EV/EBITDA multiple for RDM will indicate where value breaks and how much cushion remains for Apollo's equity. The sponsor's remaining equity value could have significant implications for a potential equity contribution in any restructuring or recapitalization scenario.

4. Quality of Adjustments and Management Visibility

Investors need to scrutinize the credibility of RDM's EBITDA adjustments, which have long been a point of contention in the credit story. The key issue is whether the company's reported "run-rate adjusted EBITDA" accurately captures its true operating performance or merely cushions the impact of weaker fundamentals and key credit metrics. Visibility remains limited, and confidence in the underlying revenues power is difficult to establish without greater transparency in the accounts. It is also worth noting that the bond documentation allows for significant flexibility in defining and applying adjustments, a factor that further complicates leverage analysis and investors trust. In this context, real liquidity in the balance sheet has become RDM's only tangible buffer—the critical lever determining its ability to withstand market pressures and meet near-term debt commitments. The company's credit profile will ultimately depend on how effectively it can break even FCF and preserve cash in a persistently fragile market environment.

By addressing these questions, investors can better assess whether current yields adequately compensate for risk—or if the situation could evolve into an aggressive or creative liability management exercise (LME) requiring new money.

In Europe, recent cases have shown that such LMEs often squeeze existing bondholders and creditors, sometimes leading to litigation. The current bond documentation offers management and shareholder considerable flexibility, which adds another layer of uncertainty. These factors likely continue to weigh

heavily on the bond price (it is uncommon for a bond with four years remaining to maturity to be trading so weakly unless we consider the technicals of the CLO market, as I've highlighted in recent posts).

Ultimately, the distressed credit market has become less about pure valuation exercises and increasingly about financial strength and negotiating leverage—a contest of capital and legal tactics as much as of fundamental analysis. Recent developments across the European market serve to confirm this observation.

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