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Rating Action: Moody's downgrades Guitar Center Inc. to Caa1; outlook negative

28 Nov 2017

Approximately \$940 million of rated debt affected.

New York, November 28, 2017 -- Moody's Investors Service (Moody's) today downgraded Guitar Center Inc.'s (GCI) ratings. The downgrade and negative outlook reflect Moody's continued concern regarding GCI's significant and relatively near-term debt maturities. Excluding the company's \$375 million asset-backed loan facility, approximately 65% of the company's long-term debt matures in April 2019.

GCI's Corporate Family Rating was downgraded to Caa1 from B3, and its Probability of Default Rating was downgraded to Caa1-PD from B3-PD. At the same time, GCI's senior secured first lien notes were downgraded to Caa1 from B3 while its unsecured notes were downgraded to Caa3 from Caa2. The rating outlook is negative. This concludes the review for downgrade that was initiated on Sep. 28, 2017.

"The downgrade considers that despite Moody's expectation that GCI will generate relatively stable earnings and positive free cash flow, a significant majority of the company's debt matures in less than 18 months," stated Keith Foley, a Senior Vice President at Moody's. "GCI's cash flow on its own will not be enough to materially reduce debt and improve leverage within the time frame the company has to address its debt maturities," added Foley.

Downgrades:

..Issuer: Guitar Center Inc.

.... Probability of Default Rating, Downgraded to Caa1-PD from B3-PD

.... Corporate Family Rating, Downgraded to Caa1 from B3

....Senior Secured Regular Bond/Debenture, Downgraded to Caa1(LGD4) from B3(LGD3)

....Senior Unsecured Regular Bond/Debenture, Downgraded to Caa3(LGD5) from Caa2(LGD5)

Outlook Actions:

..Issuer: Guitar Center Inc.

....Outlook, Changed To Negative From Rating Under Review

RATINGS RATIONALE

GCI's \$375 million asset-based credit facility (not-rated) matures on April 2, 2019. The company's \$615 mil 6.5% senior secured 1st lien notes mature on April 15, 2019. GCI's \$325 million 9.625% senior unsecured notes do not mature until 2020.

Although GCI is currently in negotiations to refinance its outstanding debt, and still has time to refinance these debt obligations, Moody's believes the more compressed that time period becomes from this point on, the more challenging it will be for GCI to address its debt maturity profile particularly in light of the key challenges faced by the company. These challenges include the company's high leverage -- debt/EBITDA on a Moody's adjusted basis is about 6.2 times -- and limited revenue visibility regarding the retail environment for musical instruments.

The negative outlook reflects continued concern on Moody's part with respect to the GCI's ability to extend its debt maturity profile and obtain terms and pricing terms that will enable it to compete in the specialty retail environment over the longer-term.

GCI's ratings could be lowered if, for any reason prior to maturity, the company executes a refinancing in a manner that involves impairment to existing lenders -- an event that Moody's would deem to be a distressed exchange -- or if it appears that the company will not be able to refinance its near-term debt maturities by the end of March 2018, approximately one-year before the company's \$615 mil 6.5% senior secured notes come due. The degree and timing of any downgrade depends on Moody's assessment of GCI's refinancing plans and opportunities at various points going forward.

The rating outlook would be revised back to stable if GCI is able to push out its debt maturities prior to maturity without any impairment to creditors. A higher rating is possible over the long-term, but would also require that GCI, materially improve its credit metrics -- achieve and maintain lease-adjusted debt/EBITDA of at least 4.5 times and EBIT/interest at or above 2.5 times.

GCI is the largest retailer of music products in the United States based on revenues. GCI is a wholly-owned subsidiary of Guitar Center Holdings, Inc. The company has three reportable business segments, comprised of Guitar Center, Musician's Friend and Music & Arts. GCI is a private company and does not publicly disclose detailed financial information.

The principal methodology used in these ratings was Retail Industry published in October 2015. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

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