MOODY'S
RATINGS

Rating Action: Moody's upgrades Avolta AG's CFR to Ba2 from Ba3; outlook stable

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Upgrades Dufry One B.V.'s backed senior unsecured ratings to Ba2 from Ba3

London, March 27, 2024 -- Moody's Ratings (Moody's) has today upgraded global travel retail leader Avolta AG's (Avolta or the company) corporate family rating (CFR) to Ba2 from Ba3 and its probability of default rating (PDR) to Ba2-PD from Ba3-PD. Concurrently, Moody's has upgraded to Ba2 from Ba3 financing subsidiary Dufry One B.V.'s (Dufry) backed senior unsecured ratings. The outlook has been changed to stable from positive for both entities.

Today's rating actions reflect:

-- Strong performance in 2023 and solid trading environment continuing in 2024

-- The credit-enhancing and deleveraging acquisition of Autogrill completed in 2023

-- A balanced financial policy, including a target of further deleveraging

RATINGS RATIONALE

Avolta continued to grow strongly in 2023, recording organic revenue growth of 22%. Moody's-adjusted EBITDA increased to around CHF2.5 billion in 2023 from CHF1.6 billion a year earlier. Of this increase, the rating agency estimates that around CHF230 million was organic. It implies some modest like-for-like Moody's-adjusted EBITDA margin erosion because of higher variable lease expenses and Autogrill integration costs as well as minimum annual guarantee (MAG) relief in 2022 not repeating in 2023. Nevertheless, these results were ahead of Moody's expectations as travel demand continued to recover during the year despite the weak economic growth and high inflation. The company was also successful in passing on higher product prices and labour costs to customers.

Moody's expects organic revenue growth to reach at least 5% in 2024 and 2025, reflecting Avolta's regional mix geared toward EMEA and the Americas, for which traffic growth will be lower than the 9% global air traffic growth forecast for 2024. Avolta plans to realise an incremental CHF55 million of cost synergies from the Autogrill acquisition in 2024 and additional cost efficiencies in the normal course of business which Moody's expects will lead to some margin improvements in the near-term.

Today's upgrades also reflect the conservative funding structure for the Autogrill acquisition. While the all-share purchase of Edizione's 50.3% stake in February 2023 was already captured in Moody's 2023 upgrade of Avolta's CFR to Ba3, the company funded the remainder of the purchase consideration without incurring new gross debt. In fact, Avolta's financial gross debt excluding lease obligations declined by over CHF200 million in 2023 while the acquisition of Autogrill added Moody's-adjusted EBITDA of over CHF600 million. More broadly, the Autogrill acquisition was credit-enhancing, reflecting the increase in scale, product and channel diversification as well as providing greater clout vis-a-vis concession partners.

New concession awards reflect Avolta's competitiveness in tender processes. A good illustration is the new 12-year concessions in Spain for which the company has increased its space by 30% as well as its product assortment. As a result, Avolta expects the Spanish concessions to be profitable going forward whereas they have been less profitable historically.

The new concessions, because of their long duration and MAG contributed to pushing Avolta's lease liabilities up to CHF7.8 billion at the end of 2023. This compares to CHF3 billion a year earlier (around CHF4.6 billion including Autogrill). As a result, Moody's-adjusted gross debt/EBITDA was 4.6x in 2023 versus around 4.0x on a pro forma basis in 2022. The rating agency regards the current leverage level as a temporary spike and forecasts that Moody's-adjusted leverage will decline to below 4x by the end of 2024 and further in 2025 on the back of EBITDA growth and amortisation of its long-dated lease liabilities.

More generally, the Ba2 CFR reflects Avolta's (i) leading position in travel retail and food and beverage, with broad geographic and product diversification, (ii) the long-term growth in air passenger traffic which supports demand, (iii) historically stable profitability and positive free cash flow generation, expected to continue, and (iv) a balanced financial policy, including a management-defined net leverage target of 1.5x-2.0x (2.6x at the end of 2023).

Conversely, the CFR incorporates the following credit constraints: (i) Avolta's dependence on air passenger traffic and exposure to macroeconomic downturns and geopolitical tensions or health concerns, (ii) the risk of non-renewal of concession contracts, (iii) large labour expenses, whose increases the company may not be able to pass on to consumers at all times, and (iv) exposure to volatility of currencies from emerging markets.

LIQUIDITY

Moody's views Avolta's liquidity as good. It reflects the company's unrestricted cash balance of CHF591 million at the end of 2023 and its large EUR2.75 billion senior unsecured revolving credit facility (RCF), of which CHF1.9 billion was available at December 2023. The RCF matures in December 2027 and Moody's expects Avolta to maintain ample headroom under its net leverage and interest cover covenants. Although it has sufficient liquidity to do so, Dufry will need to address the maturity of its EUR800 million bond due in October 2024.

STRUCTURAL CONSIDERATIONS

Avolta's capital structure consists of a mix of bonds and bank debt. All the facilities are unsecured, rank pari passu and benefit from guarantees from the material holding companies within the group. As a result, all Ba2 instrument ratings are in line with the Ba2 CFR.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation of ongoing organic revenue and EBITDA growth, underpinned by steadily increasing air passenger traffic globally. Further, the stable outlook assumes deleveraging to below 4.0x Moody's-adjusted debt/EBITDA in the short-term and materially positive FCF generation (after lease repayments and all dividend distributions).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade Avolta's ratings if (i) Avolta successfully renews its concession contracts on an ongoing basis, maintains organic revenue growth and at least a stable Moody's-EBITDA margin, and (ii) Moody's-adjusted gross debt/EBITDA sustainably declines toward 3.0x, and (iii) Avolta generates positive free cash flow (FCF, after interest and dividends) and retained cash flow/net debt is sustainably above 20%, (iv) while maintaining good liquidity and addressing its debt maturities in a timely manner.

Conversely, downward pressure on Avolta's ratings could materialise if revenue and EBITDA reduce on an organic basis, or (ii) Moody's-adjusted leverage remains above 4x on a sustainable basis, or (iii) FCF becomes negative and retained cash flow/net debt reduces sustainably below 15% , liquidity weakens, or refinancing risk increases, or (iv) Avolta adopts a more aggressive financial policy, including debt-funded acquisitions or higher shareholder distributions jeopardising positive cash generation.

The principal methodology used in these ratings was Retail and Apparel published in November 2023 and available at https://ratings.moodys.com/rmc-documents/411013 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Basel, Switzerland, Avolta is the leading global travel retailer. The company is present in 73 countries and operates over 5,100 outlets, mostly in airports (350 locations, around 80% of sales). Avolta had revenue of CHF12.8 billion in 2023 and is listed on the Swiss Stock Exchange with a market capitalisation of CHF5.25 billion as of 25 March 2023.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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Frederic Duranson
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London, E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Sven Reinke
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London, E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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