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Credit Opinion: Amadeus IT Holding, S.A.

Global Credit Research - 15 Jun 2012

Madrid, Spain

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Unsecured -Dom Curr	Baa3
Amadeus Capital Markets, S.A	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa3

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Key Indicators

[1]**Amadeus IT Holding, S.A.**

Fiscal Year:	FY 2011	FY 2010	FY 2009
RCF / Net Debt	35.7%	20.8%	18.5%
FCF / Debt	18.7%	8.7%	11.8%
(EBITDA - Capex) / Interest Expense	6.7x	2.4x	4.8x
Debt / EBITDA	2.3x	5.6x	5.3x

[1] All ratios are calculated using Moody's Standard Adjustments. Source: Moody's Financial MetricsTM

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- One of the leading players in a consolidated industry, with a significant IT solutions business

- Reported gains in market share in recent years

- Industry risk is deemed high in terms of ongoing threat of disintermediation

- Credit metrics are solidly positioned, with a public net leverage target

Corporate Profile

Amadeus IT Holding SA (Amadeus), with headquarters in Madrid, Spain, is a Global Distribution Systems (GDS) provider which offers technology solutions to travel providers and agencies. Services include real-time search, pricing, booking and ticketing, and related processing solutions. Amadeus also provides IT services to airlines, such as reservations, inventory management and operations for travel providers. The company is the market leader in both the GDS and IT segments.

After having been taken private in 2005, Amadeus was listed on the Madrid Stock Exchange through an IPO in April 2010. As of 31 March, 2012, the majority of the company was free float (76.6%), with three major airlines (Lufthansa, Air France and Iberia) together retaining c.23%.

Rating Rationale

The Baa3 long-term issuer rating reflects (i) the company's leading position in the market for Global Distribution Services (GDS) providers; (ii) its generally resilient profitability compared with the airline industry which it serves, as its profits are driven more by transaction volumes than by yields; and (iii) the smaller, albeit higher-margin, IT solutions business, which is deemed to have fairly high barriers to entry. The rating also factors in a number of challenges inherent in the GDS industry, notably the risk of further disintermediation by airlines, as well as pricing pressure from travel agencies.

DETAILED RATING CONSIDERATIONS

A LEADING PLAYER IN A CONSOLIDATED INDUSTRY

With EUR2.8 billion in revenues in FY2011, Amadeus is a leading player within the global GDS segment acting as an interface between travel providers (airlines, hotels, rail operators, cruise and ferry companies and insurance companies) and travel agencies. Its client base includes c.420 bookable airlines and c.110,000 hotel properties, and over 91,000 travel agencies world-wide.

Under the GDS model, revenues are derived from booking fees from the travel provider as well as access fees from travel agencies; while a portion of the booking fee is passed on to travel agencies. The business model under which the GDS industry is run is subject to externalities in the sense that the more travel providers included on a GDS platform, the more attractive is the platform to the travel agencies and vice-versa. Managing a successful relationship to both parties in the value-chain is therefore critical.

The industry is largely dominated by three players which together represent more than 90% of the outsourced GDS market (ie excluding providers owned by airlines and operating exclusively in their home countries). Amadeus estimates its market share to have grown from 26% in 2000 to c.38% as of end March 2012. According to Amadeus, the industry itself grew by a modest 2.2% during 2011 despite being negatively impacted by a challenging operating environment in the US, political instability in the Middle East, and a higher degree of disintermediation in Asia.

IT SOLUTIONS DIVERSIFIES RISKS IN THE DISTRIBUTION FRANCHISE

Amadeus' revenues are heavily skewed towards the distribution segment. As of FY2011, 77% of the company's revenues emanated from its GDS platform, including (i) booking revenues, namely the fee charged to travel providers and airlines for services related to bookings (ii); and non-booking revenues, namely fees charged for the provision of IT products and services to travel agencies, and for advertising on Amadeus terminals. A significant feature of the GDS model is that its revenues and profitability are less exposed to yields or fuel costs movements than are airlines. This is also illustrated in Amadeus' commissions per booking, which are quite stable overall.

The group's remaining revenues consist of IT solutions (23% of 2011 revenues), which includes (i) IT transactional fees charged to airlines; (ii) direct distribution revenues, which are transaction fees for sales made through the direct sales channels of airlines; and (iii) non-transactional revenues, namely fees for consulting and IT solutions. While being a modest contributor to revenues compared to the revenues derived from distribution, we note that IT solutions is a higher-margin business profiting from barriers to entry that we consider to be fairly high due to the long-term nature of contracts and high investments in technology. During 2011, IT Solutions represented 32% of the company's reported contribution (EBITDA before indirect costs) and we view this segment to partly mitigate risks in the distribution franchise.

INDUSTRY RISK CONSIDERED TO BE ABOVE AVERAGE

The GDS model does, however, face a number of risks. Since on-line travel agencies (OTAs), GDS providers and airlines are part of the same supply chain, each segment can gain market share or pricing power from another.

In order to increase competitiveness, travel providers - and airlines in particular - have over the past years focused strongly on cost-cutting initiatives including seeking ways to reduce or fully eliminate the distribution fees. Disintermediation by airlines and growth of the direct.com model will be an ongoing risk for GDS providers. Overall the GDS industry has lost market share to the supplier.com websites in recent years, with the latter estimated to account for about half of total bookings currently. Nevertheless, we have previously noted that GDS providers have invested heavily in technology that airlines would find difficult to replace in the near-term. In addition, GDS providers have noted the increased usage of their model by low cost carriers (LCCs) which had previously avoided using them. The company has reported double-digit growth in bookings from LCCs since 2009, which now make up 5% of the total. For the first quarter of 2012, Amadeus reported a growth of 18% in bookings from LCCs.

Other risks for the industry include airline consolidation, in particular in the US and Europe, as well as consolidation among OTAs. We note that Opodo, which Amadeus divested during 2011, was consolidated with two other OTAs to form a new OTA, GEO Travel Finance SCA (B2 stable).

Finally, as with other GDS providers, there is a fair degree of concentration among Amadeus' key clients. Amadeus' travel providers include c.420 bookable airlines, c.110,000 hotels, rail cruise and ferry operators, car rental companies, and insurance companies, while its services are connected to over 90 thousand travel agencies. This extensive client base constitutes a barrier to entry. At the same time, however, we note that the top 10 travel agencies have a much higher concentration in terms of revenues, such that the loss of any key client could have a notable impact on overall earnings.

CREDIT METRICS CONTINUE TO BENEFIT FROM FREE CASH FLOWS

Amadeus reported a solid performance in 2011, with like-for-like revenues in the Distribution segment growing by 5.2% and by 7.8% in IT Solutions. This growth resulted in an improvement in the reported EBITDA margin to 38.4% from 37.6% in 2010. The positive momentum has continued into the first quarter of 2012 that saw group revenues further increase by 8.5%.

During 2011, Amadeus continued its path of deleveraging supported by the EUR400 million the company received for the sale of Opodo and an overall good operating performance. As of year-end 2011, the company reported a net debt/EBITDA of 1.75x, down from 2.52x in 2010 (excluding IPO costs that year) and versus the 3.0x maximum as per its credit agreement. The ratio was at 1.65x as of Q1 2012. We also note that the group has only made negligible acquisitions in recent years, which were focused mainly on supporting its core business and selectively investing in diversification projects.

The company has set out a reported net debt/EBITDA target of below 1.5x as of FYE2012, implying some further deleveraging. Our principal adjustments for debt are for a fairly marginal pension deficit and for leases. On this basis we believe that based on the company's public net leverage target it should remain within our guidance for gross adjusted leverage. As of FYE2011, the company's adjusted gross leverage was at 2.3x, with RCF/net debt at 35.6% - both metrics were largely unchanged as of March 2012.

Liquidity

We consider Amadeus' liquidity profile to be solid. As of the end of March 2012, the company reported EUR434 million of cash and equivalents, versus current debt-maturities of EUR195 million. Following a refinancing of its secured debt facilities in May 2011 with unsecured borrowings, as of FYE2012 the company's debt structure was virtually all long-term. However, it reported EUR456 million of a bridge loan maturing in 2013, as well as EUR100 million of its EUR200 million revolving credit facility (RCF) - the other EUR100 million matured in May 2012.

In the interim the company has taken two measures to strengthen its liquidity. In April 2012, it signed a new EUR200 million RCF with a 2.5 year maturity. In May 2012 the company further undertook an EUR200 million amortising loan from the European Investment Bank with a 9-year maturity to finance R&D related investments. The company subsequently used EUR350 million of its existing cash balances to partially repay its remaining bridge loan on 1 June 2012. Our liquidity assessment assumes that the company will continue to generate solid free cash flows. We note the company exhibits some degree of seasonality as booking volumes tend to be correlated to the airline and travel industries.

The company's loan facilities contain financial covenants for net debt to EBITDA (below 3.0x) and a fixed charge coverage of not less than 3.0x, which are tested quarterly, and with which the company was in compliance as of March 2012 with Net Debt/ EBITDA at 1.65x.

Other Considerations

The company maps to an A3 under the grid for the Moody's Global Business & Consumer Service Industry Rating Methodology published October 2010 and based on LTM adjusted metrics to March 2012. The difference between the grid and the actual rating assigned reflects a degree of conservatism in our rating assessment due to the higher perceived industry risk in which Amadeus operates, in particular its reliance on the volatile airline sector as well as the ongoing risk of disintermediation.

Rating Outlook

The stable outlook reflects Moody's expectation that the company will pursue a conservative financial policy, as evidenced by its stated target to achieve a reported net debt/EBITDA ratio of below 1.5x as of FYE2012.

What Could Change the Rating - Up

Positive pressure on the rating or outlook could be considered if adjusted gross leverage were to remain below 2x with adjusted Retained Cash Flow (RCF) to Net Debt remaining above 30% on a sustained basis, with continued free cash flow generation and stable industry conditions.

What Could Change the Rating - Down

Conversely, the rating or outlook could come under negative pressure if adjusted gross leverage were to remain above 2.5x on a sustained basis. The latter could either be due to a change in financial policy, or a significant weakening in industry dynamics, such as the failure to successfully renew key airline contracts.

Rating Factors

Amadeus IT Holding, S.A. (LTM March 2012)

Business and Consumer Service Industry [1][2]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa-C**
Factor 1: Size and Profitability (30%)							
a) Pretax income (USD million)		983.6					
b) Revenue (USD million)				3884.3			
Factor 2: Financial Strength (50%)							
a) RCF / Net Debt				35.6%			
b) FCF / Debt				17.8%			
c) EBITDA-CapEx / Interest Exp		10.8x					
d) Debt / EBITDA				2.3x			
Factor 3: Financial Policy (15%)							
a) Financial Policy				x			
Rating:							
a) Indicated Rating from Grid			A3				
b) Actual Rating Assigned				Baa3			

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 3/31/2012(L); Source: Moody's Financial Metrics

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