MOODY'S
INVESTORS SERVICE

# Credit Opinion: Amadeus IT Holding, S.A.

Global Credit Research - 14 Jun 2013

*Madrid, Spain*

## Ratings

| **Category** | **Moody's Rating** |
|---|---|
| Outlook | Stable |
| Issuer Rating -Dom Curr | Baa2 |
| Senior Unsecured -Dom Curr | Baa2 |
| **Amadeus Capital Markets, S.A** | |
| Outlook | Stable |
| Bkd Senior Unsecured -Dom Curr | Baa2 |

## Contacts



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## Key Indicators

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

| | **3/31/2013(L)** | **12/31/2012** | **12/31/2011** | **12/31/2010** | **12/31/2009** |
|---|---|---|---|---|---|
| Pretax Income (USD Million) | **$969.7** | **$944.8** | **$937.0** | **$141.5** | **$483.7** |
| Revenue (USD Million) | **$3,788.3** | **$3,741.9** | **$3,840.9** | **$3,441.9** | **$3,323.2** |
| RCF / Net Debt | **42.6%** | **41.8%** | **35.7%** | **20.8%** | **18.5%** |
| FCF / Debt | **18.3%** | **19.4%** | **18.7%** | **8.6%** | **11.8%** |
| (EBITDA-CapEx) / Interest Exp | **9.1x** | **8.9x** | **6.7x** | **2.4x** | **4.8x** |
| Debt / EBITDA | **1.9x** | **1.9x** | **2.3x** | **5.6x** | **5.3x** |

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

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

## Opinion

### Rating Drivers

- Strong operating performance expected to continue

- A leading player in a consolidated industry

- IT solution diversifies risks in the distribution franchise

- Industry risk considered to be above average

### 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, 2013, the majority of the company was free float (89.23%), with Air France holding a stake of 5.04%. Lufthansa and Iberia - two previous owners of Amadeus - decided to sell the majority of their stake in 2012.

## Rating Rationale

The senior unsecured rating of Baa2 reflects (1) Amadeus' strong operating performance over the past two years resulting in improved cash flow metrics and deleveraging (2) the company's leading position in the market for Global Distribution Services (GDS) providers; (3) its generally resilient profitability compared with the airline industry that it serves; and (4) the smaller, albeit higher-margin, IT solutions business, which have fairly high barriers to entry. The rating also captures several challenges inherent in the GDS industry, notably (1) the risk of further disintermediation by airlines; and (2) the risk of alternative distribution models emerging.

Moody's also acknowledges Amadeus's limited exposure to Spain -- representing around 3% of transactions as of FY2012 -- and considers that the company can be largely but not totally delinked from Spain's sovereign rating of Baa3, negative.

## DETAILED RATING CONSIDERATIONS

STRONG OPERATING PERFORMANCE EXPECTED TO CONTINUE

Amadeus reported a solid operating performance in 2012, with like-for-like revenues in the Distribution segment growing by 5.8% and by 13% in IT Solutions. Profitability remained strong with Amadeus reporting EBITDA-margins above 38%.

The strong underlying performance has continued into 2013 where Amadeus during the first quarter of the year increased revenues by 4% fuelled by the strong performance of its IT-services division. Moreover, Amadeus improved its EBTIDA margin by 40 basis points compared to the first quarter of 2012. Amadeus continues to gain market shares in its distribution segment and estimates its market share to have grown from 26% in 2000 to c.39.8% as of end March 2013 (38.2% in Q1-2012).

The solid performance has translated into strong cash flow generation allowing for Amadeus to continue on its path of deleveraging. The company reported a leverage - as defined by the company - of net debt/EBITDA of 1.28x as of 31 March 2013, down from 1.75x at the end of FY2011. As such, the company remains well in line with its self-imposed leverage-target of 1.0x-1.5x Net Debt/EBITDA.

On the back of the achieved deleveraging and solid cash flow generation, Amadeus announced in 2012 a change of its dividend-policy and is now targeting a payout-ratio of 40%-50% of net income, an increase from the previous objective of 30%-40%. We expect the increased dividend-payments in combination with a step-up in CAPEX - as Amadeus seeks to expand its product portfolio and reinforce its IT solutions segment - to weaken the company's free cash flow to around EUR250 million for FY2013, down from around EUR400 million in FY2012. Nonetheless - in the absence of acquisitions or a step-up in shareholder-friendly initiatives - credit metrics are expected to continue improving in spite of an operating environment expected to be somewhat challenging in parts of Amadeus' markets.

A LEADING PLAYER IN A CONSOLIDATED INDUSTRY

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). With EUR2.9 billion in revenues in FY2012, 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.430 bookable airlines, c.250,000 hotel properties, and 239 tour operators 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.

IT SOLUTIONS DIVERSIFIES RISKS IN THE DISTRIBUTION FRANCHISE

Amadeus' revenues are heavily skewed towards the distribution segment. As of FY2012, 75.6% 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 which is largely proportional to the number of boarded passengers (PB) (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 (24.4% of 2012 revenues, up from 23.2% in FY2011), 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. In 2012, the company processed 564 million PBs, representing an increase of 28% compared to 2011. The company expects that in 2015, its 121 contracted airlines will represent more than 800 million passengers boarded on an annualized basis. While, at this stage, being a modest contributor to revenues compared to the revenues derived from distribution, the company is developing new services for the Hotel, Railways and Airports segments which will increase the weight of the IT Solutions on the total revenues and further reduce the operating risk derived from the distribution business. Additionally, 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 2012, IT Solutions represented 34.7% 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 particular, Moody's notes the new initiative from IATA which seeks to develop a new platform for distribution - the NDC. While still short on details, the model could potentially represent a longer-term risk for the industry should a new model of distribution emerge. As airlines' revenues derived from ancillary revenues are expected to continue increasing, Amadeus (and its peers) are, however, actively working on solutions seeking to integrate these products onto the GDS-platforms.

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. For the first quarter of 2013, Amadeus reported a growth of 22% 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.430 bookable airlines, c.250,000 hotels, rail cruise and ferry operators, car rental companies, and insurance companies. 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.

**Liquidity**

We consider Amadeus' liquidity profile to be solid. As of the end of March 2013, the company reported EUR459.3 million of cash and equivalents, versus current debt-maturities of EUR363.2 million. Moody's understands that

Amadeus's cash balances are available on short notice and are largely located in banks outside European peripheral countries.

In May 2013, Amadeus repaid the remaining part of its bridge loan (EUR 106 million) as well as the annual EUR100 million instalment under its term-loan A. Upcoming debt-maturities in 2014 (around EUR220 million) and 2015 (around EUR300 million) are expected to be covered mostly by the company's own free cash flows.

The company's liquidity profile is further supported by access to an undrawn committed revolving credit facility of EUR200 million, maturing in December 2014. 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 2013 with Net Debt/ EBITDA at 1.28x.

Moody's also notes Amadeus has strengthened its liquidity profile through the obtention of two amortising loans from European Investment bank (EIB).

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.

### Other Considerations

The company maps to an A2 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 2013. 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 outlook on the ratings is stable and reflects Moody's assumptions that (1) Amadeus will continue generating strong free cash flows on the back of further market-share gains in its distribution-segment; and (2) the growth of passengers boarded in its IT-services division will remain strong. The stable outlook also reflects Moody's assumption that Amadeus will continue adhering to its self-imposed leverage target of net debt to EBITDA in the 1.0x-1.5x range, while maintaining a payout-ratio of 40%-50% of net income.

### What Could Change the Rating - Up

In view of the elevated business risk within Amadeus's industry, further upward pressure is unlikely in the near term. An upgrade would require larger scale in combination with increased diversification. Moreover, an upgrade would also require a Debt/ EBITDA sustainably below 1.5x and RCF/Net Debt above 50%.

### What Could Change the Rating - Down

Negative rating pressure could develop if adjusted gross leverage were to remain above 2.0x or RCF/ Net Debt fell below 30% on a sustained basis. A one-notch downgrade of the sovereign rating, if it was to occur, would not be expected to have any negative impact on Amadeus ` rating.

## Rating Factors

**Amadeus IT Holding, S.A.**

| **Business and Consumer Service** [1][2] | **Aaa** | **Aa** | **A** | **Baa** | **Ba** | **B** | **Caa** | **Ca** |
|---|---|---|---|---|---|---|---|---|
| **Factor 1: Size and Profitability (30%)** | | | | | | | | |
| a) Pretax Income (USD Million) | | $969.7 | | | | | | |
| b) Revenue (USD Million) | | | | $3,788.3 | | | | |
| **Factor 2: Financial Strength (55%)** | | | | | | | | |
| a) RCF / Net Debt | | | 42.6% | | | | | |
| b) FCF / Debt | | | | 18.3% | | | | |
| c) (EBITDA - CapEx) / Interest Exp | | 9.1x | | | | | | |
| d) Debt / EBITDA | | | 1.9x | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Factor 3: Financial Policy (15%)** | | | | | | | | |
| d) Financial Policy | | | | X | | | | |
| **Rating:** | | | | | | | | |
| a) Indicated Rating from Grid | | | A2 | | | | | |
| b) Actual Rating Assigned | | | | Baa2 | | | | |

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 3/31/2013(L); Source: Moody's Financial Metrics