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Research Update:

Amadeus IT Group 'BBB/A-2' Ratings Affirmed On Funding Secured To Acquire TravelClick; Outlook Still Positive

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Overview

- Amadeus IT Group S.A. is in the process of acquiring U.S.-based TravelClick for $1.52 billion, and it raised €1.5 billion via bonds issuance on Sept. 18, 2018, to fully fund the transaction.
- Although the acquisition will weaken Amadeus' credit metrics, it will increase the company's focus on small to mid-sized properties in its hospitality segment, enhance its presence in North America, and will likely benefit from some revenue synergies.
- We are therefore affirming our 'BBB/A-2' ratings on Amadeus and our 'BBB' rating on its senior unsecured notes.
- The positive outlook reflects our belief that Amadeus will successfully integrate TravelClick, and our expectation that we could raise the ratings over the next 12 months if Amadeus' pace of leveraged acquisitions or shareholder remuneration remains broadly in line with our expectations, such that it deleverages towards 1.5x and funds from operations to debt returns to above 45%.

Rating Action

On Oct. 4, 2018, S&P Global Ratings affirmed its 'BBB' long-term and 'A-2' short-term issuer credit ratings on Spain-based Amadeus IT Group S.A. The outlook remains positive.

We also affirmed our 'BBB' issue ratings on the group's senior unsecured debt.

Rationale

The affirmation reflects that, although we expect Amadeus to temporarily experience weaker credit metrics pro forma its debt-funded acquisition of U.S.-based TravelClick, Inc. (B-/Stable/--), we believe the company's pro forma business overall will strengthen. We also expect Amadeus will deleverage quickly to its stated financial policy of S&P Global Ratings-adjusted leverage of below 2x by year-end.

On Sept. 18, 2018, Amadeus successfully priced €1.5 billion of bonds in three €500 million tranches (3.5, 5.0, and 8.0 year maturities) to fund the

TravelClick acquisition. The company expects to close the deal before the end of 2018.

We estimate pro forma adjusted debt to EBITDA will approach 2.0x, from 1.4x for the 12 months ended June 30, 2018, and funds from operations (FFO) to debt to decline to 40%, from 50% over the same period. However, we expect adjusted leverage will recover to about 1.5x by 2019, absent further mergers and acquisitions, additional shareholder buybacks, or unexpected underperformance not currently envisaged in our base case.

We continue to believe that the TravelClick acquisition represents a strategic fit for Amadeus' fast-growing hospitality segment. In our opinion, it should bolster Amadeus' global position and total addressable market, increase its focus on small to mid-sized properties, enhance its presence in North America, and usher in some revenue synergies (mainly new clients and cross-selling activities), though these have yet to be quantified. Amadeus expects its estimated addressable hospitality market to increase to €7.1 billion post-acquisition from €4.8 billion currently. In addition, the group assumes it will serve more than 53,000 properties (versus 26,000 currently) across the full spectrum of the market with a segmented offer.

The TravelClick acquisition will be Amadeus' largest to date, ahead of Navitaire in 2015 for $830 million. Both acquisitions point to a trend in Amadeus' expansion strategy of trying to capture a larger slice of the respective markets by tackling the low to mid respective segments. We acknowledge that Amadeus demonstrated its integration capabilities with the Navitaire deal, but we cannot ignore potential setbacks, as any acquisition introduces some execution and integration risk that could lead to higher leverage for a prolonged time due to unexpected underperformance or restructuring costs of the acquired business.

Still, Amadeus' creditworthiness is underpinned by its strong profitability, a relatively flexible operating cost structure, and favorable working capital characteristics, which we expect will enable the group to continue generating solid free operating cash flows and quickly deleverage toward an S&P Global Ratings-adjusted debt to EBITDA of about 1.5x by 2019.

We continue to regard as key rating strengths Amadeus' leading market position as the largest GDS (Global Distribution System) provider, its growing airline, hospitality, and software businesses, and its solid operating performance and cash flow generation profile. Amadeus' enjoys a strong presence in complementary and synergistic business models, which improve efficiency, support economies of scale, and reinforce high barriers to entry. Conversely, as a technology business in the travel industry, in our view, Amadeus is exposed to the competitive and cyclical nature of the industry, potential bankruptcies or consolidation of airlines or large travel agents, and to underinvestment in technology.

Amadeus, through its GDS arm, acts as an intermediary between travel suppliers (including airlines, hotels, and car rental companies) and travel agencies, online travel agencies, and corporations. As such, it gathers inventory information (such as airline seats and hotel rooms) from those suppliers. Amadeus generates revenues from booking fees paid by travel suppliers and sellers, as well as from technology solutions that enhance core operations to travel businesses, such as analytics, inventory, revenue management, departure control, and payments. Although the GDS market is substantially consolidated--it has just two other main competitors--the market is highly competitive, and some of its customers (in particular commercial airlines) continue to exert pressure on fees and push for alternative distribution platforms. Therefore, Amadeus has limited ability to implement significant price increases in this segment.

We anticipate Amadeus' IT Solutions segment will continue to drive growth, since airlines seek to cut costs and increase productivity by outsourcing the managing of IT infrastructure to specialized companies like Amadeus. In our view, this segment is becoming increasingly relevant to Amadeus' overall performance, in particular through its focus on new business solutions, including the hospitality segment (which will strengthen on the back of the TravelClick acquisition). This will complement Amadeus' own developed guest reservation system, which currently includes InterContinental and Premier Inn. Other segments include Revenue Management Solutions, Airport IT, and Rail IT.

Amadeus' operating profitability, measured by EBITDA, demonstrates relatively low volatility, and its margins (consistently above 30%) are markedly stronger than its main peers', Sabre Corp. (BB/Stable/--) and Travelport Worldwide Ltd. (B+/Positive/--). Our expectation that Amadeus will maintain its EBITDA margins is based on its sound track record of successfully integrating acquisitions and capitalizing on efficiency gains.

Amadeus has consistently, year on year, demonstrated strong operating performance. During the first half of 2018, results continued to strengthen with reported revenue and EBITDA growth of 4.1% and 8.2%, respectively. We note, however, the unexpected market share loss in the GDS business in Europe. Nonetheless, we understand this loss is mostly driven by aggressive pricing strategies of competitors, which we do not believe are sustainable in the long term, and not by a change in technology leadership. We note GDS bookings rose by 3.4%, broadly in line with the market, hindered by the timing of Easter and the above-mentioned market share loss. The IT Solutions division reported revenue growth supported by an 18.0% passenger boarded increase (7.8% organically), with a dilution in average pricing due to the fast growth of low-cost carriers. Given the cash generative characteristics of the business, we expect Amadeus to continue extraordinary shareholder distributions, absent additional acquisition opportunities. In December 2017, Amadeus announced a share-buyback program of up to €1 billion split in two tranches. The first tranche of €500 million is non-cancellable and should be completed before March 2019; as of June 30, 2018, Amadeus had completed €212 million. The second tranche is cancellable at the company's discretion for either acquisitive behavior or if other circumstances require so. Under our base case, we assume that the second tranche will be cancelled following completion of the TravelClick acquisition.

Amadeus' performance historically has been largely in line with our expectations, and our pro forma base case (including TravelClick) for the next two years assumes:

- Amadeus' GDS segment to follow a trend of increase in passenger volumes, fueled by world GDP growth. We expect Eurozone GDP growth at 2.1% and 1.7% in 2018 and 2019, respectively; In Emerging Markets, we expect 5.4% GDP growth in the aforementioned period.
- Mid- to high-single-digit percent revenue growth, as a result of a mix of organic and inorganic growth driven by migrations and new products as well as TravelClick's contribution.
- Relatively stable adjusted EBITDA margins, between 30% and 32%, as the increased weight of IT Solutions segment, which bears higher margins, is partially offset by ongoing commercial pressures from rivals in the GDS segment.
- Annual reported capital expenditures (capex) of about €700 million–€800 million per year (about 12%-14% of expected revenues) over the next two to three years, versus €612 million in 2017. Mostly investments are in intangible assets, resulting from higher software capitalization.
- A dividend payout of about 50% of net income, at the higher end of Amadeus' public guidance.
- Share repurchases of at least €500 million announced and committed for 2018, plus the announced debt-funded acquisition of TravelClick.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted debt to EBITDA of around 2.0x in 2018, improving toward 1.5x by 2019; and
- Discretionary cash flow to debt of about 12%-14% in 2018-2019.

We continue to view Amadeus' financial policy as a rating constraint because it indicates the company's desire to expand through acquisitions. As a result, leverage could periodically increase beyond 2x to facilitate further large transactions. In addition, if Amadeus does not find suitable growth opportunities in the next two years, its financial policy allows it to make further shareholder distributions (via dividends or share buybacks). However, we do not believe the credit ratios would deteriorate beyond the thresholds for the current ratings.

We assess Amadeus' management and governance as strong. This mainly reflects our view of the group's sound track record in planning, strategy, and execution, as well as its solid operating performance in recent years.

Liquidity

Amadeus has strong liquidity, supported by substantial cash balances and healthy discretionary cash flows, in our view. Liquidity sources will exceed uses by around 1.9x over the next 12 months. Given the company's sizable cash balances and ample margin of compliance with its maintenance covenants, we expect that it could withstand a high-impact, low-probability event without a need for refinancing. Amadeus has successfully accessed the credit markets while reducing its cost of borrowing, which demonstrates a generally high standing in the credit markets. The company also demonstrates prudent risk management, given its track record of liquidity management.

We anticipate the company will have the following principal liquidity sources over the next 12 months, pro forma for the TravelClick acquisition and recent debt issuance:

- Cash and equivalents of about €540 million, as of June 30, 2018;
- Undrawn committed revolving credit facilities of €1 billion maturing in 2023; and
- Expected FFO of €1.65 billion-€1.70 billion.

We anticipate the company will have the following principal liquidity uses over the same period:

- Debt amortizations of about €95 million in 2018;
- Capex of about €735 million in 2018; and
- Dividends of about €500 million in 2018, alongside additional share buybacks of about €288 million for the year.

We note that in April 2018, when Amadeus refinanced its revolving credit facility, all financial covenants were removed. Therefore, Amadeus is currently not subject to any maintenance financial covenants.

Outlook

The positive outlook indicates that we may upgrade Amadeus over the next 12 months if the company successfully integrates TravelClick, and it continues to report good operating performance, revenue, and EBITDA expansion with no visible weakening of the business and industry coming from, for example, disintermediation pressures or technology disruptions currently not envisaged. Any upgrade would also hinge on Amadeus' adherence to its stated financial policy.

Upside scenario

We could raise the rating if Amadeus successfully integrates TravelClick, and its pace of leveraged acquisitions or shareholder remuneration remains roughly in line with our expectations, such that its debt to EBITDA nears 1.5x and FFO to debt returns to above 45%, both on a sustainable basis. We would also look for continued organic growth, at least stable profitability, and improved market share (through new product offering, for example).

Downside scenario

We could revise the outlook to stable or lower the ratings if we observed a loosening of the financial framework or its implementation, especially in terms of acquisitions or dividends and share buybacks.

For instance, rating pressure could emerge from a future material debt-funded acquisition or series of transactions, followed by meaningful performance deterioration relative to our expectations (for example, due to technology disruption) that it pushes adjusted leverage above 2.5x or discretionary cash flows to debt below 15% on a sustained basis. We could also lower the rating if we noted a fundamental deterioration of the resilience of Amadeus' business mix and profile compared with peers.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Positive/A-2

Business risk: Satisfactory
- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: bbb+

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Negative (-1 notch)
- Management and governance: Strong (no impact)
- Comparable ratings analysis: Neutral (no impact)

Issue Ratings--Subordination Risk Analysis

Capital structure

The majority of Amadeus' €4 billion outstanding debt is unsecured and benefits from an intragroup cross-guarantee structure. The group's unsecured bonds and bank facilities are guaranteed by the main holding companies, namely Amadeus IT Group S.A., Amadeus Capital Markets, S.A.U., and Amadeus Finance B.V.

Analytical conclusions

The €3,000 million of senior unsecured capital markets notes issued by Amadeus Capital Markets S.A. and Amadeus Finance B.V. are rated 'BBB', in line with the issuer credit rating. No significant elements of subordination risk are present in the capital structure.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Technology Software And Services Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Bulletin: Amadeus IT Group Ratings And Outlook Unaffected For Now By Proposed Acquisition Of TravelClick, Aug. 13, 2018
- Bulletin: TravelClick Inc.'s Planned Acquisition By Amadeus IT Group S.A. Does Not Affect Ratings, Aug. 13, 2018
- Summary: TravelClick, Inc., Jan. 31, 2018

Ratings List

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Ratings Affirmed

Amadeus IT Group S.A.
 Issuer Credit Rating                    BBB/Positive/A-2
 Senior Unsecured                        BBB

Amadeus Capital Markets S.A .Sociedad Unipersonal
 Senior Unsecured                        BBB

Amadeus Finance B.V.
 Commercial Paper                        A-2
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.