

## NEWS & ANALYSIS

*Credit implications of current events*

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### Amadeus' Acquisition of Navitaire Is Credit Positive

On Thursday, [Amadeus IT Holding S.A.](#) (Baa2 stable), announced it had reached an agreement to acquire Navitaire (unrated) for \$830 million. The acquisition is credit positive for Amadeus, a leading provider of global distribution services (GDS) and IT services to the airline industry. Despite the fact that the acquisition will be fully debt financed and will increase Amadeus' leverage, it will further reduce the company's exposure to its distribution segment while allowing for expansion into new segments of airline IT that have favourable growth prospects and offer cross-selling opportunities.

Navitaire is a US-based provider of passenger service services (PSS) with a particularly strong foothold in airline IT services to the fast-growing low-cost carrier and hybrid segments. The transaction is a strategic fit for Amadeus because it will significantly broaden its footprint within PSS given that its own platform mostly caters to regular carriers. Low-cost carriers have significantly increased their market share in the past decade. Driven by their no-frills strategy, low-cost carriers have often opted for a direct distribution model that has hurt the GDS-players, whose sector on average has grown less rapidly than that of air travel as a whole.

In recent years, this disintermediation-trend has been particularly visible in Asia-Pacific. Thanks to Navitaire's strong positioning in the Asia-Pacific region, we believe the acquisition will allow Amadeus to capitalize on what we expect will be continued strong passenger volume growth, in spite of bookings outside of Amadeus' distribution system because the airline IT division charges a fee for every passenger boarded. For the year to 31 August 2015, Navitaire expects to record a total of 490 million passengers boarded and anticipates growth in volumes, revenues and EBITDA of mid to high single-digits in the years to come.

We also believe the acquisition offers certain cross-selling opportunities to Amadeus. Underpinned by the strong growth rates of ancillary services, low-cost carriers and hybrid carriers are increasingly sophisticated in their product offering. As the degree of complexity increases, certain carriers will see their needs evolve more towards those of a regular carrier and Amadeus is therefore solidly positioned in the value chain because it can tailor product offerings according to complexity.

Amadeus has said it expects to report net leverage of 1.50x at the end of 2015 pro forma for the acquisition, up from 1.25x for the last 12 months to March. The company's leverage will be at the top-end of its self-imposed leverage target of net debt/ EBITDA of 1.0x-1.5x. In December last year, Amadeus increased distribution to shareholders in 2015 through a share buyback programme amounting to €320 million. We expect the programme, which was completed in May this year, to have consumed all of the company's free cash flows for the current year. The debt-funded acquisition of Navitaire will therefore weaken the positioning of Amadeus within its Baa2 rating category over the next 12 months: we estimate Moody's-adjusted debt/EBITDA around 2x and a retained cash flow (RCF) to net debt ratio in the low 30s. Operating with a debt/EBITDA above 2x or an RCF/net debt below 30% for a sustained period of time would negatively pressure its ratings. However, supported by its high profitability with EBITDA margins in the high 30s, we expect Amadeus to produce solid free cash flows in excess of €300 million in 2016, which should allow credit metrics to recover toward the pre-acquisition 1.25x net leverage.