

17 March 2020

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

S&P Global Ratings Update

Virgin Australia Holdings (ASX: VAH & VAHHA) provides the attached S&P Global Ratings report for release to the market, revising its long term credit ratings for the Group.

ENDS

This announcement was authorised for release by Virgin Australia Group CEO and Managing Director, Paul Scurrah.

For further information, please contact:

Virgin Australia Public Affairs
1800 142 467 or +61 7 3333 9666
publicaffairs@virginaustralia.com

Virgin Australia Investor Relations
investor.relations@virginaustralia.com

Research Update:

Virgin Australia Downgraded To 'B-' On Deteriorating Domestic Market Conditions; Placed On CreditWatch Negative

March 16, 2020

Rating Action Overview

- A downturn in the international aviation market associated with COVID-19 will likely spread more deeply into Australia's domestic market. In addition, we now believe Australia's economy will grow at just 1.2% in 2020, with a slower recovery than we previously forecast.
- We believe Virgin Australia's concerted efforts to further reduce capacity, exit loss-making routes, as well as accelerate cost reduction and fleet simplification initiatives—while appropriate—are unlikely to fully offset the cash flow impact of reducing travel demand. As a result, we believe there is an increasing likelihood that near-term cash outflows will increase, and leverage will remain elevated in fiscal 2021.
- On March 16, 2020, S&P Global Ratings lowered its issuer credit rating on Virgin Australia to 'B-' from 'B+', and lowered its related issue ratings on the airline's debt to 'CCC+' from 'B'. At the same time, we placed all ratings on CreditWatch with negative implications. Recovery ratings on the debt remain unchanged at '5'.
- The CreditWatch negative placement reflects our view that the company's operating environment may be deteriorating at a faster pace than Virgin Australia can implement initiatives to protect cash generation and balance sheet health.

PRIMARY CREDIT ANALYST

Joel Yap
Melbourne
(61) 3-9631-2196
joel.yap
@spglobal.com

SECONDARY CONTACT

Craig W Parker
Melbourne
(61) 3-9631-2073
craig.parker
@spglobal.com

Rating Action Rationale

We lowered our ratings on Virgin Australia to reflect our view that rapidly deteriorating industry conditions are spreading from the international to the Australian domestic market. We now believe Australia's economy will grow at just 1.2% in 2020, which is the weakest economic outlook in 20 years. Subdued economic conditions are exacerbated by corporate and leisure travelers cancelling unnecessary travel and the requirement for incoming international travelers to self-isolate on their return to Australia. Further, the extent and duration of reduced travel demand remain highly uncertain. We believe risks remain to the downside with an increasing likelihood

that infections will continue to rise as Australia approaches the winter months.

An immediate cash outflow is likely despite sound fundamentals in Australia's domestic aviation market. Virgin Australia, together with other industry players, have signaled their intention to reduce capacity in the face of weaker demand conditions. Virgin Australia's fleet remains the youngest in the Australian domestic market, which we believe provides it some scope to reduce new aircraft deliveries. Further, we consider that management is taking appropriate steps to restructure its cost base in the face of the deteriorating operating environment. That said, we do not believe Australia's duopoly-like domestic market structure has the ability to fully protect against the material exogenous shock currently underway.

We expect weak demand conditions, coupled with Virgin Australia's high operating leverage, to result in a meaningful cash outflow. We estimate that up to half of Virgin Australia's operating costs are fixed and the timing and effectiveness of variable cost reduction remain uncertain given the challenging and evolving revenue outlook. That said, we note Virgin Australia's relatively low exposure to international routes, which is bearing the brunt of the COVID-19 fallout. Virgin Australia also has a materially lower share of the corporate and government domestic travel market that has initiated an immediate suspension of non-essential travel.

Forward bookings and the Velocity Frequent Flyer business provide a material source of working capital, some of which could unwind. The airline's unearned revenue comprises predominantly forward bookings. While most bookings are unlikely to be eligible for cash refunds, changes in forward booking patterns could reduce Virgin Australia's working capital benefit, particularly given the skew towards near-term bookings. In addition, any decrease in the sale of frequent-flyer points to third-parties (particularly banks) or increased frequent-flyer redemption activity (particularly merchandise rather than flights), could also erode Virgin Australia's working capital buffer.

Virgin's large cash balance and limited debt maturities over the next 18 months provide important flexibility to accommodate the evolving operating environment. Virgin Australia's liquidity position, which comprises primarily about A\$900 million of unrestricted cash, should provide adequate flexibility to accommodate the group's cash requirements. However, rating stability will increasingly rely on the company continuing to adjust its cost base to offset potential further material revenue erosion and limit cash outflows if the reduction in demand continues beyond the next few months.

Global industry conditions complicate the prospect of shareholder support should Virgin Australia experience financial stress. S&P Global Ratings believes it now appears less likely than previously that Virgin Australia will receive any extraordinary support from shareholder airlines. Virgin Australia is currently 90%-owned by Etihad Airways, Singapore Airlines, Nanshan Group, HNA Group, and Virgin Group. To varying extents, each shareholder is experiencing their own challenging industry conditions, impeding their collective ability to provide timely and coordinated support if required. This is despite owners having a variety of interests that may extend beyond the airline's stand-alone profitability.

Our analysis does not incorporate any extraordinary support from the Australian government or lenders. Given the temporary nature of this crisis, we believe that government and lenders may have an incentive to support Australian carriers. That said, our analysis does not currently incorporate potential industry support packages or indirect extraordinary support the government may provide through Australia's lending institutions or other channels.

CreditWatch

The CreditWatch negative placement reflects our view that the company's operating environment may be deteriorating at a faster pace than Virgin Australia can implement initiatives to protect cash generation and balance sheet health.

We will continue to monitor Virgin Australia's revenue, earnings, and cash-flow outlook over the next 90 days to ascertain whether the company's efforts to reduce costs are sufficient to offset the challenging and evolving operating environment.

We could lower the rating if industry conditions continue to deteriorate such that the cash outflow threatens to erode the carrier's currently adequate liquidity buffer.

We could resolve the CreditWatch and affirm the 'B-' issuer credit rating with a stable outlook if we believe that Virgin Australia's earnings outlook and cash generation will be sufficient to prevent a material erosion of the group's available cash balance. This would likely depend on a recovery in the ability and willingness of Virgin's customers to travel, and ongoing active management of the group's cost base.

Liquidity

Virgin Australia's liquidity position is adequate. We expect the group's sources of liquidity to its uses to exceed its uses by more than 1.2x over the next 12 months, even if EBITDA were to decline by 30%--the minimum we expect under our criteria covering airlines. The company has a manageable debt-maturity profile over the next two years.

We expect Virgin Australia to have the following sources and uses of liquidity over the next 12 months:

Principal liquidity sources:

- Unrestricted cash and short-term investments of about A\$900 million as of Dec. 31, 2019; and
- About A\$40 million in undrawn facilities as of March 12, 2020;

Principal liquidity uses:

- Negative cash funds from operations after lease adjustments;
- Minimal debt maturities over the next 12 months;
- Capital expenditure constrained to between A\$300 million and A\$350 million; and
- No dividend distributions to shareholders.

We note the group's next material debt maturity is its US\$350 million bond maturing in October 2021, where Virgin Australia has allocated US\$350 million of its cash balance to act as a natural hedge.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Virgin Australia Holdings Ltd.		
Issuer Credit Rating	B-/Watch Neg/--	B+/Negative/--

Virgin Australia Holdings Ltd.

Senior Unsecured	CCC+/Watch Neg	B
------------------	----------------	---

; CreditWatch/Outlook Action

	To	From
Virgin Australia Holdings Ltd.		
Senior Unsecured		
AUD250 mil 8.075% med-term nts ser 2 due 03/05/2024	CCC+ /Watch Neg	B
Recovery Rating	5(10%)	5(10%)
US\$350 mil 7.875% nts due 10/15/2021	CCC+ /Watch Neg	B
Recovery Rating	5(10%)	5(10%)
US\$425 mil 8.125% Callable nts due 11/15/2024	CCC+ /Watch Neg	B
Recovery Rating	5(10%)	5(10%)

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.

S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations

Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.