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ASX Market Announcements Office
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Moody's Global Ratings Update

Virgin Australia Holdings (ASX: VAH & VAHHA) provides the attached Moody's 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.

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Rating Action: Moody's downgrades Virgin Australia to B3 from B2; places ratings on review for downgrade

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Sydney, March 20, 2020 -- Moody's Investors Service has today downgraded Virgin Australia Holdings Limited's Corporate Family Rating to B3 from B2. Concurrently, Moody's has downgraded Virgin's senior unsecured and backed senior unsecured ratings to Caa1 from B3, and its backed senior unsecured MTN program to (P)Caa1 from (P)B3. Moody's has also placed all ratings on review for further downgrade. The outlook is changed to ratings under review from stable.

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RATINGS RATIONALE

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The passenger airline sector has been one of the sectors most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. Today's action reflects the impact on Virgin of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

The rating action was prompted by the very sharp decline in passenger traffic since the outbreak of coronavirus started January 2020, which will result in a significant negative free cash flow, a weakening liquidity profile and significantly higher leverage in the fiscal year ending 30 June 2020.

Moody's base case assumption is that the coronavirus pandemic will lead to a period of severely reduced passenger traffic over at least the next three months, with partial or full flight cancellations and aircraft groundings globally. Moody's base case assumes a gradual recovery in passenger volumes from the third quarter. However, there are high risks of more challenging downside scenarios, and the severity and duration of the pandemic and travel restrictions is uncertain.

Moody's analysis assumes a more than 60% reduction in Virgin's passenger traffic in the second quarter of calendar 2020, whilst also modelling significantly deeper downside cases.

Following the announcement by the Australian government on 15 March that all travellers to Australia, regardless of nationality, will be required to self-isolate for 14 days, Virgin will suspend all international flights from 30 March until 14 June and reduce group domestic capacity by 50% over the same period.

The sharp decline in demand has come at a time when Virgin has minimal headroom under its current rating. Moody's expects the issuer's debt/EBITDA to exceed 7x at the end of fiscal 2020, which is above the downgrade trigger of 6x that had been set for its rating.

Virgin is currently reducing costs as much as possible to manage its way through this very volatile market environment and mitigate some of the negative credit effect. The company is working with staff and the unions and has requested staff to utilize annual leave or consider unpaid leave. Redundancies will be a last resort.

LIQUIDITY

Virgin has approximately AUD900 million of cash on its balance sheet and minimal availability under its credit facilities. While the airline has no new aircraft deliveries until July 2021, and no significant debt maturities until October 2021, significantly lower bookings as it cuts capacity will lead to material cash burn in the short term. The pace and quantum of Virgin's cost reductions will be a critical factor in reducing the cash burn and ensuring it has the liquidity to meet its obligations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Virgin is listed on the Australian Securities Exchange but around 90% of the company is owned by five key shareholders: Etihad Airways (20.94% stake), Singapore Airlines (20.09%), Nanshan Group (19.98%), HNA Group (19.82%) and Virgin Group (10.42%). Half of Virgin's board is comprised of independent directors, with the other half comprised of the CEO and directors appointed by its five key shareholders.

WHAT COULD CHANGE THE RATING

Moody's review will focus on (1) the spread of the virus within Australia, as Virgin is largely a domestic airline, (2) the evolving market situation, including passenger traffic conditions and any further steps taken by the Australian government to manage the spread of the virus, (3) the airline's ability to reduce costs, including staff costs to reduce the cash burn, and (4) any significant government support for the airline sector that would improve Virgin's liquidity.

Moody's could downgrade the rating if there is a further reduction in domestic passenger volumes beyond Moody's current expectation, prompted by passenger fear, widespread infections, or domestic flight bans. Moody's could also downgrade the rating if cash is depleted due to the inability to remove costs and cut capital spending in a timely manner.

The outlook could be returned to stable if Virgin manages to reduce costs and capital spending to a level where its liquidity can be maintained above AUD700 million, along with a stabilizing domestic industry and recovering passenger demand.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Passenger Airline Industry published in April 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Virgin Australia Holdings Limited, headquartered in Brisbane, is Australia's second largest airline following its launch in 2000 and listing on the Australian Securities Exchange in 2003. As of fiscal 2019, it had generated revenues of AUD5.8 billion and carried around 24.8 million passengers.

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