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ASX Market Announcements Office
Australian Securities Exchange
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Moody's Ratings Update

Virgin Australia Holdings (ASX: VAH & VAHHA) provides the attached Moody's Updated Rating for release to the market, revising its long term credit ratings for the Group.

ENDS

This announcement was authorised for release by Vaughan Strawbridge, Deloitte

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CREDIT OPINION

21 April 2020

Update

✓ Rate this Research

RATINGS

Virgin Australia Holdings Limited

Domicile	Australia
Long Term Rating	Caa1 , Possible Downgrade
Type	LT Corporate Family Ratings
Outlook	Rating(s) Under Review

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Virgin Australia Holdings Limited

Update after Virgin entered voluntary administration

Summary

Virgin Australia Holdings Limited (Virgin) entered voluntary administration on 21 April 2020 which is in line with our base case assumption that any future steps taken to ensure the airline's ongoing viability will result in economic loss to creditors, and in particular to unsecured creditors.

This is reflected in Virgin's corporate family rating of Caa1 and unsecured ratings of Caa3. The ratings also remain under review for further downgrade.

The devastating effect on the airline from the coronavirus outbreak and resultant response by government has left Virgin's management in a position where it now feels the best option is to use voluntary administration to try and recapitalize the business, with a view to ensuring its survival after the coronavirus outbreak.

While we have seen the federal government in Australia unveiling relief measures for the aviation industry made up of refunds and waivers of fuel excise, air services charges and regional security fares, the benefit of this support is negated by the grounding of the fleet. Further industry support from the government, at a level that would be needed to ensure Virgin has enough liquidity, is not currently expected.

The stated intention from the administrators is to restructure and refinance the business and bring it out of administration as soon as possible, and they indicated that there had already been expressions of interest from potential investors.

The key issue for existing creditors will be the haircut they are requested to take in a restructure, relative to the risk of putting the company into liquidation with uncertain recovery prospects.

Credit Strengths

- » Lack of substitutes for air travel in Australia and the duopoly domestic airline market structure support Virgin's business profile
- » The value of the Velocity business will benefit Virgin's business profile should the airline be successfully restructured.

Credit Challenges

- » Insufficient liquidity to withstand the ongoing effects of the coronavirus outbreak has resulted in Virgin entering voluntary administration, with a resultant expected economic loss to creditors.
- » Weak financial profile with high financial leverage and negative free cash flow
- » Smaller domestic market share, lower profitability and weaker balance sheet than Qantas.

Rating Outlook

The rating remains under review for downgrade pending the outcome of the voluntary administration process.

Factors that Could Lead to an Upgrade

This is not expected given the voluntary administration.

Factors that Could Lead to a Downgrade

The most likely outcome is a downgrade to reflect an event of default through the voluntary administration period.

This could come from:

- » A distressed exchange whereby 1) Virgin offers creditors a new or restructured debt, or a new package of securities, cash or assets, that amount to a diminished value relative to the debt obligation's original promise and 2) the exchange has the effect of allowing the issuer to avoid a likely eventual default;
- » A bankruptcy filing or legal receivership that will likely cause a miss or delay in future contractually obligated debt service payments.

Key Indicators

Exhibit 1

Virgin Australia Holdings Limited

AUD million	FY16	FY17	FY18	FY19	LTM Dec-19
Revenue	\$4,986	\$5,041	\$5,417	\$5,827	\$5,874
EBIT Margin (EBIT / Revenue)	5.3%	2.9%	6.4%	3.8%	2.9%
Debt / EBITDA	6.8x	6.0x	5.0x	5.9x	5.7x
RCF / Debt	9.4%	11.1%	12.1%	8.6%	3.4%
(FFO + Interest Expense) / Interest Expense	2.5x	2.8x	2.9x	2.4x	1.6X

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics

Profile

Virgin Australia Holdings Limited (Virgin), headquartered in Brisbane, is Australia's second largest airline following its launch in 2000 and listing on the ASX (Australian Stock Exchange) in 2003. As of fiscal year 2019, it had generated revenues of AUD5.8 billion and carried around 24.8 million passengers. Virgin operates 133 aircraft, including the fleet of Tigerair, its low-cost carrier.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Detailed Credit Considerations

Coronavirus outbreak

The rapid and widening spread of the coronavirus outbreak, the deteriorating global economic outlook and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets.

The passenger airline sector is one of the most affected sectors given its exposure to travel restrictions and sensitivity to consumer demand, whether driven by fear of contagion or economic considerations.

We revised the global airline industry outlook to negative on 6 March and then during the week commencing 16 March, we reassessed our ratings and initiated reviews for downgrades for most of the airline companies that we cover.

While we have seen the federal government in Australia unveiling new relief measures for the airlines made up of refunds and waivers of fuel excise, air services charges and regional security fares totaling AUD715 million, the benefit of this support is negated by the grounding of the fleet.

ESG considerations

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Rating Methodology and Scorecard Factors

Exhibit 2

Rating Factors

Virgin Australia Holdings Limited

	Current LTM 12/31/2019	
Passenger Airlines Industry Scorecard [1]		
Factor 1 : Scale (10%)	Measure	Score
a) Revenue (USD Billion)	\$4.1	Caa
Factor 2 : Business Profile (25%)		
a) Market Position and Network Strength	Ba	Ba
Factor 3 : Profitability and Efficiency (12.5%)		
a) EBIT Margin (EBIT / Revenue)	2.9%	Caa
Factor 4 : Leverage and Coverage (37.5%)		
a) Debt / EBITDA	5.7x	B
b) RCF / Debt	3.4%	Caa
c) (FFO + Interest Expense) / Interest Expense	1.6x	Caa
Factor 5 : Financial Policy (15%)		
a) Financial Policy	Ba	Ba
Rating:		
a) Scorecard-Indicated Outcome		B2
b) Actual Rating Assigned		Caa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics

Appendix

Exhibit 3

Peer comparison

Virgin Australia Holdings Limited

(in USD millions)	Virgin Australia Holdings Limited Caa1 RUR-DNG			Qantas Airways Ltd. Baa2 RUR-DNG			Air New Zealand Limited Baa2 Stable		
	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-17	FYE Jun-18	FYE Jun-19
Revenue	\$3,800	\$4,199	\$4,169	\$12,104	\$13,277	\$12,854	\$3,639	\$3,927	\$3,881
Operating Profit	\$96	\$255	\$137	\$1,148	\$1,273	\$989	\$425	\$435	\$239
EBITDA	\$642	\$803	\$679	\$2,577	\$2,802	\$2,501	\$946	\$978	\$793
Total Debt	\$3,937	\$3,812	\$3,929	\$5,943	\$5,355	\$5,385	\$2,683	\$2,620	\$2,576
Cash & Cash Equiv.	\$756	\$739	\$934	\$1,362	\$1,252	\$1,514	\$1,002	\$909	\$709
EBIT / Int. Exp.	0.5x	1.1x	0.7x	4.5x	5.0x	4.4x	4.8x	5.3x	3.2x
Debt / EBITDA	6.0x	5.0x	5.9x	2.3x	2.0x	2.2x	2.8x	2.8x	3.2x
RCF / Net Debt	13.7%	14.5%	11.3%	44.6%	56.1%	46.9%	21.4%	33.3%	27.2%
FCF / Debt	-4.6%	-1.3%	-1.8%	4.9%	12.8%	4.8%	-12.9%	-0.6%	-2.3%

All figures & ratios calculated using Moody's estimates & standard adjustments.

Source: Moody's Financial Metrics

Exhibit 4

Moody's adjusted debt breakdown

Virgin Australia Holdings Limited

(in AUD Millions)	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19
As Reported Debt	1,951	2,762	3,000	2,433	2,568	3,029
Operating Leases	2,390	2,791	2,647	2,700	2,592	2,571
Moody's-Adjusted Debt	4,340	5,553	5,647	5,133	5,160	5,599

All figures & ratios calculated using Moody's estimates & standard adjustments.

Source: Moody's Financial Metrics

Exhibit 5

Moody's adjusted EBITDA breakdown

Virgin Australia Holdings Limited

(in AUD Millions)	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19
As Reported EBITDA	-94	245	262	281	356	267
Operating Leases	346	370	460	540	518	514
Interest Expense – Discounting	0	-9	-9	-13	-14	-11
Unusual	92	4	116	47	180	178
Non-Standard Adjustments	166	17	-1	-2	-4	0
Moody's-Adjusted EBITDA	510	626	828	852	1,037	948

All figures & ratios calculated using Moody's estimates & standard adjustments.

Source: Moody's Financial Metrics

Ratings

Exhibit 6

<u>Category</u>	<u>Moody's Rating</u>
VIRGIN AUSTRALIA HOLDINGS LIMITED	
Outlook	Rating(s) Under Review
Corporate Family Rating	Caa1
Senior Unsecured	Caa2

Source: Moody's Investors Service

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