

Rating Action: Moody's downgrades Travelex' CFR to B3; outlook negative

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London, 05 September 2016 -- Moody's Investors Service has today downgraded foreign currency exchange specialist TP Financing 3 Limited's ("Travelex" or "the company") corporate family rating (CFR) to B3 from B2 and its probability of default rating to B3-PD from B2-PD. Concurrently Moody's has downgraded the GBP90 million senior secured bank facility rating of TP Financing 3 Limited to Ba3 from Ba2, as well as the GBP350 million senior secured notes rating of Travelex Financing plc to B3 from B2. All ratings have a negative outlook.

"The downgrade reflects Travelex's deteriorating operational performance and debt protection ratios, our expectations that its profitability will remain weak and its free cash flow negative over the next 12 months" says Guillaume Leglise, a Moody's analyst and lead analyst for Travelex. "We also believe that Travelex's liquidity profile has weakened and now exhibits limited room for manoeuvre, resulting in a level not compatible with a B2 rating", says Mr Leglise.

RATINGS RATIONALE

Today's rating action reflects Travelex's weak operating results in the first half of its current financial year ending December 2016, far below Moody's expectations, owing to margin pressure in Europe, adverse market conditions in Brazil and Nigeria, continued investments in digital platforms and increase in central and shared costs. Moody's expects that, absent a material recovery in trading conditions in H2 2016, Travelex's reported leverage (gross debt before Moody's adjustments to Core group EBITDA as defined by the company) will remain high, in excess of 7.0x at end-2016 (vs 4.5x in FY2015).

Travelex has recorded lower profitability across all of its business units in the first half 2016 compared to the same period last year, with reported EBITDA (defined as 'Core group EBITDA') down by GBP18.6 million, or 58%. The underperformance was most pronounced in Wholesale activities, where profitability was impacted by the sharp fall of banknotes volumes in Nigeria, one of the company's largest wholesale supply regions. Challenges in Nigeria translated into a material GBP7.1 million (-30%) decline of Travelex' wholesale segment EBITDA. While banknotes volumes are expected to gradually resume as the Central Bank of Nigeria started to relax its currency controls in June 2016, the phasing of a full removal of currency controls by the Nigerian authorities is unclear at this juncture, and it will take time for Travelex to recover to volumes and earnings levels achieved prior to the currency control introduction.

In addition, the Brazilian division continued to be severely impacted by the weak real compounded by a high inflationary environment and a high fixed cost base. Moody's does not expect a meaningful recovery in the company's performance in Brazil in the next 12 months in light of challenging political and macroeconomic conditions. While reported EBITDA in the company's largest division, Retail, was only slightly lower year-on-year, notably impacted by margin pressures in Europe, the results here were helped by favourable translational foreign currency effects and top line growth in Japan and in the Middle-East.

Travelex's profitability was also affected by higher central and shared costs, up by a material GBP5.4 million (+23%) compared to the first half of 2015, as well as by increased operating expenses linked to investments in digital and business development. These are designed to support the company's recent initiatives in the digital segment notably through the development of its own digital solutions. Although paper-based payment remains the leading consumer payment type globally, the strong growth of digital payments led to additional investments into R&D and staffing in this domain. Moody's believes that these efforts will take time to materialise and will constrain profitability and free cash flow generation in the next 12-18 months.

Moody's decision to downgrade the CFR also reflects Travelex's weakened liquidity profile, owing to a sustained negative free cash flow generation. Moody's expects Travelex's free cash generation will remain negative in the next 12 to 18 months owing to challenging conditions in Brazil and Nigeria, continued investments in digital and adverse working capital movements this year linked to the termination of an agreement with a wholesale banknote supplier.

The company's amount of "usable cash" on the balance sheet (defined as the amount of net cash available to Travelex for immediate use and excluding cash in tills and vaults) at the end of June 2016 was modest at

GBP35.5 million, compared to GBP60.7 million at the end of June 2015. This mainly reflects negative cash flow generation over the past year owing to declining profitability, adverse working capital requirements, exchange rate movements on cash inventory and continued capex investments linked to IT developments and maintenance.

As at 30 June 2016, Travelex was utilising around GBP80 million of its GBP90 million Super Senior Revolving Credit Facility (RCF), comprising GBP49.9 million cash drawings and around GBP30 million in respect of letters of credit guaranteeing rents at airports. This results in a limited room to manoeuvre for Travelex, notably to offset any sizeable seasonal swings, reflecting holiday patterns. Moody's however notes that the recent agreement with the shareholders provides some working capital flexibility for the supply of banknotes.

More positively, the rating remains supported by Travelex's strong brand recognition, business profile and position as the leading global retail foreign exchange provider, backed by a geographically diverse network of points of sale.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects Moody's expectations that margins will continue to be under pressure in the next 12 to 18 months and free cash flow generation will remain negative, constrained by challenging business conditions in certain markets and continued capex investments.

WHAT COULD CHANGE THE RATINGS DOWN/UP

Moody's could stabilise the outlook if there is evidence of a sustainable recovery in earnings in the company's operations especially within its wholesale division and in Brazil leading to a moderation in its cash burn.

An upgrade is unlikely at this stage considering the negative outlook. Over time, upward pressure on the rating could develop if Travelex restores its profitability and improves materially its free cash flow generation. Quantitatively, a Moody's-adjusted EBITA/interest expense ratio comfortably above 1.0x and a positive free cash flow generation could trigger an upgrade.

Conversely, Moody's could downgrade the ratings if Travelex's free cash flow generation further weakens as a result of a further drop in operating performance or higher-than-expected capital expenditures or working capital outflows. Quantitatively, a Moody's-adjusted EBITA/interest expense ratio sustainably below 1.0x could trigger a downgrade. Any further weakening of the company's liquidity profile would also exert immediate downward pressure on the rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Service Industry published in December 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Domiciled in Jersey, TP Financing 3 Limited, is the 100% holder of Travelex, a market leading independent retail foreign exchange business, with a wide network of stores (more than 1,500) and ATMs (more than 1,400) concentrated in some of the world's busiest international airports and tourist locations in 29 countries. The company also provides wholesale foreign exchange currencies to central banks, financial institutions and travel agents and has partnerships with supermarkets, high street banks, travel agencies, hotels and casinos as a provider of outsourced foreign currency services. At year-end 2015, Travelex reported statutory revenues of GBP655.7 million and statutory EBITDA of GBP66.8 million (before exceptional items, as per statutory accounts).

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