DAVIDE CAMPARI-MILANO NV

78502934 CORPORATE

BBB- ISSUER RATING
Long term

OUTLOOK
Stable

Initiation date 21/12/2022
Rating date 15/04/2024

Contacts

Lead analyst
Ilidio Gomes Frois
ilidio.gomes-frois@ethifinance.com

Committee chair
Marc Pierron
marc.pierron@ethifinance.com

Rating Action and Rationale

- EthiFinance Ratings downgrades Campari's rating from "BBB" to "BBB-", maintaining a Stable outlook.
- This rating downgrade is driven by the upcoming deterioration of Campari's main credit ratios over our forecast period, following an agreement (signed in February 2024) to acquire 100% of Courvoisier S.A.S., the owner of the major French cognac brand Courvoisier, for a total amount $1.32bn (€1.22bn at the date of signing, of which €0.11bn related to an earn-out payable in 2029) on a cash free/debt free basis. This acquisition (expected to close in 2024) will be funded by a mix of debt, and equity, with the group having raised around €1.2bn in January 2024, of which €650m through a capital increase and €550m by issuing a convertible bond (with a maturity of 5 years). As a result, we expect Campari's EthiFinance Ratings-adjusted net leverage ratio pro forma the acquisition to rise substantially to 3.9x at YE24 (vs 2.9x at YE23) and then to remain above 3.0x over our forecast period (2024-2026). Nonetheless, we view this acquisition as positive from a competitive positioning perspective mainly since: i) it strengthens Campari's portfolio of global brands, both in terms of diversification and premiumization, by adding a world-renowned cognac brand; and ii) the group significantly expands its presence in the US (where 60% of Courvoisier's revenues are generated) with potential for significant growth in Asia over the long-term.
- The rating remains supported by: i) Campari's positioning as a major player in the global spirits industry, with a portfolio of over 50 premium brands (such as Campari, Aperol, Wild Turkey, and more recently Courvoisier) across the main categories; ii) good geographical diversification with a global reach, as its products are sold in around 190 countries (with its own distribution network in 26 countries); and iii) Campari's positive overall operating performance in the past few years, both in terms of revenue growth and profitability, leading to solid profitability margins (adjusted EBITDA margin of c. 24% in FY23).
- However, our rating is constrained by i) regulations regarding advertising and distribution of alcoholic beverages as well as tax increases on certain categories; ii) the discretionary nature of the industry's products, as the consumption of spirits may be negatively impacted by a significant deterioration of the overall macroeconomic environment; and iii) the significant concentration of the group's sales in global priority brands (c.57% of FY23 sales), such as Aperol (c.24%) and Campari (c.11%), since a sustained downturn in the sales of these products could impact significantly total sales.
- The beverages subsector has medium-to-high ESG risks under our methodology (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. Regarding environmental factors, the industry has a low impact on climate and biodiversity, but has some impact on pollution linked to the use of glass and plastic bottles. However, the sector raises significant health issues around sugared soft drinks and alcoholic beverages. In particular, the latter can have a higher impact on consumers' health compared to "regular beverages", with alcohol-related harm being a major public health concern (responsible for c.255-290k deaths each year across EU countries, according to the WHO). In addition, legal and regulatory constraints from state authorities (including changes in regulations relating to production, distribution, importation, marketing, advertising, pricing, packaging) may have a negative impact on the financial performance of a company operating in this subsector.
- Our assessment of the company's ESG policy is positive (company ESG score of between 0 and 1), with governance and environmental scores generally favourable, while the social score remains low, negatively impacted by year-on-year increases in employee turnover and accident frequency rates. Regarding environmental criteria, we highlight the significant year-on-year decrease in Campari's energy and water consumption respectively resulting from energy efficiency investments in its production sites and the launch of a "water reduction programme" to optimize water use. Campari's very good governance assessment mainly reflects the existence of a business conduct and anti-corruption policy, a good analysis of ESG issues (including the prioritization of ESG issues), and the separation of the roles of chairman and CEO. Therefore, our assessment of the company's ESG policy impacts positively our financial assessment, and more than offsets the effect of our industry assessment.

Issuer Description

Founded in 1860, Campari is a major player in the global spirits industry with a well-diversified portfolio of over 50 premium and super-premium brands across the major categories, including aperitifs, vodka, whisky, tequila, rum, gin, and cognac. Its brands are categorized into global, regional, and local priority brands based on their business priority, geographic scale, and growth potential. Global priority brands represent more than half of the group's sales (c.57% of FY23 revenues) and include brands such as Aperol (c.24%), Campari (c.11%), and Wild Turkey (c.8%). Campari owns 22 manufacturing facilities worldwide (including distilleries and bottling plants) and its products are marketed and distributed in around 190 countries across the globe, with its own distribution network in 26 countries, also called direct markets (c.93% of revenues in FY23), where it sells directly to retailers and wholesalers. The group employed c. 4.7k people at YE23. Campari has been listed on the Italian Stock Exchange since 2001 and has a market capitalization of €11.8bn (market close on March 15, 2024). Lagfin (the holding company of the Garavoglia family) controls 51.3% of Campari.

For 2023, Campari generated revenues of €2.9bn (+8.2% yoy), and adjusted EBITDA of €699.2m (+9.4% yoy), equivalent to a 24.0% margin (vs 23.7% in 2022). The consolidated EthiFinance Ratings net leverage ratio was 2.9x at end-2023 (vs 2.6x at end-2022).

Main Financial Figures

Main financial figures. Millions of €	FY22	FY23	FY24e[1]	FY25e	FY26e	23vs22
Turnover	2 698	2 919	3 196	3 356	3 523	8,2%
EBITDA	639	699	757	810	860	9,4%
EBITDA Margin	23,7%	24,0%	23,7%	24,2%	24,4%	0,3pp
EBIT	490	511	623	663	705	4,2%
EBIT Margin	18,2%	17,5%	19,5%	19,8%	20,0%	-0,7pp
EBT	522	581	729	800	842	11,4%
Total Assets	6 007	6 676	8 227	8 564	8 933	11,1%
Equity	2 676	2 927	3 879	4 183	4 518	9,4%
Total Financial Debt	2 103	2 665	3 217	3 221	3 225	26,8%
Net Financial Debt	1 667	2 045	2 927	2 823	2 587	22,7%
Equity/TFD	127,3%	109,8%	120,5%	129,8%	140,1%	-17,5pp
NFD/EBITDA	2,6x	2,9x	3,9x	3,5x	3,0x	0,3x
Funds From Operations	453	476	503	526	566	5,1%
FFO/NFD	27,2%	23,3%	17,2%	18,6%	21,9%	-3,9pp
EBITDA/Interest	20,3x	9,9x	7,2x	5,9x	6,2x	-10,4x

[1] Financial figures for 2024 are pro forma the acquisition of Courvoisier (assuming the closing of the acquisition on January 1st, 2024).

Credit Rating

Credit Rating	
Business Risk Profile	**BBB-**
Industry risk assessment	*BBB*
Industry's ESG	*Negative*
Competitive Positioning	*BB+*
Governance	*BBB-*
Financial Risk Profile	**BBB-**
Cash flow and leverage	*BB*
Solvency	*A-*
Company's ESG	Positive
Anchor Rating	**BBB-**
Modifiers	*-*
Rating	**BBB-**

Rating Sensitivity

- **Long-term rating positive factors (↑)**

A rating upgrade could be possible with a sustained improvement in Campari's financial profile, particularly if the group manages to deleverage faster than expected following the acquisition of Courvoisier. For the same business risk profile, a decline in the group's EthiFinance Ratings-adjusted net leverage ratio to below 2.8x, for a sustained period of time, could entail a long-term rating upgrade to BBB.

- **Long-term rating negative factors (↓)**

A rating downgrade could be entailed by a sustained deterioration in Campari's financial profile, which could be a consequence of a more aggressive financial policy and/or if the group is unable to deleverage following the acquisition of Courvoisier. For the same business risk profile, an EthiFinance Ratings-adjusted net leverage ratio above 3.5x for a sustained period of time could entail a long-term rating downgrade to BB+.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.