BBB

ISSUER RATING

Long-Term

Outlook	Stable
Initiation date	21/12/2022
Rating date	21/12/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Davide Campari-Milano N.V. (Campari)'s "BBB" long-term rating, maintaining its Stable outlook. This rating action does not factor in the potential impact expected from the acquisition of Courvoisier announced by the group on December 14, 2023.
- The rating is 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 Grand Marnier) 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 25 countries); 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 23.7% in FY22); and iv) a financial policy in line with the company's solid financial profile.
- However, we highlight the recent deterioration of Campari's main credit metrics, with its net leverage ratio rising to 2.8x at end-June 2023 (vs 1.8x at end-2021) due to the acquisition of a 70% stake in Wilderness Trail, a producer of bourbon and rye whiskey based in the US, for $420m (€394.5m at closing in December 2022). Nonetheless, we view this acquisition as positive from a competitive positioning perspective as it is in line with Campari's strategy of combining organic growth with acquisitions in its key geographies to enhance critical mass.
- Moreover, 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 FY22 sales), such as Aperol (c.22%) and Campari (c.11%), since a sustained downturn in the sales of these products could impact significantly total sales.
- In line with our methodology, the alcoholic beverages subsector has medium-to-high ESG risks (heatmap score between 3.5 and 4), which slightly constrains our industry assessment. This is due to the fact that alcoholic beverages 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 slightly positive (company ESG score of between 1 and 1.5), 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 greenhouse gas emissions (scope 1 & 2) by c.17% and in its water consumption by c.31%, 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.

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 FY22 revenues) and include brands such as

Aperol (c.22%), Campari (c.11%), and Wild Turkey (c.8%). Campari owns 23 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 25 countries, also called direct markets (c.88% of revenues in FY22), where it sells directly to retailers and wholesalers. The group employed c. 4.3k people at YE22. Campari has been listed on the Italian Stock Exchange since 2001 and has a market capitalization of €11.7bn (market close on December 13, 2023). Lagfin (the holding company of the Garavoglia family) controls 54.4% of Campari.

For 2022, Campari generated revenues of €2.7bn (+24.2% yoy), and adjusted EBITDA of €639m (+29.3%), equivalent to a 23.7% margin (vs 22.7% in 2021). The consolidated EthiFinance Ratings net leverage ratio was 2.6x at end-2022. Over the twelve months to end-June 2023, the group reported revenues of €2.9bn, and adjusted EBITDA of €687m (23.7% EBITDA margin).

MAIN FINANCIAL FIGURES

Main financial figures. Millions of € (1)	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Turnover	2 173	2 698	2 913	3 088	3 274	24,2%
EBITDA	494	639	667	734	795	29,3%
EBITDA Margin	22,7%	23,7%	22,9%	23,8%	24,3%	0,9pp
EBIT	380	490	530	620	673	28,9%
EBIT Margin	17,5%	18,2%	18,2%	20,1%	20,6%	0,7pp
EBT	409	522	604	702	756	27,7%
Total Assets	5 093	6 007	6 315	6 673	7 060	17,9%
Equity	2 375	2 676	2 969	3 289	3 635	12,7%
Total Financial Debt	1 694	2 103	2 129	2 134	2 139	24,1%
Net Financial Debt	903	1 667	1 859	1 774	1 687	84,7%
Equity/TFD	140,2%	127,3%	139,5%	154,1%	169,9%	-12,9pp
NFD/EBITDA	1,8x	2,6x	2,8x	2,4x	2,1x	0,8x
Funds From Operations	463	453	455	501	545	-2,2%
FFO/NFD	51,3%	27,2%	24,5%	28,2%	32,3%	-24,1pp
EBITDA/Interest	17,5x	20,3x	9,0x	8,9x	9,6x	2,8x

[1] The financial figures do not factor in the potential impact expected from the acquisition of Courvoisier announced by the group on December 14, 2023.

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	*BBB*
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. For the same business risk profile, a decline in the group's EthiFinance Ratings-adjusted net leverage ratio to below 1.5x, 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, particularly in the event of a transformative debt-funded acquisition. For the same business risk profile, an increase in the group’s EthiFinance Ratings-adjusted net leverage ratio to above 3.0x for a sustained period of time could entail a long-term rating downgrade to BBB-.

In the event of a fully-debt funded acquisition of Courvoisier, the EthiFinance Ratings-adjusted net leverage ratio would exceed 4.0x, therefore leading to a long-term rating downgrade to BBB-.

RATING DISCLOSURES

LEI: 213800ED5AN2J56N6Z02

Initiation report: No

Rating initiation: BBB for long-term rating on 21 December 2022.

Last rating action: Initiation of long-term rating at BBB on 21 December 2022.

Rating nature: Unsolicited (this report is paid by investors, not the issuer).

With rated entity or related third party participation: No, the report was published without having been reviewed by the issuer

With access to internal documents: No

With access to management: No

Ancillary services provided to the entity: 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.

Name of the rating committee chair: Marc Pierron, Senior Director

Material sources used to support the rating decision:

- Annual report (2020, 2021, 2022)
- Quarterly reports, presentation slides and conference call
- Bloomberg

Limitation of the Rating action:

EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

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, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.

EthiFinance Ratings SL

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