S&P Global
Ratings

Research

Maxima Grupe UAB

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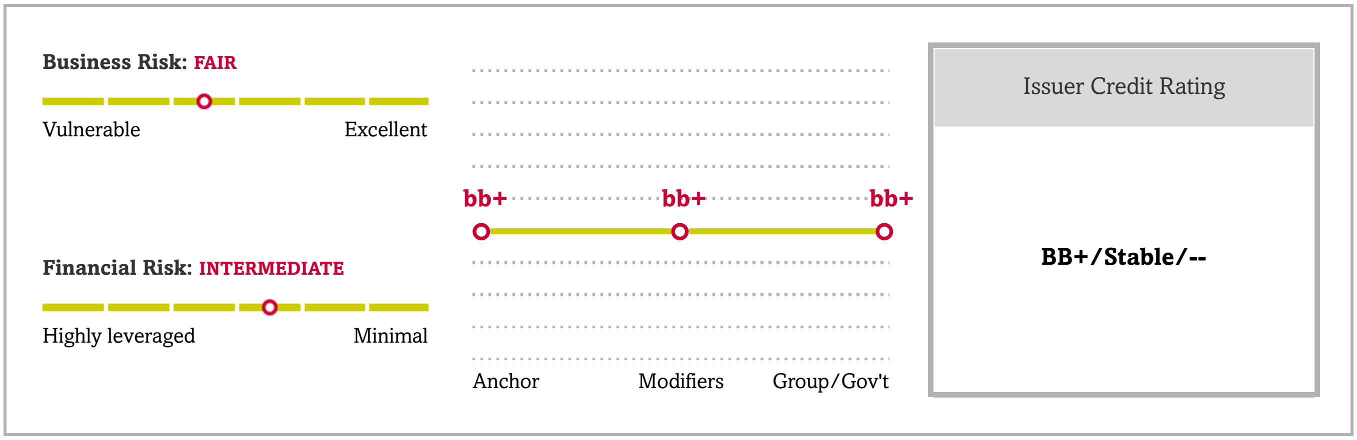


Credit Highlights

Overview

Key Strengths	Key Risks
Leading market position in the Baltics due to competitive price positioning and high brand awareness.	Modest overall size and high geographic concentration in the Baltics, the home market.
Good store format diversity, a partly owned store network, and a high share of private-label sales.	EBITDA margins that remain below the eastern peer group average, despite anticipated improvements.
Lower but gradually increasing competition in the Baltics than in Western European countries.	Increased leverage in 2018, following the acquisition of Poland-based Emperia Holding S.A.
A prudent financial policy, requiring a balance between capital spending (capex) and dividends to ensure a leverage ratio below 1.5x	

With a 26.9% market share in the Baltics, Maxima Grupe is a leading player in what we perceive as a niche and relatively less-competitive food retail market. Although German discounter Lidl is gradually expanding its presence in the Baltics, we believe the disruptive effects are contained for now, thanks to Maxima Grupe's already low price positioning, high brand awareness, and strong format diversity. We think there is limited incentive for other larger Western food retailers to enter the Baltics, given the group's relatively low scale and already price competitive nature. In addition, Maxima Grupe's well-diversified and partly owned store network, and its increasing omnichannel capacities, further support its competitive position in the home market. This enables the group to capture a large portion of the population and hedge somewhat against various forms of competition.

The group pursues expansion in Poland, its second-biggest market in revenue terms, through the integration of Emperia and the acquisition of Sano. In 2018, the group has taken a decisive step to increase its market presence in Poland through the acquisition of Emperia and Sano. Supported by the rapid growth of the Polish retail market and the group's rapid expansion plan there, we expect the country to become more material to the group's earnings base in the next few years. So far, integration costs are in line with expectations while the group's profitability there should continue its progressive improvement thanks to better purchasing terms stemming from the group's larger size.

Credit measures will improve moderately from peak levels in 2018, thanks to gradually improving profitability and a prudent financial policy balancing capex and dividends to ensure positive cash flow generation. To finance the Emperia acquisition, the company raised a €300 million unsecured bond, increasing adjusted debt to EBITDA to 3x in 2018. Part of the adjusted debt increase is also due to the long-term nature of leases in Poland, which represented a

0.2x impact in 2018 against our initial anticipation and could weigh further in 2019 due to the potential impact of International Financial Reporting Standard (IFRS) 16. This higher debt from the Polish business will likely restrict the group's rating headroom as the group executes its expansion plan there in 2019 and 2020.

If the management executes its business plan relating to the Polish acquisition well, however, the effects of the higher debt will be partly offset by what we expect will be gradually improving profitability and positive discretionary cash flow (DCF) generation, translating to an increasing cash balance. In light of lower-than-expected earnings in the first half of 2019, we also understand the group has the flexibility to contain its annual capex (of about €90 million-€100 million in our base case) and annual dividends (of about €80 to €90 million) to its parent Vilniaus Prekyba if profitability continues to fall short of expectations. Overall--and in spite of our expectations of more muted earnings growth--we expect a gradual deleveraging to 3.1x in 2018, 2.9x-3x in 2019, and 2.7x-2.9x in 2020 as the group's EBITDA base increases and the group pursues a prudent financial policy.

Outlook

The outlook on Lithuania-based retailer Maxima Grupe UAB is stable because S&P Global Ratings expects the company will defend or strengthen its already solid position in Baltic food retail markets, and continue to soundly integrate its new Polish subsidiaries. This should translate in a run-rate growth of 5% and gradually improving profitability stemming from better purchasing terms and cost-control efforts.

In our base case, we forecast S&P Global Ratings-adjusted funds from operations (FFO) to debt at about 30% and adjusted debt to EBITDA of about 2.9x-3x in 2019 and trending toward 2.7x-2.9X by end-2020 pro forma the implementation of IFRS 16.

Our stable outlook also points to our anticipation of balanced financial policies, particularly related to capex and dividends, and comparable credit metrics at the Vilniaus Prekyba group level, namely FFO to debt of around 30% in 2019 and above 35% in 2020.

Downside scenario

We could consider a downgrade if there was a significant decline in operating performance, with profitability growth stalling because of intensifying market competition, or a weaker macro environment in the Baltics or Poland, or because of a difficult integration of Emperia weighing on margins and cash flows.

Although not in our base case, we could also consider a negative rating action if Maxima Grupe's current financial policy became less prudent in the form of increased dividend distribution or large-scale, debt-funded acquisitions.

Such a scenario would result in weakening credit metrics from what we currently anticipate at the group level, for example, the adjusted debt to EBITDA increasing to above 3x in 2019, or if FFO to debt falling meaningfully lower than 30%.

Upside scenario

An upgrade is remote at this stage, since we see Maxima Grupe's overall size and narrow EBITDA base constraining our overall assessment of its credit quality.

Over the next 18-24 months, Maxima Grupe's stand-alone credit profile (SACP) may benefit from a marked improvement in trading, resulting in an adjusted EBITDA margin in excess of 10%. This could translate into improved credit metrics stemming from stronger free cash flow generation, causing adjusted FFO to debt to move closer to 45%, with adjusted debt to EBITDA decreasing toward 2x on a consistent basis. Even if we were to revise upward our assessment of Maxima Grupe's SACP, an upgrade would still hinge on our view of the credit profile of the wider Vilniaus Prekyba group. For any rating upside, we would need to see a low risk of releveraging at both the Maxima Grupe and the Vilniaus Prekyba group levels, based on our assessment of their respective financial policies. Additionally, we would need to see similar improvement in the wider Vilniaus Prekyba group's credit metrics, to comparable levels as that of Maxima Grupe, and a track record of prudent financial policies across the whole group.

Base-Case Scenario

Assumptions

- Real GDP growth in Lithuania of about 2.4%-2.7% in 2019-2021, with inflation of 2.4%-2.6%, which is above the European Central Bank's target range.
- Real GDP growth in Latvia of about 3%-3.5% over the next two years. Wage growth will have inflationary implications, and we expect inflation of 2.56%-2.80% over this period.
- Real GDP growth in Estonia, Bulgaria, and Poland of 3%-4% over the next two years.
- In most of Maxima Grupe's geographies, the less favorable external environment is likely to weigh negatively on these export driven economies, however, continued strong investments should help maintain growth in excess of 2%.
- Revenue growth of 5%-7% for 2019 and 2020 supported the abovementioned economic conditions, the group's store development plan, expansion in Poland, and our anticipation of like-for-like growth in excess of 1.5% in all of the group's geographies. That said, we expect price pressures in its main markets will remain, in particular because we perceive consumers as particularly price sensitive.
- Moderate gross margin improvement by about 30 basis points on a pro forma basis, stemming from the group's centralization efforts, improved negotiating terms thanks to increased size, and development of private-label offerings. Competitive conditions in the food retail market and potential for cost inflation could, however, constrain any meaningful uplift.
- A reported EBITDA margin of 6.0%-6.5% for 2019 and 2020, broadly stable from the 6.5% reported in 2018, and increasing from historical levels, thanks to contributions from Franmax in particular. This should translate to an adjusted EBITDA margin of 8%-9% in 2019 and 2020.
- We expect the gains from the economies of scale from the Emperia acquisition will be mitigated by continuing restructuring costs relating to the integration.
- Capex to remain at 2.5%-2.7% of sales through 2019, equating to €90 million-€100 million of capex per year, which should translate into reported free operating cash flow (FOCF) generation in excess of €120 million per year.
- A stable payout ratio of about 70% of net revenue translating in a dividend of about €80 million-€90 million.

Key Metrics			
	2018a	**2019e**	**2020e**
EBITDA margin (%)	8.7	~8.7	~8.6
Debt/EBITDA (x)	3.1	~2.98-3	~2.7-2.9
FFO/debt (%)	26.2	~30	~30
FOCF/debt (%)	17.1	~20	~20-22
DCF/debt (%)	7.4	~10	~10-15
EBITDAR ratio	3.1	~3.12	~3.1

Note: All figures are fully adjusted by S&P Global Ratings. FFO--Funds from operations. FOCF--Free operating cash flow. DCF—Discretionary cash flow. a--Actual. e--Estimate.

Base-Case Projections

We expect top-line growth will exceed 5% over the next two years, as a result of the group's expansion into other geographies and higher growth proximity formats. Foreign markets will be the group's primary source of growth, particularly Poland and more marginally Bulgaria, given the group's modest size in those markets. We expect top-line growth of 8%-12%, materially above these countries' real GDP growth, as a result of rapid store expansion. That said, we expect price pressures in its main markets will remain, in particular because we perceive consumers as particularly price sensitive, which should translate in a like-for-like growth between 1% and 3%, only compensated by further store expansion. These growth patterns in the individual countries should translate to overall revenue growth of 5%-7% for 2019 and 2020.

Profitability growth is slower than what we initially anticipated, but should remain positive over the forecast period. In 2018, pro forma the Polish acquisitions, EBITDA grew to €233 million, about €9 million lower than our base case, but still higher than 2017's comparable EBITDA of €221 million. In our view, that is a reflection of the group's effort to preserve its market shares in the Baltics. However, we still forecast profitability growth stemming from the expansion in Poland. Although restructuring and integration costs should decrease over the next couple of years, better purchasing terms and strong like-for-like trends should translate into moderately growing profitability in that geography. That said, we view the Polish market as inherently more competitive than the Baltics and, hence, margin levels are expected to remain structurally lower, which in the long term will dilute Maxima Grupe's margin, given the higher growth expectations in that market.

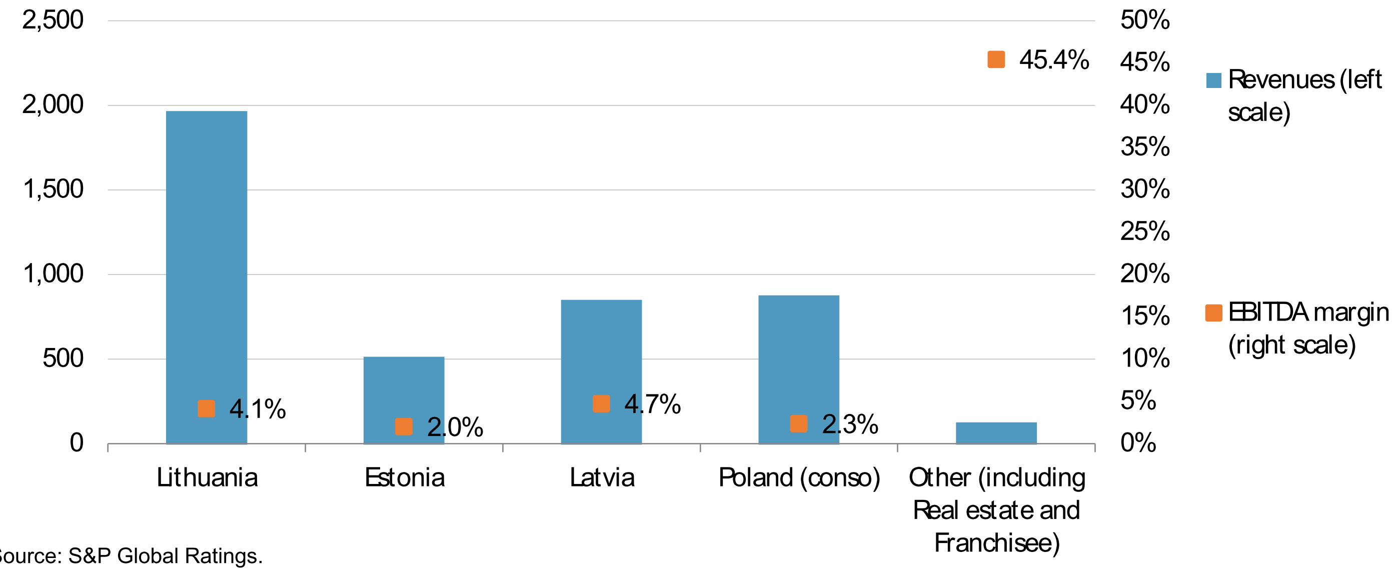
Company Description

Maxima Grupe is the biggest employer and leading food retailer in the Baltic countries, with a market share of about 26.9%. Operating since 1998, the group has experienced rapid growth in its home market and started to expand internationally in 2011 by entering the Bulgarian market and subsequently the Polish market. In 2018, pro forma the acquisition of Polish retailer Emperia and the integration of Franmax, it generated €3.9 billion of sales, with about €233 million of reported EBITDA, growing by about €12 million against the pro forma number for 2017. With that acquisition, the group initiated a major step in diversifying away from the Baltics, because the Polish businesses (Emperia, Aldik, and Sano) combined have already become bigger than the Latvian business, thus becoming Maxima Grupe's second-largest market, also with greater growth potential.

The company is fully owned by Vilniaus Prekyba--a holding company with other stakes in retail and real estate. That said, Maxima Grupe is the group's most important asset, generating about 75% of its overall EBITDA in 2018.

Chart 1

Maxima's Geographic Earnings Split



Source: S&P Global Ratings.

Business Risk

Maxima has maintained its leading position in the Baltics, despite the recent increase in pressure from Lidl's arrival in Lithuania in 2016. In our view, this is due to Maxima Grupe's competitive price positioning and high brand awareness. We don't expect competition in the Baltics will escalate materially further, given the market's overall modest size, already competitive nature, and what we perceive as limited remaining growth avenues for new entrants.

We see the group's Baltic operations as a strength, given our expectation that Maxima Grupe's like-for-like growth in the region will remain in excess of 1.5%, driven by real GDP growth of about 3.0%-4.0% per year. That said, the Baltics' combined GDP for 2019 is about 4x less than that of Poland, where the group aims to expand following the recent acquisitions in that market (Emperia, Aldik, and Sano). We forecast that the supportive macroeconomic trends, alongside the group's expansion plan in Poland in particular, but also in the Baltics, will result in overall growth of about 5% per year. We also believe the resilience and relative predictability of the food retail industry, as well as the group's modest exposure to foreign exchange risk--in particular in comparison with other Eastern European peers', thanks to the Baltics' adoption of the euro--provides the group with some visibility on revenue and earnings.

The group also benefits from a resilient operating model. In particular, we note the meaningful sales contribution from private labels of about 17%-18%, which is in line with that of Western European peers, as well as its diversified store formats. Proximity format stores represent a large majority of the group's stores and in our estimate nearly half of the group's revenue, thanks notably to the integration of Emperia, which through its brand Stokrotkta operates essentially only proximity formats. There is also no imbalance between countries, as this diversity in format is a common feature of all geographies. Both factors, in our view, support margins and help maintain Maxima Grupe's strong competitive advantage over peers. We understand that the group has a local sourcing strategy that provides it with fairly good bargaining power, despite its limited size.

Additionally, we believe the group benefits from a partly owned real estate network, with a book value of approximatively €500 million as estimated by management, and a market value that is likely higher.

Moreover, while online sales still represent a very small part of the group's revenue (less than 1% of sales), we believe the group is well positioned in that space, since it faces little competition and already has a dedicated online offering through the Barbora website.

Our view of Maxima's business profile is constrained by its relatively small size, scale, and EBITDA base compared with other food retailers we rate, as well as its still substantial but declining geographic concentration (the Baltics represent over 75% of revenue). These factors tend to limit the group's bargaining power with suppliers, and its relatively narrow EBITDA base means less flexibility to adapt to potential disruptions, either from competition or unforeseen operating events, without hurting credit ratios. Additionally, the group's revenue concentration exposes it to potential macroeconomic headwinds in the Baltics, although this is not in our base case. Moreover, we note that Maxima's profitability in each of its geographies varies substantially, with Lithuania and Latvia's profitability pushing up overall profitability, with a margin almost two times higher than in Poland or in Estonia, two other important geographies for the group.

2018's pro forma figures depict a modest increase in the group's adjusted EBITDA margin from 2017's 7.2% to 8.7%, thanks to the integration of the highly EBITDA-accretive Franmax. For future years, we expect only a marginal increase in margin while profitability growth will primarily stem from the group's strong like-for-like perspective. In our view, the synergies from the Emperia acquisition are likely to be compensated by a continuing aggressive price positioning in both the Baltics and Poland in order to preserve or build market shares, although the development of e-commerce, marginal at this stage, should weigh on the group's overall profitability. While Maxima Grupe's adjusted EBITDA margin is somewhat higher than that of larger Western European peers, it remains modest, in our view, given that the group owns 45% of its store network (which should reduce fixed costs) and is of a much more moderate size, which we consider facilitates implementation of cost-control initiatives. Maxima's margins are below what we see for Russian retail peers, such as X5 and Magnit, who typically have adjusted EBITDA margins of about 11%-12%.

Peer comparison

Table 1

Maxima Grupe UAB--Peer Comparison

Industry Sector: Supermarkets

	Maxima Grupe UAB	Lenta Ltd.	Magnit PJSC	Esselunga SpA	X5 Retail Group N.V.	Auchan Holding	Co-operative Group Ltd.
Ratings as of Oct. 29, 2019	BB+/Stable/--	BB-/Stable/--	BB/Stable/--	BBB-/Watch Neg/--	BB/Stable/--	BBB-/Negative/A-3	BB/Stable/--
	--Fiscal year ended Dec. 31, 2018--						
(Mil. €)							
Revenue	3,451.0	5,201.8	15,559.2	7,728.6	19,276.3	42,864.8	11,312.3

Table 1

Maxima Grupe UAB--Peer Comparison (cont.)							
EBITDA	299.6	530.1	1,868.8	723.0	2,344.7	1,885.6	649.0
Funds from operations (FFO)	243.7	349.8	1,438.1	674.9	1,627.3	1,401.3	469.9
Interest expense	37.8	160.0	369.5	54.5	560.7	288.8	180.2
Cash interest paid	34.7	169.4	375.0	45.8	559.1	331.7	179.1
Cash flow from operations	240.2	307.7	1,276.8	711.3	1,876.5	1,460.0	384.2
Capital expenditure	81.2	280.8	676.2	307.2	990.7	1,826.6	428.6
Free operating cash flow (FOCF)	159.0	26.9	600.7	404.1	885.8	(366.6)	(44.4)
Discretionary cash flow (DCF)	69.0	23.2	204.0	404.1	613.1	(821.4)	(44.4)
Cash and short-term investments	222.1	425.2	336.4	882.3	306.5	2,319.1	313.9
Debt	931.8	1,770.1	5,591.9	1,152.1	7,838.0	8,415.5	2,603.4
Equity	292.9	1,040.8	3,186.1	3,097.3	2,081.3	9,395.4	3,416.4
Adjusted ratios							
EBITDA margin (%)	8.7	10.2	12.0	9.4	12.2	4.4	5.7
Return on capital (%)	17.1	12.7	11.3	9.9	11.6	(5.2)	3.9
EBITDA interest coverage (x)	7.9	3.3	5.1	13.3	4.2	6.5	3.6
FFO cash interest coverage (x)	8.0	3.1	4.8	15.7	3.9	5.2	3.6
Debt/EBITDA (x)	3.1	3.3	3.0	1.6	3.3	4.5	4.0
FFO/debt (%)	26.2	19.8	25.7	58.6	20.8	16.7	18.0
Cash flow from operations/debt (%)	25.8	17.4	22.8	61.7	23.9	17.3	14.8
FOCF/debt (%)	17.1	1.5	10.7	35.1	11.3	(4.4)	(1.7)
DCF/debt (%)	7.4	1.3	3.6	35.1	7.8	(9.8)	(1.7)

Peers in the food retail sector include Lenta LLC, Magnit PJSC, X5 Retail Group N.V, Esselunga SpA, Casino Guichard - Perrachon S.A., and Co-operative Group Ltd. In its peer group, Maxima Grupe stands out as the smallest player, with lower margins than those of Russian retailers, but with higher margins than Co-operative Group or bigger players such as Casino-Guichard and Auchan. More importantly, we expect greater margin uplift potential for Maxima Grupe than for peers, related to the integration of Emperia, increased bargaining power, and economies of scale. Maxima Grupe's lower degree of macro risks, in particular as regards foreign exchange, supports its business risk profile against those of Russian retailers, given that Maxima Grupe's revenue is still predominantly euro denominated, and the Polish currency is closely linked to the euro.

We therefore see a more moderate volatility pattern than for Russian retailers, although we regard their consumer spending habits as somewhat comparable, with a strong focus on price and value in particular. In comparison with other Western European peers, in terms of margin, Maxima Grupe stands in the middle of the range, but benefits from better growth prospects than, for example, Esselunga or Co-operative, and increasing international diversification. Offsetting this is Maxima Grupe's more modest scale, which is a disadvantage when there is a disruption in the market, as we believe size and breadth of customer reach provides companies with some capacity to overcome such disruption. That said, given the relatively modest size of the group's main countries of operations, we believe the group is less exposed to competition-led disruption.

Financial Risk

The group's adjusted debt leverage as of year-end 2018 stood at 3.1x. Pro forma 12 months of the Polish acquisitions, it stood at 3x. Although financial debt metrics were largely in line with our base case, our lease adjustment accounts for most of the higher leverage number, primarily because of longer lease term contracts in Poland than in the Baltics.

Given the higher quantum of debt that we incorporate in our forecast for future years, to account for the transition to IFRS 16, our adjusted leverage is structurally higher by about 0.2x against the 2018 audited number and should stand at about 3.0x in 2019. However, bearing that in mind, we still forecast a continued deleveraging to 2.8x-2.9x in 2020, because we expect a growing EBITDA base and a consistently positive DCF generation in excess of €30 million per year and in spite of our anticipation of a higher lease debt related to the group's expansion strategy.

Our assessment of the group's financial risk profile is supported by its low financial reported net leverage and its overall prudent financial policy. On a pro forma 12 month basis for the integration of the Polish acquisitions, it stood at 1.5x in 2018 and should decline to 1.3x in 2019. We understand management intends to deleverage from these levels while maintaining about a €100 million capex a year and a stable payout ratio to its shareholders of about 70% of net results. As a further reflection of this financial policy, we understand management is likely to reduce expansion capex if ot perceives a stiffening market environment that would result in a lower return on investment.

Financial summary

Table 2

Maxima Grupe UAB--Adjusted Financial Summary

Industry Sector: Supermarkets				
	--Fiscal year ended Dec. 31--			
	2018	2017	2016	2015
(Mil. €)				
Revenue	3,451.0	2,806.5	2,693.2	2,682.9
EBITDA	299.6	202.8	179.3	171.0
Funds from operations (FFO)	243.7	162.0	143.2	134.1
Interest expense	37.8	21.1	18.1	19.0
Cash interest paid	34.7	20.8	18.3	18.2
Cash flow from operations	240.2	190.8	146.4	153.8
Capital expenditure	81.2	62.9	67.2	73.6

Table 2

Maxima Grupe UAB--Adjusted Financial Summary (cont.)

Industry Sector: Supermarkets

	--Fiscal year ended Dec. 31--			
	2018	**2017**	**2016**	**2015**
(Mil. €)				
Free operating cash flow (FOCF)	159.0	127.9	79.3	80.2
Discretionary cash flow (DCF)	69.0	27.9	(30.7)	36.7
Cash and short-term investments	222.1	332.6	160.1	173.2
Gross available cash	222.3	332.6	160.1	173.2
Debt	931.8	618.7	346.5	255.2
Equity	292.9	276.5	249.1	324.2
Adjusted ratios				
EBITDA margin (%)	8.7	7.2	6.7	6.4
Return on capital (%)	17.1	15.2	12.2	21.1
EBITDA interest coverage (x)	7.9	9.6	9.9	9.0
FFO cash interest coverage (x)	8.0	8.8	8.8	8.4
Debt/EBITDA (x)	3.1	3.1	1.9	1.5
FFO/debt (%)	26.2	26.2	41.3	52.5
Cash flow from operations/debt (%)	25.8	30.8	42.3	60.3
FOCF/debt (%)	17.1	20.7	22.9	31.4
DCF/debt (%)	7.4	4.5	(8.9)	14.4

Liquidity

We assess Maxima Grupe's liquidity as adequate. This is based on our calculation that its sources of liquidity will exceed uses by about 1.4x over the next 12 months, and our expectations that the sources would cover liquidity uses even if EBITDA were to decline by 15%. Our liquidity assessment of the group is further underscored by management's strong commitment to maintain liquidity of at least €100 million, and by the group's available committed bilateral lines not included in our sources given our understanding that they mature in less than 12 months, but are still available in case of short-term needs.

Principal liquidity sources as of June 30, 2019:

- Cash and liquidity investments of about €174 million;
- €6.6 million of committed overdraft maturing beyond 12 months; and
- About €200 million of FFO.

Principal liquidity uses as of June 30, 2019:

- Seasonal working capital requirements of €60 million;
- About €100 million of capex outflows, of which only €45 million-€50 million is maintenance capex; and

- Dividends upstreamed to Vilniaus Prekyba of €80 million-€90 million (just €82 million already paid in fiscal year 2019).

Debt maturities

With the recent refinancing, the group's largest debt matures in more than four years.

Covenant Analysis

We forecast comfortable headroom under the proposed covenants and the covenants existing for the remaining senior secured debt.

Compliance Expectations

The group has to maintain a consolidated net leverage ratio of 3x. We expect the group will maintain sufficient headroom against that level of leverage over the next 24 months.

Group Influence

Maxima Grupe is part of a wider group, Vilniaus Prekyba, whose main consolidated asset is Maxima Grupe. Vilniaus Prekyba also consolidates a fairly well geographically diversified pharmacy business, Euroapotheca, and a real estate business, Akropolis, essentially operating in the Baltics. Both these entities are positive contributors to the group's overall profitability. We expect Vilinius Prekyba (which consolidates Maxima Grupe) to be slighty more leveraged than Maxima Grupe alone on a net reported basis in 2019, about 0.2x-0.3x as per our estimates, materially lower than in 2018, where it stood much higher at 2.4x pro forma the group's mutliple acquisitions (ApoteksGrupen in Sweden by Euroapotheca for a €334 million cash consideration and Maxima's own acquisition of Emperia). The deleveraging should be faster at the Vilnius Prekyba level, given the multiple cash generative businesses it owns and the absence of material dividends to its holding company, translating in a rapid cash build up. Furthermore, we understand Vilnius Prekyba equally sticks to a prudent financial policy and intends to keep a run-rate reported leverage no higher than 1.5x.

On an adjusted basis, consistenly with what we see at the Maxima Grupe level, the lease adjustment in 2018 was higher than expected owing to the integration of the acquisitions in Poland. Moreover, due to the implementation of IFRS 16, it should be even higher for future years. However, thanks to incremental EBITDA provided by the group's other businesses, adjusted leverage should stand at 2.8 x-2.9x in 2019, slightly lower than that of Maxima Grupe.

Given that Maxima Grupe contributes the bulk of the overall group revenue and earnings, and also because we consider Maxima Grupe is the largest business of ultimate shareholder Nerijus Numavicius, we believe it is a core entity to the wider group.

We also understand there is no plan for a partial listing of Maxima Grupe and that the main shareholders intend to keep clear control of the company.

Lastly, we also note that Vilniaus Prekyba services a very modest dividend to the private entities above, held by

Nerijus Numavicius, which we understand are debt free on a stand-alone basis. We assess the wider group credit profile (GCP) at 'bb+', which is driven by and consistent with our assessment of Maxima's SACP at 'bb+'. Hence, our rating on Maxima Grupe is in line with its SACP and the GCP.

Issue Ratings--Subordination Risk Analysis

Capital structure

Maxima's capital structure comprises about €585 million of debt, the bulk of it being represented by the €300 million senior unsecured bond issued in October 2018. In addition, the group will still have about €235 million of the remaining portion of secured debt and/or unsecured debt standing at the subsidiaries level.

Analytical conclusions

The proportion of secured debt and unsecured debt both at the group and subsidiaries level is about 40% in our calculation of overall financial debt, in line with our criteria. We also note the group will gradually amortize some of its secured debt, which should improve this ratio.

As a result, the 'BB+' rating on the senior unsecured bond is in line with the issuer credit rating. This is because no significant elements of subordination risk are present in the capital structure.

Reconciliation

Table 3

Reconciliation Of Maxima Grupe UAB Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2018--					
Maxima Grupe UAB reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	571.3	223.1	150.9	9.3	299.6	198.4
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(21.2)	--
Cash taxes paid: Other	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(6.2)	--
Reported lease liabilities	2.0	--	--	--	--	--
Operating leases	533.3	76.5	28.5	28.5	(28.5)	47.9
Accessible cash and liquid investments	(174.7)	--	--	--	--	--
Nonoperating income (expense)	--	--	0.2	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(6.2)
EBITDA: Other	--	0.0	0.0	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	1.8	--	--	--
Total adjustments	360.5	76.5	30.5	28.5	(55.9)	41.8

Table 3

Reconciliation Of Maxima Grupe UAB Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

S&P Global Ratings' adjusted amounts

	Debt	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations
Adjusted	931.8	299.6	181.4	37.8	243.7	240.2

Ratings Score Snapshot

Issuer Credit Rating

BB+/Stable/--

Business risk: Fair

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Fair

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bb+

- **Group credit profile:** bb+
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate

Issuers, Dec. 16, 2014

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	**bb+**	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 29, 2019)*

Maxima Grupe UAB	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
12-Oct-2018	BB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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