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Ratings

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Research Update:

Sweden-Based Loomis AB Assigned 'BBB' Rating; Outlook Stable

May 2, 2024

Rating Action Overview

- Sweden-based Loomis AB offers solutions for payments and the distribution, handling and storage of cash and other valuables to financial institutions, retail companies, and other customers.
- It benefits from a leading position in major markets and good organic growth, supported by increasing outsourcing trends, despite changing consumer preferences around payment methods.
- Loomis' credit quality is further supported by its solid margins, strong cash flow conversion, and a prudently managed financial policy.
- We assigned our 'BBB' long-term issuer credit rating to Loomis AB.
- The stable outlook indicates that we expect Loomis to report healthy organic revenue growth of 4.0%-5.0% and generate free operating cash flow (FOCF) of more than Swedish krona (SEK) 2.4 billion annually in the next two years, allowing it to maintain leverage below 2.0x and funds from operations (FFO) to debt at about 45%.

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Rating Action Rationale

Loomis benefits from market leading positions in major markets. The company is a leading cash management services provider, with No. 1 or No. 2 positions in most of its markets. With total market share estimated at about 12% (calculated as the company's cash management revenue as a percentage of the global cash logistics market size of $24.6 billion), Loomis is positioned as the No. 2 player in the cash management industry globally, behind its U.S. peer Brinks Co. and ahead of Prosegur Cash. Loomis' market position is supported by its strong brand reputation and service quality.

Loomis' organic growth is underpinned by increasing outsourcing of cash management services by financial institutions and retailers. Despite the increasing proportion of digital payments, the cash logistics market continues to expand as a result of overall growth in the economy. This is reinforced by inflation and increasing outsourcing, on top of automation and digitalization trends, which facilitate the creation of new, smart solutions. We forecast organic revenue growth at 4.0%-5.0% in 2024 and 2025, which will be fueled by increasing penetration of Loomis':

- Automated solutions to address the complete cycle of cash management for a retail business, namely manual counting, reconciliation, accounting, and reporting;
- Cash management, including daily receipts and cash being transported from retailers, bank branches, and ATMs to Loomis' cash centers for counting, quality assurance, packaging, and storing notes and coins; and
- ATM servicing operations in both the U.S. and Europe.

The demand for efficient cash management is increasing among central banks, large commercial banks, large ATM operators, and large retail chains but also smaller enterprises as they focus on cost, safety, and error reduction. We note that the drivers in the U.S. and Europe are different, since retail clients are still underpenetrated in the U.S., while, in Europe, banks' closure of unprofitable branches will stimulate demand for cash management services.

Loomis has good revenue visibility, further enhanced by the increasing contribution of subscription-based services. The company provides its services through medium- to long-term contracts that generally include a combination of fixed- and volume-based pricing components. Its long-term client relationships also support revenue visibility. Loomis' automated cash management solutions, including Safepoint, Loomis' smart safes, and back-office solutions, are one of its major revenue growth drivers. Its contribution toward total revenue increased to about 15% in 2023 from 10% in 2019, and we expect it to strongly expand in the coming years. The services are sold with long contracts (averaging five years) with fixed monthly payment installments that provide steady recurring revenue. Furthermore, this involves integrating smart safes into the customer's processes, which makes it difficult to switch the provider. The acquisition of CIMA SpA, which was closed in the fourth quarter of 2023, will further add to solutions provided under the segment and expand both the front- and back-office solutions offering.

Presence in developed and mature markets provides stability but exposes Loomis to long-term growth risk. The majority of Loomis' revenue comes from the U.S. and Europe. Considering that developed markets have a more stable and predictable economic environment, higher disposable incomes, stronger infrastructure, and a more robust regulatory environment, we consider that Loomis' focus on developed markets supports earnings stability. At the same time, the risk of changes in the purchasing habits of customers--who may increasingly use digital payment methods and online shopping--could affect cash volume and pose risks to Loomis' growth prospects and profitability. When compared with peers, Loomis is less geographically diversified than Brinks Co, which complements its mature U.S. and European operations with about 27% of revenue in Latin America and 16.5% of revenue from the rest of the world.

Loomis offers a variety of products and services to address the evolving needs of the market. With the increasing proportion of digital payments, the company launched Loomis Pay in 2020. The product provides a one-stop solution to retailers to manage all types of payments. Loomis plans to bundle Loomis Pay with core and adjacent solutions to offer a wider variety of products to clients. This widens its product offerings and would also allow the company to reach new customer segments, such as small and midsize enterprises. We note that the revenue contribution of Loomis Pay is still minimal, and it has yet to turn profitable.

The company is exposed to regulation and reputation risk as well as economic cyclicality. The cash handling business is dependent on local licenses, regulatory approvals, and ongoing measures to be compliant. This creates barriers to entry. The industry is also exposed to regulation risk, since any change in government monetary policy can affect the volume or value of the currency in circulation. However, we believe Loomis is relatively less exposed than its peers, since it operates mainly in developed markets. Cash management services may, in certain circumstances, be viewed as strategically or politically sensitive businesses. This was demonstrated by a case in Sweden, where a large customer in the context of Loomis' Swedish operations returned to insourcing for ATM servicing instead of relying on one nationwide private service provider. Cash management tends to be more cyclical than manned guarding and affected by economic cycles.

Loomis demonstrates S&P Global Ratings-adjusted EBITDA margins at the high end of the range for the peer group and strong cash flow generation. Loomis' S&P Global Ratings-adjusted margins of 19%-21% compare favorably with those of rated peers Brinks Co. and Prosegur Cash. Like its peers, wages are the most significant cost component for Loomis, and are exposed to inflation. However, about 50% of Loomis' cost structure is variable or semi-fixed, which allows the company to manage its margins during downturns. In addition, fuel price indexation is often included in its contracts, thereby limiting the impact of cost inflation. In 2023, the company's S&P Global Ratings-adjusted margins declined to about 19.3%, mainly due to operational issues in the foreign exchange business line in Europe and expenses associated with integration of the CIMA acquisition. We expect the S&P Global Ratings-adjusted margins to improve and remain at 20%-21% in 2024 and 2025 (comparable with pre-pandemic profitability). This estimate is based on full-year consolidation of higher margin CIMA, related synergies, catch up of inflation passthrough, and turnaround of some loss-making businesses. We expect the company to generate about SEK2.5 billion-SEK3.0 billion in FOCF per year in 2024 and 2025, thanks to EBITDA growth and moderating capital expenditure as a percentage of sales after the post-pandemic investment catch up.

Loomis has a track record of prudent financial policy. Loomis' debt comprised SEK7.4 billion of financial debt and SEK4.9 billion of lease liabilities at year-end 2023, leading to S&P Global Ratings-adjusted debt to EBITDA of 1.8x. We project that revenue growth will be accompanied by increasing lease liabilities, in particular related to the company's smart safes, which will limit deleveraging. That said, we expect the company to balance mergers and acquisitions and shareholder returns to keep leverage (including lease liabilities) at 1.5x-2.0x on a sustainable basis. Due to the high-interest-rate environment and the majority of financial debt being at floating rates, we expect FFO to debt of close to 45% in the next two years, which provides limited headroom for underperformance.

Outlook

The stable outlook reflects our expectation of Loomis' organic growth at 4.0%-5.0% per year, fueled by supportive industry trends, and an improvement in EBITDA margins to 20%-21%, with FOCF higher than SEK2.4 billion per year in the next two years. It also reflects our expectation that the company will maintain a prudent financial policy, resulting in adjusted leverage below 2.0x and FFO to debt of about 45% over the next two years.

Downside scenario

We could lower the ratings if Loomis' debt to EBITDA increases beyond 2.0x or FFO to debt declines and stays below 45% for a prolonged period. This could occur due to:

- Weaker-than-expected outsourcing trends, more pronounced decline in usage of cash, or high contract losses; or
- A more aggressive financial policy returning cash to shareholders or pursuing mergers and acquisitions.

Upside scenario

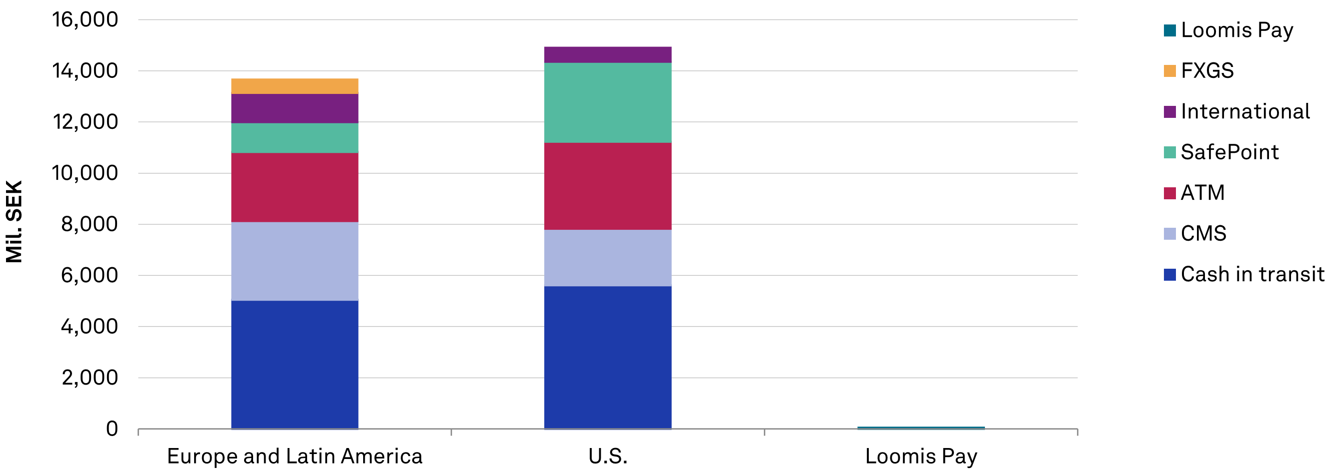
We could consider raising the rating if Loomis significantly and profitably enhanced its scale and diversified away from its traditional cash logistics business in mature countries, where payment methods may undergo transformation. We could also consider an upgrade if the company adopted a financial policy that supports FFO to debt above 55% and debt to EBITDA of about 1.5x on a sustainable basis.

Company Description

Headquartered in Stockholm, Loomis AB is one of the world's leading cash management companies. The company provides solutions including distribution, handling, storage, and recycling of cash and other valuables to financial institutions, central banks, and retailers. It also provides automated cash management solutions to retailers and an end-to-end payment solution that manages all types of payments in one system, called Loomis Pay. The company organizes its business into three segments: Europe and Latin America (contributing 47.9% of revenue in 2023), U.S. (51.9%), and Loomis Pay (0.2%).

Loomis has been listed on the OMX Nasdaq in Stockholm since 2008, following the split from Securitas AB in 2008. The company is present in 26 countries and generated SEK28.7 billion in revenue and SEK5.7 billion of company reported EBITDA in 2023.

Loomis AB--Good geographic and product diversity
2023 regional revenue composition by segment



CMS--Cash management service. FXGS--Foreign exchange gold and services. SEK--Swedish krona. Source: Company disclosures.

Our Base-Case Scenario

Assumptions

- U.S. GDP growth of 2.5% in 2024 and 1.5% in 2025; and eurozone GDP growth of 0.7% in 2024 and 1.3% in 2025. While cash circulation and management is linked to GDP growth, the company's revenue growth is also affected by penetration of cash management services and price escalations. Hence, revenue growth is higher than GDP growth.
- Revenue growth of 2.7% in 2024 and 3.5% in 2025, based on organic growth of around 5% and 4%, respectively; and additional growth of around 2% in 2024 due to full consolidation of CIMA, partly offset by the loss of a major Swedish customer accounting for a decline of around 0.5% in 2025. We assume the Swedish krona will strengthen against major currencies in 2024, thereby adversely affecting revenue by about 4%.
- Organic revenue growth to stem from continued outsourcing cash management. In particular, we expect strong growth in Safepoint and the cash management services segments.
- An improvement of the EBITDA margin by about 130 basis points to 20.6% in 2024 on the full consolidation of CIMA, synergies in the Safepoint segment generated from the CIMA acquisition, catch up of inflation passthrough, and turnaround of some loss-making businesses. We expect a broadly stable EBITDA margin in 2025.
- Capital expenditure of SEK1.7 billion-SEK1.8 billion in 2024 and 2025 (5.5%-6.0% of revenue), lower than in 2023 which was elevated due to a post-pandemic investment catch up, in particular in machinery and vehicles and the Buenos Aires branch.

- Shareholder returns of SEK950 million-SEK1.0 billion in 2024 and 2025, including share repurchases.

Key metrics

Loomis AB--Forecast summary

Industry sector: General support					
	--Fiscal year ended Dec. 31--				
(Mil. SEK)	2022a	2023a	2024e	2025f	2026f
Revenue	25,315	28,707	29,482	30,511	31,526
EBITDA (reported)	4,893	5,525	6,068	6,335	6,591
Plus/(less): Other	9	6	6	6	6
EBITDA	4,902	5,531	6,074	6,341	6,597
Less: Cash interest paid	(379)	(626)	(573)	(567)	(576)
Less: Cash taxes paid	(592)	(622)	(830)	(884)	(932)
Funds from operations (FFO)	3,931	4,283	4,671	4,890	5,088
Cash flow from operations (OCF)	3,645	5,077	4,209	4,664	4,969
Less: Capital expenditure	(1,426)	(1,957)	(1,769)	(1,678)	(1,655)
Free operating cash flow (FOCF)	2,219	3,120	2,440	2,986	3,314
Less: Dividends	(628)	(853)	(748)	(969)	(1,031)
Less: Share repurchases	(600)	(200)	(200)	0	0
Discretionary cash flow (DCF)	991	2,067	1,493	2,018	2,283
Debt (reported)	6,033	7,448	7,448	7,448	7,148
Plus: Lease liabilities debt	3,866	4,854	5,490	5,741	6,027
Plus: Pension and other postretirement debt	250	295	295	295	295
Less: Accessible cash and liquid Investments	(2,277)	(2,589)	(2,626)	(2,594)	(2,661)
Plus/(less): Other	(84)	4	4	(189)	(189)
Debt	7,729	10,110	10,610	10,700	10,620
Adjusted ratios					
Debt/EBITDA (x)	1.6	1.8	1.7	1.7	1.6
FFO/debt (%)	50.9	42.4	44.0	45.7	47.9
FOCF/debt (%)	28.7	30.9	23.0	27.9	31.2
DCF/debt (%)	12.8	20.4	14.1	18.9	21.5
Annual revenue growth (%)	28.4	13.4	2.7	3.5	3.3
EBITDA margin (%)	19.4	19.3	20.6	20.8	20.9

All figures include S&P Global Ratings adjustments' unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Loomis' liquidity as strong and forecast that sources will exceed uses by more than 1.5x over the next 12-24 months, despite some significant debt maturities coming due in 2024-2025. In our view, the company has a prudent risk-management policy, access to a commercial paper program of SEK3.0 billion, and well established and solid relationships with banks.

Principal liquidity sources:

- Liquid and available cash and cash equivalents of SEK2.5 billion as of Dec. 31, 2023.
- Full availability under a revolving credit facility of approximately SEK4.6 billion as of Dec. 31, 2023.
- Cash FFO generation of about SEK3.4 billion in 2024.

Principal liquidity uses:

- Debt maturities totaling SEK1.1 billion (including SEK754 million of commercial paper) in 2024 and SEK2.3 billion in 2025.
- Working capital investment of about SEK950 million in 2024 and SEK780 million in 2025, including SEK500 million for intrayear working capital requirements.
- Capital expenditure of SEK1.7 billion-SEK1.8 billion in 2024 and 2025.
- Shareholder returns of SEK950 million-SEK1.0 billion in 2024 and 2025, including share repurchases.
- SEK200 million of acquisitions mainly indicating deferred acquisition payments for the CIMA acquisition in 2025.

Covenants

The bank debt is subject to a financial covenant, against which the company had ample headroom as of Dec. 31, 2023. We expect the company to maintain covenant headroom higher than 50% in 2024 and 2025.

Environmental, Social, And Governance

We consider environment, social, and governance factors to be neutral in our assessment. We understand the company will continue to focus on emission and waste reduction across its regions and look for electric or alternative, cleaner fuel in markets where possible, as well as continue to source renewable fuels. Similarly, on the social side, we expect Loomis will continue to invest in training and development, particularly with regards to employee health and safety. We view positively management's deep expertise in the industry, but we note the company's strategic focus on mature markets, which exposes it more than peers to the risk of rapid transition to digital payment methods.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/--
Business risk:	Satisfactory
Country risk	Very low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile:	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
Loomis AB	
Issuer Credit Rating	BBB/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.