

Rating Action: Moody's affirms LeasePlan's ratings and changes outlook to positive

18 Jan 2022

Rating action follows the decision of Societe Generale to acquire LeasePlan through ADL

Paris, January 18, 2022 -- Moody's Investors Service ("Moody's") today affirmed the Baa1 long-term deposit, issuer and senior unsecured ratings of LeasePlan Corporation N.V. (LeasePlan). The outlook on these ratings was changed to positive from stable previously. Moody's also affirmed LeasePlan's Baseline Credit Assessment (BCA) and Adjusted BCA of baa3.

Moody's also affirmed all other ratings and assessments, including Lincoln Financing S.a.r.l.'s backed senior secured notes rating.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

OUTLOOK CHANGE TO POSITIVE

On 6 January, Societe Generale (A1 deposit and senior unsecured, stable outlook, baa2 BCA) announced that it will acquire LeasePlan through ALD S.A. (ALD), its 80% owned global car fleet management company for €4.9 billion, of which €2 billion are in cash and the rest in shares. Societe Generale and LeasePlan expect to close the transaction by the end of 2022. Under the agreed transaction, Societe Generale will own 53% of the combined entity (NewALD) while LeasePlan's current shareholders will hold 30.75% of the entity at closing. The transaction will bring together two global leaders in the car fleet management and mobility sector representing a combined car fleet of around 3.5 million vehicles, the third largest globally.

The expected positive impact of the change in ownership at LeasePlan and integration into the Societe Generale group have driven the change of the outlook on LeasePlan's ratings to positive from stable.

The perspective of a change in LeasePlan's ownership from a consortium of funds to a banking group which embarks on a long-term investment and aims at obtaining synergies with its own activities is credit positive. Since its leveraged buyout by a consortium of pension funds, sovereign wealth funds and private-equity funds in 2016, Moody's has applied a qualitative one-notch negative adjustment to LeasePlan's rating, reflecting the risks associated with a corporate strategy which typically favors short-term profit and substantial dividend distribution at the expense of the company's long-term creditworthiness. This adjustment will likely be removed once ALD has acquired LeasePlan, which other things being equal, would lead to a one-notch upgrade of LeasePlan's BCA, and hence of its ratings.

Based on the stated synergy ambitions, Moody's expects a high level of integration between LeasePlan and ALD, although the practical arrangements have not yet been disclosed. Moody's also believes that NewALD, as a leading global mobility player, will be of strategic importance for Societe Generale and become one of the main pillars of its business portfolio. Moody's takes note of the bank's commitment to remain the long-term majority shareholder of the combined entity as well as its plan to provide 30% of the company's funding needs. Moody's also believes the planned change of NewALD's status into a regulated entity as a financial holding company, while LeasePlan is expected to keep its banking license, reinforces Societe Generale's shareholder accountability towards its subsidiary.

AFFIRMATION OF BCA AND RATINGS

The baa3 BCA reflects LeasePlan's strong franchise and leading position in the European car leasing market, high revenue generating capacity, a capitalisation commensurate with its risk profile and sound funding structure despite its material reliance on confidence-sensitive wholesale funding. These strengths are partly offset by its significant exposure to cars' residual-value risk. The BCA also includes the aforementioned one-notch negative adjustment for corporate behaviour reflecting governance risks related to the current ownership of the company, and an additional one-notch adjustment reflecting its narrow franchise, as is the case for

similar monoline issuers.

LeasePlan's long-term deposit and senior unsecured debt ratings of Baa1 reflect (1) the bank's BCA of baa3; and (2) two notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, reflecting the very low loss rate that senior debtholders and depositors are likely to incur in a resolution scenario, given the large volume of senior unsecured debt issued by the bank. Moody's expects only a low probability of government support for LeasePlan's senior debtholders and depositors, resulting in no uplift for the senior unsecured debt and deposit ratings.

The LGF analysis shows a high loss-given-failure for LeasePlan's AT1 securities, leading to a one-notch negative adjustment from the bank's Adjusted BCA of baa3. Moody's incorporates two additional downward notches to reflect coupon suspension risk ahead of failure, leading to a rating of Ba3(hyb), three notches below the Adjusted BCA.

The B1 rating of Lincoln's backed senior secured notes is positioned four notches below LeasePlan's baa3 BCA, reflecting the structural subordination of the senior secured notes and the significant double leverage incurred at Lincoln, which results in additional default risk. The outlook on Lincoln Financing S.a.r.l.'s backed senior secured notes rating remains stable because these notes are not part of the transaction and Moody's expects them to be redeemed by the closing of the transaction.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

In the absence of a material deterioration in its fundamentals, the acquisition of the company by ALD, if implemented as announced, could trigger an upgrade of the BCA through the removal of the one-notch negative adjustment for corporate behavior. An upgrade of the BCA would likely trigger an upgrade of the bank's ratings. Deposit and senior unsecured debt ratings could also be upgraded if the integration in NewALD as a core subsidiary leads to its integration in Societe Generale's group resolution perimeter.

A downgrade of LeasePlan is currently unlikely because of the positive impact expected from the announced transaction. LeasePlan's BCA and long-term ratings could nonetheless be downgraded if the current shareholders were to implement a more aggressive financial policy at the bank. In addition, the BCA could be downgraded as a result of (1) the failure of risk-mitigation techniques, recurring earnings and/or capital resources to adequately cover higher residual-value risk; (2) any evidence of deterioration in the bank's liquidity and funding profiles, resulting from increased reliance on wholesale funding or worse-than-expected liquidity gaps; or (3) a structural deterioration in profitability.

LIST OF AFFECTED RATINGS

Issuer: LeasePlan Corporation N.V.

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed A3

....Short-term Counterparty Risk Ratings, affirmed P-2

....Long-term Bank Deposits, affirmed Baa1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed P-2

....Short-term Deposit Note/CD Program, affirmed P-2

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Long-term Issuer Rating, affirmed Baa1, outlook changed to Positive from Stable

....Baseline Credit Assessment, affirmed baa3

....Adjusted Baseline Credit Assessment, affirmed baa3

....Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook changed to Positive from Stable

...Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Preferred Stock Non-cumulative, affirmed Ba3(hyb)

...Backed Commercial Paper, affirmed P-2

...Other Short Term, affirmed (P)P-2

..Outlook Action:

...Outlook changed to Positive from Stable

Issuer: LeasePlan Australia Limited

..Affirmations:

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Backed Commercial Paper, affirmed P-2

...Backed Other Short Term, affirmed (P)P-2

No Outlook assigned

Issuer: LeasePlan Finance N.V. (DUBLIN BRANCH)

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A3

...Short-term Counterparty Risk Ratings, affirmed P-2

...Long-term Counterparty Risk Assessment, affirmed A3(cr)

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Backed Commercial Paper, affirmed P-2

No Outlook assigned

Issuer: Lincoln Financing S.a.r.l.

..Affirmations:

...Backed Senior Secured Regular Bond/Debenture, affirmed B1, outlook remains Stable

..Outlook Action:

...Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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