FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Enjoy's Ratings to 'CCC+'

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Fitch Ratings - San Francisco - 14 Mar 2022: Fitch Ratings has upgraded Enjoy S.A.'s Long-Term Foreign Currency Issuer Default Rating (IDR) to 'CCC+' from 'CCC'. Fitch has also upgraded its USD194 million tranche A notes due in 2027 to 'B-'/'RR3' from 'CCC+'/'RR3' and USD16 million tranche B notes due in 2027 to 'CCC-'/'RR6' from 'CC'/'RR6'.

Enjoy's upgrade reflects the improved capital structure after the convertible series T bonds were fully converted in February 2022, reducing debt by CLP240 billion in the last 12 months, and the lifting of pandemic restrictions that allowed the re-opening of all its casinos. However, it is uncertain when cash flow generation will return to pre-pandemic and pre-social unrest levels. Enjoy casinos have re-opened but with capacity restrictions, and the gaming industry may take additional months to fully recover.

Enjoy's merger with Dreams will result in greater scale and geographic diversification, with synergies benefiting cash flow generation and therefore improving the new entity's capital structure.

KEY RATING DRIVERS

Slow Cash Flow Recovery: Enjoy's casinos in Chile and Uruguay are fully operational but with space and capacity restrictions. Moreover, customers may readjust gaming expenditure behavior since the regional economy has been highly affected by the pandemic with increased unemployment rates, high inflation and negative GDP growth, which may delay full cash flow recovery. Enjoy posted LTM EBITDA of negative CLP39 billion as of

Sept. 30, 2021 compared with CLP39 billion as of Dec. 31, 2019. Fitch expects EBITDA to become neutral to positive in 2022 growing to pre-pandemic levels in 2023, as pent-up demand is re-established.

Deleveraging Capacity: The return to an adequate capital structure will rely on full cash flow recovery post pandemic after the conversion of the last convertible notes in February 2022. Enjoy has the capacity to achieve total debt/EBITDAR ratios of around 5.0x by YE 2023, based on Fitch's expectation that profit margins will ramp-up from current levels as customers gradually allocate more spending to entertainment. Fitch expects EBITDA of CLP22 billion in 2022 and CLP35 billion in 2023 compared to CLP32 billion in 2019.

Strong Market Position: Enjoy's market position is strong as it represents around 38% of total market-share (total gross revenues) and holds 31% of operating licenses in Chile. Around 60% of Enjoy's EBITDA is expected to be originated in Uruguay while the balance is originated in Chile. The casino business in Chile is mature, with low-single-digit revenue growth, and as such, the recovery has been slow.

Additionally, Enjoy's growth strategy is focused on improving the performance of underdeveloped locations, such as in Santiago and Chiloe, as its other casinos post modest growth. Recovery in Punta del Este, Uruguay is also affected by the travel restrictions, as a material portion of its revenues come from high-end international players.

Committed Capex: Enjoy has committed capex related to municipal licenses of approximately CLP20.5 billion between 2022 and 2023. This timeframe was extended due to the lockdowns and Enjoy's inability to continue its construction projects. It is still uncertain whether Enjoy will be able to renew the license at San Antonio casino as the was another bidder. These investments could pressure the company's free cash flow generation.

Positive M&A with Dreams: Enjoy's merger with Dreams should result in an entity with a stronger capital structure, as well as greater scale and geographic diversification. The new entity would hold permits for almost 60% of the casinos and have over 75% of the revenues in the gaming industry in Chile. The new company would also have a presence in Peru, Colombia, Uruguay, Argentina and Panama. The historically higher margins of Dreams' operations would improve the new company's overall profitability, and synergies could be obtained in the supply chain and other areas.

Once the M&A is completed, Fitch will need greater insight into the new company's corporate governance and financial management, as well as regulatory approval for the transaction before taking a rating action. Dreams had pre-pandemic EBITDA margins of

28%, compared to Enjoy's 15%, which shows room for improvement under the potential merger

DERIVATION SUMMARY

Enjoy's 'CCC' ratings are lower than other small casino operators in the Americas. Enjoy's capital structure and business profitability are expected to improve after the M&A with Dreams. The company has lower profit margins than much larger operators, such as Boyd Gaming Corporation, MGM Resorts International (BB/Stable) and Wynn Resorts Ltd. Enjoy's business was disrupted by the pandemic, and the recovery is expected to be gradual and slow.

Additionally, after continuous years of financial stress, the company needs to devote capex to revitalize its asset base. Enjoy owns all of its underlying real estate, with the exception of Vina del Mar, San Antonio and Los Angeles, in Chile, which may provide additional financial flexibility if required, either as collateral or asset sales.

KEY ASSUMPTIONS

--Casinos continue to open intermittently and with restrictions during 2022 with full cash flow recovery expected in 2023;

--Total capex of CLP50 bn over the period 2021-2023, including mandatory investments in municipal licenses;

--No dividends payments.

KEY RECOVERY RATING ASSUMPTIONS

The 'RR4' Recovery Rating reflects average recovery prospects in the event of default. The recovery analysis assumes that the value of Enjoy would be assessed under a liquidation approach. We have assumed a 10% administrative claim.

The waterfall results in a 51%-70% recovery, corresponding to 'RR3' recovery, for the USD194 million notes, tranche A and 0% recovery, corresponding to 'RR6', for the USD16 million notes tranche B

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Adjusted debt/EBITDA below 5.5x on a consistent basis;

--FFO fixed-charge coverage significantly above 1.5x on a sustained basis;

--The M&A transaction with Dreams could trigger a positive rating action should the formed entity exhibit improved corporate governance and financial discipline.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Continued business interruption;

--Liquidity ratio consistently below 1.0x;

--Reverse of the reopening momentum.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Improving Liquidity: Enjoy's liquidity is improving as a result of cash flow recovery and comfortable amortization profile. The refinancing initiatives in 2020, allowed the company to extended its debt amortization profile resulting in no significant maturity for the next five years.

As of March 2022, the company had CLP21 billion of readily available cash, with CLP250 billion of total debt of which only CLP6.4 billion is short-term and the balance has maturity greater than five years.

ISSUER PROFILE

Enjoy operates a total of 10 casinos: eight casinos in Chile, one in Uruguay and one in Argentina. Enjoy is a leader in the Chilean gaming and entertainment industry. It offers a complete portfolio of recreational services that include not only casinos, but also hotels, restaurants, spas and discotheques.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Enjoy has an ESG Relevance Score of '4' for Management Strategy due to the challenges the company has faced in executing its strategy, meeting its projections and reducing its leverage, that resulted in it being unprepared to face the impact of the pandemic. Enjoy's below-average execution of its strategy has contributed to a materially weaker operational performance and capital structure in comparison with its peers. This has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Enjoy S.A.	LT IDR	CCC+	Upgrade		CCC
senior secured	LT	B-	Upgrade	RR3	CCC+
senior secured	LT	CCC-	Upgrade	RR6	CC

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 05 Jan 2021)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 15 Oct 2021)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Enjoy S.A.	EU Endorsed, UK Endorsed

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