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New Issue: AA Bond Co. Ltd.

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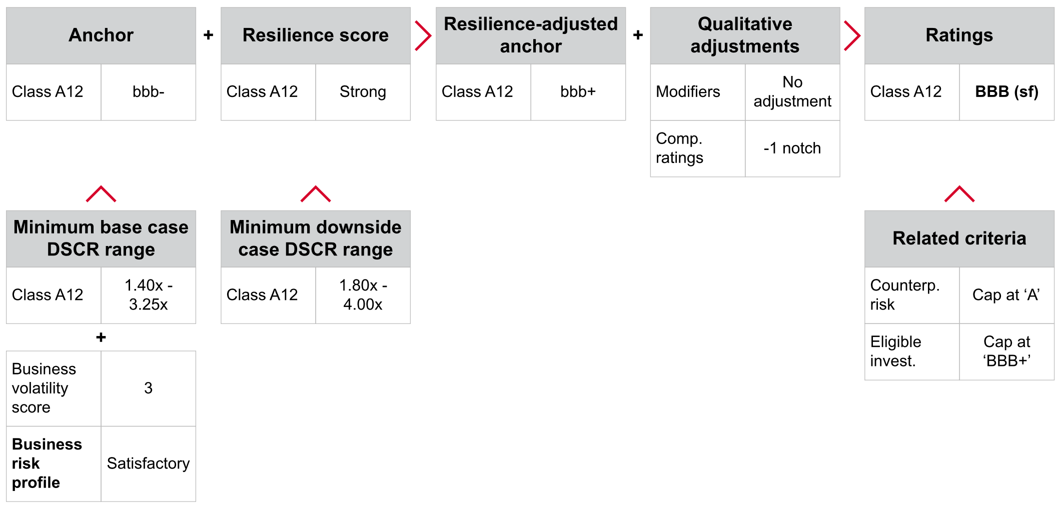
New Issue: AA Bond Co. Ltd.

Ratings Detail



DSCR--Debt service coverage ratio. Comp.--Comparable. Counterp.--Counterparty. Invest.--Investments.

Rating assigned

Class	Rating§	Balance (mil. £)	Interest rate before EMD (%)	Interest rate after EMD (%)	Expected maturity date	Legal final maturity
A12	BBB (sf)	435.0	6.85	7.35	July 2031	July 2050

*The class A12 notes rank pari passu with the outstanding class A notes, the working capital, and the senior term facilities; and senior to the existing class B notes. §Our rating on the class A12 notes addresses timely payment of interest and ultimate payment of principal on the legal final maturity date. EMD--Expected maturity date.

Executive Summary

S&P Global Ratings today assigned its 'BBB (sf)' credit rating to AA Bond Co. Ltd.'s class A12 notes. Our rating is primarily based on our ongoing assessment of the borrowing group's underlying business risk profile (BRP); the integrity of the transaction's legal and tax structure; and the robustness of its operating cash flows, supported by structural enhancements.

On the closing date, the issuer issued £435.0 million class A12 notes to partially redeem £428.5 million of the class A2 notes via a tender purchase. The balance of the class A2 notes will reduce to £10.8 million from £439.4 million. The remaining £6.5 million surplus proceeds from the class A12 notes' issuance will be held in a mandatory prepayment account with the existing borrower transaction bank account provider, until they can be used to further repay the class A2 notes. While the surplus could be used to repay the class A2 notes on any interest payment date, this is not a contractual obligation. Therefore, in our analysis we assume that the class A2 notes' balance will remain at £10.8

million until their expected maturity date (EMD) in July 2025.

AA Bond Co.'s financing structure blends a corporate securitization of the operating business of the Automobile Association (the AA) group in the U.K. with a subordinated high-yield issuance. We believe the transaction would qualify for the appointment of an administrative receiver under the U.K. insolvency regime. Accordingly, an obligor default would allow the noteholders to gain substantial control over the charged assets before an administrator's appointment, without necessarily accelerating the secured debt, both at the issuer and borrower levels.

AA Bond Co.'s primary sources of funds for principal and interest payments on the class A notes are the loan interest and principal payments from the borrower and amounts available from the liquidity facility, which is shared with the borrower to service the senior term loan (when the latter is drawn). Principal and interest payments under the loan are supported by the operating cash flows generated by the borrowing group through its two main business lines: roadside assistance and insurance brokering.

We have not seen material changes to the business fundamentals for the borrowing group's holding company, AA Intermediate Co., so we continue to view the group's BRP as satisfactory.

Since we assigned our preliminary rating, the cost of funds (that is, the A12 notes coupon) achieved by the issuer is lower than our preliminary analysis. Therefore, our base-case analysis results in a higher minimum debt service coverage ratio (DSCR). The minimum DSCR maps to a 'bbb-' anchor, compared with the 'bb+' anchor in our preliminary rating analysis. After considering the resilience-adjusted anchor and modifiers, the maximum potential rating is 'BBB'. Following amendments to the transaction documents in March 2024, the counterparties can invest cash in short-term investments that have a minimum required rating of 'BBB+'. Given the substantial reliance on excess cash flow as part of our analysis and the possibility that this could be invested in short-term investments, full reliance can be placed on excess cash flows only in rating scenarios up to 'BBB+'.

Overview of the new issuance

On the closing date, the issuer issued £435.0 million class A12 notes to redeem the class A2 notes. The class A12 notes have an EMD in July 2031 and a legal final maturity date in July 2050. These new notes rank pari passu among themselves and with the existing senior class A notes; they also rank senior to the existing class B notes. The class A12 notes have access to the same security package as the existing class A notes.

The senior and total debt for the issuer is unchanged by this issuance.

Table 1

Sources and uses of funds

Sources	Mil. £	Uses	Mil. £
Class A12 issuance	434.8	Partial redemption of the class A2 notes	428.5
Cash from whole business securitization	17.2	Transaction fees	3.7
		Make whole price on A2 notes	4.9
		Accrued interest on A2 notes	8.3
		Mandatory prepayment account	6.5
Total sources	452.0	Total uses	452.0

Tender purchase of class A2 notes

- £428.5 million of class A2 notes will be repaid via tender purchase.
- The surplus of £6.5 million from the class A12 notes' issuance will be deposited in the mandatory prepayment account at closing.
- The balance of the mandatory prepayment account will be used only to further repay the class A2 notes on or before their EMD in July 2025.

Senior term facility (STF)

The only interest rate swaps the AA Bond Co. has in place are to hedge the drawings on the STF.

Under our ratings scenario, we assume that the STF is fully utilized and it will remain fully drawn until its legal final maturity date. Thereafter, our analysis assumes that the STF will take a pro rata share of a 100% excess cash sweep, along with all other class A debt that has passed its respective EMD.

Liquidity facility

The liquidity facility has a balance of £200 million, which represents about 9.8% of the current outstanding senior debt. Our threshold for liquidity support to be assessed as significant is 10%. Therefore, we do not apply any uplift to the resilience-adjusted anchor for liquidity support. The current liquidity facility providers are Banco Santander S.A., London branch; Barclays Bank PLC; BNP Paribas S.A., London branch; Credit Suisse International; Goldman Sachs International Bank; and JPMorgan Chase Bank N.A., London branch.

Strengths, Concerns, And Mitigating Factors

Strengths

- The AA retains a leading market position in the U.K.'s roadside breakdown services industry, which has relatively high barriers to entry.
- The membership-based business model, steady renewal rates, and ability to pass on cost inflation foster cash flow visibility.
- The obligor group's ability to generate cash flows remains robust and although adjusted EBITDA margins are below historical levels, due to high exceptional costs, they are still above 30%, indicating strong profitability.
- The transaction benefits from performance covenants that might lead to a dividend lock-up, and would qualify for the appointment of an administrative receiver.
- The £200 million liquidity facility, which spans the issuer- and borrower-level and is available for senior payments and interest on the class A notes and the STF, would remain available to the issuer should the borrower go into insolvency or default on the STF.

Concerns and mitigating factors

- The AA derives its revenue solely in the U.K. and largely from the roadside segment. The AA is therefore relatively small and undiversified, compared with peers in other business services sectors. The insurance brokerage market is more competitive, fragmented, and volatile than the roadside assistance segment, and carries higher risks. That said, the group's exposure is limited; only 10% of revenue was contributed by the insurance brokerage market in 2024.

- In addition to the issuer-borrower loans, the borrower's obligations comprise a £165 million floating-rate STF (fully drawn at closing), a £55.73 million floating-rate working capital facility (WCF; currently undrawn), and an interest rate hedge; all rank pari passu with the class A notes.
- The senior notes do not amortize and receive only interest until their EMDs. This feature dampens the effectiveness of the class A debt service coverage financial covenants, in our view, as the covenants effectively test only interest coverage. Offsetting this is a cash sweep that repays any class A debt outstanding beyond its EMD, while potentially defeasing cash for the repayment of class A debt yet to reach its maturity date.

Transaction Summary

Key terms and conditions of the class A12 notes:

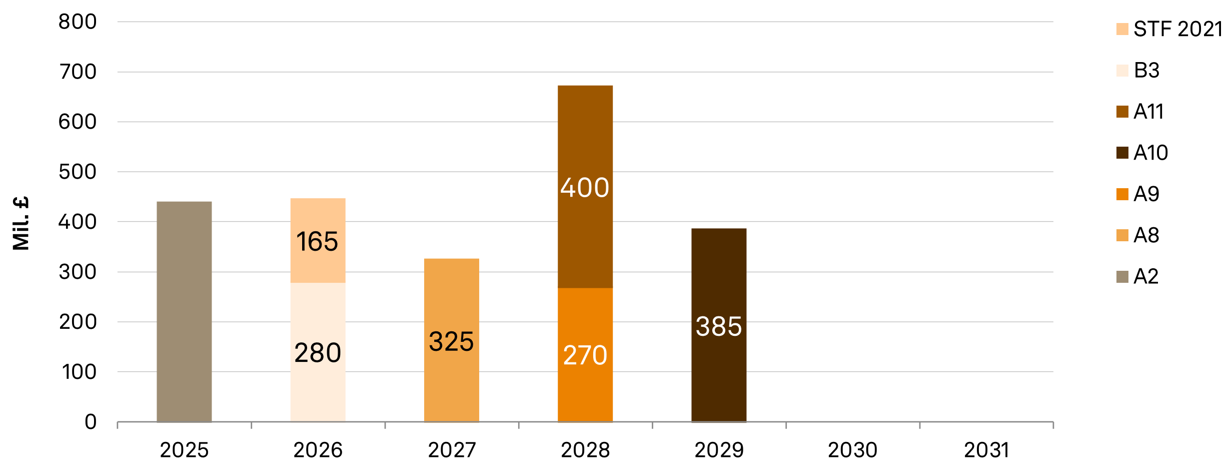
- The class A12 notes rank pari passu with the STF, the WCF, and the outstanding senior class A notes, and senior to the existing class B notes.
- Their terms and conditions are broadly in line with the existing class A notes. Notably, if the borrower fails to refinance the A12 loan on its EMD in July 2031, all of the AA restricted borrowing group's excess cash flow may be used to pay down the class A12 notes (pro rata with other senior instruments in their cash accumulation period, beyond their EMD or legal final maturity, or in defeasance).
- In line with the existing class A notes, the class A12 notes do not have a 12-month cash accumulation period before their EMD (unlike the redeemed class A2 notes) and have a modified optional redemption period of up to six months before their EMD.

Treatment of the 2021 STF in our analysis:

- On Feb. 26, 2021, the borrower entered a £150 million floating-rate STF with a five-year final maturity date in July 2026 (the 2021 STF), which was fully drawn at closing to repay the existing 2018 STF.
- On Feb. 10, 2023, an additional commitment of £15 million was made to this STF; this amount was fully drawn to repay the class A7 notes in May 2023.
- Under our ratings scenario, we assume that the STF is fully utilized and it will remain fully drawn until its legal final maturity date. Thereafter, we considered in our analysis that the STF will take a pro rata share of a 100% excess cash sweep, along with all other class A debt that has passed its respective EMD.
- On Jan. 31, 2022, the STF was subject to a variable interest rate of LIBOR plus a 2.75% margin annually. This converted to a rate of SONIA plus a credit adjustment spread of 0.28% and a 2.75% margin from March 2022. However, the group has an interest rate swap which exchanges Sterling Overnight Index Average (SONIA) for a fixed interest rate of 0.46% on the initial £150 million STF balance and 4.14% on the additional £15 million STF balance, fixing the STF's interest rate at 3.49% for the initial £150 million and at 7.17% for the additional £15 million through to March 2026. Thereafter, the STF's interest rate will be fixed at 3.75%.

Chart 1

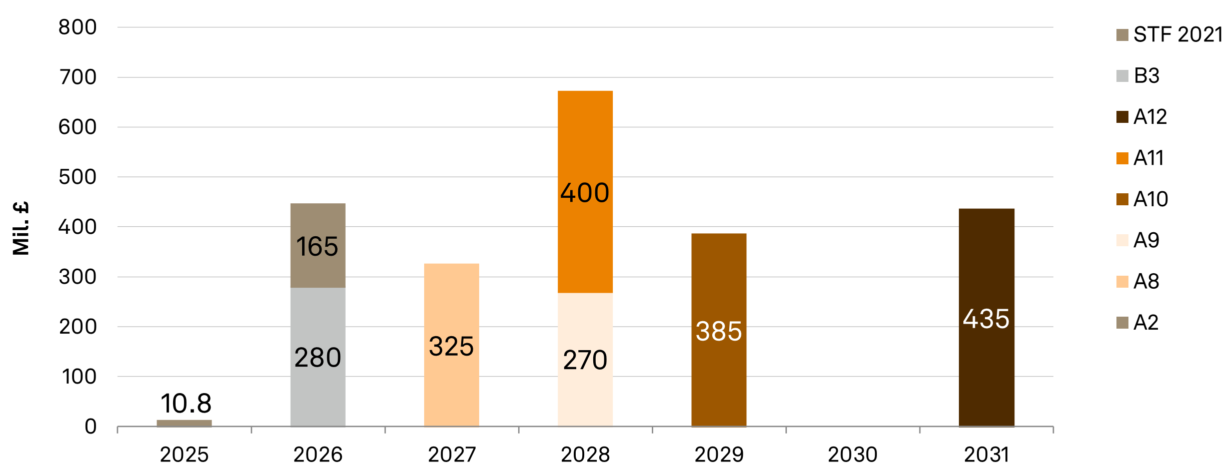
Expected maturity profile pre-refinancing*



*Our ratings on the class A notes address timely payment of interest and ultimate payment of principal on the legal final maturity date, not on the expected maturity date. Source: S&P Global Ratings.

Chart 2

Expected maturity profile post-refinancing*



Source: S&P Global Ratings. *Our ratings on the class A notes address timely payment of interest and ultimate payment of principal on the legal final maturity date, not on the expected maturity date.

Table 2

Capital structure pre- and post-refinancing

Class	Balance pre refinancing (mil. £)	Balance post refinancing (mil. £)	Leverage†	Interest rate before EMD (%)	Interest rate after EMD (%)	EMD	12-month cash accumulation period (Y/N)	Legal final maturity
WCF	55.7*	55.7*	-	SONIA plus 3.03‡	3.75†	N/A	N	March 2026
2021 STF	165.0§	165.0§	-	SONIA plus 3.03‡	3.75†	N/A	N	March 2026
A2§§	439.4	10.8	-	6.27	7.27	July 2025	Y	July 2043
A8	325.0	325.0	-	5.50	6.00	July 2027	N	July 2050
A9	270.0	270.0	-	3.25	3.75	July 2028	N	July 2050
A10 (including A10 tap issuance)	385.0	385.0	-	7.375	7.875	July 2029	N	July 2050
A11	400.0	400.0	-	8.45	8.95	January 2028	N	July 2050
A12	-	435.0	-	6.85	7.35	July 2031	N	July 2050
Total senior debt	**2,040.1**	**2,046.5**	**6.3:1**					
Mandatory prepayment account	**0.0**	**(6.5)**						
Total net senior debt	**2,040.1**	**2,040.1**	**6.3:1**					
Class B3	280.0	280.0	-	6.50	6.00**	January 2026		July 2050
Total debt	**2,320.1**	**2,320.1**	**7.1:1**					
Total net debt	**2,320.1**	**2,320.1**	**7.1:1**					

*Undrawn at closing. §Fully drawn at closing. †(Senior or total debt) /(FY2024 EBITDA as adjusted by us). ‡If drawn. **Unlike the senior notes, the class B3 notes step down after their EMD. §§The class A2 notes will be repaid, using the proceeds of the class A12 notes, and draw from cash within the WBS group. WCF--Working capital facility. EMD--Expected maturity date. N/A--Not applicable. STF--Senior term facility. WBS--Whole business securitization.

Table 3

Transaction timeline

Closing date	May 22, 2024
Class A12 notes' first payment date	July 31, 2024
Class A12 notes' expected maturity date	July 31, 2031
Class A12 notes' legal maturity date	July 31, 2050
Note payment frequency	Semiannually (January and July)

Table 4

Transaction participants

Issuer	AA Bond Co. Ltd.
Borrower	AA Senior Co. Ltd.
Borrowing group holdco	AA Intermediate Co. Ltd.
Obligors	The borrower, holdco, and most of the subsidiaries*

Table 4

Transaction participants (cont.)	
Liquidity facility providers	Banco Santander S.A., London branch; Barclays Bank PLC; BNP Paribas S.A., London branch; Credit Suisse International; Goldman Sachs International Bank; JPMorgan Chase Bank N.A., London branch
Issuer and borrower bank account provider	Barclays Bank PLC
Borrower interest swap provider§	JPMorgan Securities PLC

*The insurance underwriting business is not part of the securitization group, only the brokering part of the insurance business is. §This interest rate swap hedges a notional of £165 million until March 2026.

Industry Overview

The U.K. roadside breakdown services market, which accounts for most of the group's activities, is dominated by the AA and the Royal Automobile Club (RAC), whose combined market share is approximately 70% by volume. We view their long-standing brand names, membership-based business model, strong customer loyalty, and the well-established route density as relatively high barriers to entry. Green Flag, the third-largest player, entered the market in 1971 and since then no other large competitor has emerged. We consider the breakdown services industry as relatively noncyclical--in effect, it offers a form of insurance. The membership cost is low compared with the total cost of owning and maintaining a car, and hence this type of service benefits from relatively low price elasticity. Moreover, there is a partial macroeconomic hedge as consumers tend to keep their vehicles longer during periods of economic decline, which makes them more susceptible to requiring breakdown cover.

Business Description

The AA is the market leader in the U.K. roadside breakdown assistance services industry. With about 14.3 million customers in the financial year (FY) ending Jan. 31, 2024, the group boasts approximately 40% market share in the U.K. consumer (B2C) segment and 60% share in the business (B2B) segment. Founded in June 1905, the group boasts a highway patrol fleet of more than 2,500 staff, assisting paid members with car breakdowns across the U.K. Furthermore, the AA operates some additional road service businesses, including the largest driving school franchise in the U.K. (through the AA and The British School of Motoring). These services accounted for about 88% and 92% of the restricted group's revenue and EBITDA base, respectively, in FY2024. In addition, the restricted group also operates an insurance brokerage arm in the U.K. This segment accounted for about 13% of group revenue and about 10% of EBITDA in FY2024.

Revenues in the consumer roadside segment are primarily generated through annual or monthly subscriptions. By contrast, in the business roadside segment, contracts with corporate clients have an average tenure of three to five years. The group has achieved consistently good retention rates giving it relatively consistent and stable cash flows. In FY2024, it retained about 84% in the B2C segment and retained or extended all its key contracts in the B2B segment.

Key Credit Considerations

We have not seen a material change in the business fundamentals for AA Intermediate Co., and therefore our BRP assessment is unchanged at satisfactory. Our BRP assessment is based on the factors outlined below.

Table 5

Key credit considerations	
Leading market position	With a market share of about 40% in the B2C and 60% in the B2B roadside segments, the AA is the market leader in the U.K.'s roadside breakdown services industry.
Membership-based business model	The AA had about 3.3 million paid members in the B2C roadside segment and about 11 million paid members in the B2B roadside segment in FY2024. Retention rates in the B2C segment are approximately 84% under the new reported measure, and it retained or extended all its key contracts in the B2B segment in FY2024. This membership-based business model provides good cash flow visibility, despite some churn in membership base and potential renewal risk for the longer-term B2B contracts.
Relatively high barriers to entry	The AA's long-standing brand name, strong customer loyalty, and retention rates, as well as its national roadside assistance fleet, create relatively high barriers to entry.
Strong profitability	The BRP is underpinned by above-average S&P Global Ratings-adjusted EBITDA margins of about 30%. We expect margins to be 31%-33%, going forward, because of the AA's lower exceptional costs, better efficiency, and higher volumes. Absent major operational issues related to the program's implementation and given its ability to largely pass on cost increases to its customers (especially in the roadside segment), adjusted EBITDA margins should remain comfortably above the 25% threshold we would expect from the group, and so will support the group's satisfactory BRP.
Limited scale	Despite the significant advantage in terms of size relative to its direct competitors, we view its base as relatively small compared with peers from across other business services sectors.
Limited service diversification and weak geographic diversification	The AA's roadside segment accounted for about 88% of the group's revenue base and about 92% of company-reported EBITDA in FY2024. The AA derives its revenue solely in the U.K.
Moderate customer concentration	Top 10 B2B clients account for about 15% of the group's revenue in that segment.

Recent Performance

In FY2024, the borrower's revenue increased by about 7%. However, adjusted EBITDA margins improved only marginally, to about 30.5% from 30.1% in FY2023, as the impact of price increases was somewhat offset by investment in patrols and exceptional costs of about £19 million. Top-line growth is driven by price increases, as well as growing membership in both the B2B and B2C roadside assistance segments. The difficult insurance broking segment recovered slightly, hampered by competitive pressure and changes to regulations. Despite higher interest costs, cash flow generation was positive because of favorable working capital movements and improved EBITDA.

Table 6

Historical trading performance

AA Intermediate Co. Ltd.

Fiscal year ending Jan. 31	FY2024*	FY2023	FY2022	FY2021	FY2020
Trading revenue (mil. £)	1,067	994	940	927	965
Adjusted EBITDA (mil. £)	325	299	306	318	337
Roadside paid personal members (millions)	3.263	3.252	3.177	3.111	3.215
Roadside business customers (millions)	10.995	10.6	8.842	8.702	9.049

Table 6

Historical trading performance (cont.)					
AA Intermediate Co. Ltd.					
Fiscal year ending Jan. 31	**FY2024***	**FY2023**	**FY2022**	**FY2021**	**FY2020**
Breakdowns attended (millions)	3.480	3.172	3.072	3.014	3.423

*We base our analysis on the preliminary numbers for AA Intermediate Co. Ltd.

Structural Enhancements

The structural features and credit enhancements are generally consistent with those of other recently rated corporate securitizations.

Table 7

Selected structural enhancements	
Required minimum capex*	£44 million per year*
Selected financial default covenants	Class A FCF DSCR < 1.10:1; Class B FCF DSCR < 1.00:1.
Selected dividend lock-up covenants	Class A FCF DSCR < 1.35:1; Common terms agreement event of default; Total class A notes net debt to EBITDA > 5.5:1.
Hedging policy	At least 75% and no more than 110% drawn floating-rate debt to be hedged at any point in time.
Liquidity facility	The transaction features a liquidity facility of £200 million available to cover interest on about 18 months of forecast debt service and the issuer's senior expenses.
Security package	The notes benefit from shared security, and ultimately benefit from the issuer-loan agreements from first-ranking security fixed- and floating-rate charges over properties, shares, and accounts. The notes also benefit from the obligor security trustee's ability to appoint an administrative receiver for the assets in the ring-fenced structure.

*This amount increased to £44 million from £35 million at the end of February 2023, when the AA completed a five-year review of the minimum capex required under the WBS documentation. Therefore, we adjusted our long-term maintenance capex accordingly. The new floor is effective from the period beginning Feb. 1, 2023. Capex--Capital expenditure. FCF--Free cash flow. DSCR--Debt service coverage ratio.

Payment Priority

The following table summarizes the issuer's pre-acceleration priority of payments.

Table 8

Simplified payment priority	
Priority	**Payment**
1	Senior fees;
2	Amounts payable to the liquidity facility providers;
3	Interest on the class A notes, scheduled amounts payable to the hedging providers;
4	Principal on the class A notes and termination payments due to the hedge providers (other than subordinated termination payments);
5	Interest on the class B notes;
6	Principal on the class B notes; and
7	Amounts due to the defaulting or affected swap counterparty, liquidity subordinated amounts.

Rating Rationale (Issuance Of The Class A12 Notes)

AA Bond Co.'s primary sources of funds for principal and interest payments on the class A12 notes are the loan interest and principal payments from the borrower and amounts available from the liquidity facility, which is shared with the borrower to service the senior term loan (if the latter is drawn).

Our rating on the class A12 notes addresses the timely payment of interest and the ultimate payment of principal due on these notes. It is based primarily on our ongoing assessment of the borrowing group's underlying BRP; the integrity of the transaction's legal and tax structure; and the robustness of operating cash flow, supported by structural enhancements.

Our cash flow analysis serves to both assess whether cash flow will be sufficient to service debt through the transaction's life and to project minimum DSCRs in base-case and downside scenarios. In our analysis, we have excluded any projected cash flow from the underwriting part of the AA's insurance business, which is not part of the restricted borrowing group (only the insurance brokerage part is included).

Under our criteria, we typically expect liquidity facilities and cash trapped by a breach of a financial covenant or following an expected repayment date to be kept in the structure if:

- The funds are held in accounts or may be accessed from liquidity facilities; and
- We view it as dedicated to service the borrower's debts--specifically, that the funds are exclusively available to service the issuer/borrower loans and any super senior or pari passu debt, which may include bank loans.

In this transaction, although the borrower and the issuer share the liquidity facility, the borrower's ability to draw on it is limited to liquidity shortfalls related to the STF and does not cover the issuer/borrower loans. Therefore, we do not give credit to the liquidity facility in our base-case DSCR analysis. Currently, as per AA Limited annual report, about £87 million of cash is trapped in the WBS structure, given the breach of the restricted payment condition (RPC). The RPC permits the upstreaming of unrestricted surplus cash if the class A net debt-to-EBITDA ratio is less than or equal to 5.5x. Since the unrestricted cash is not dedicated for debt service and may be upstreamed at any point the RPC is satisfied, we do not account for it in our DSCR analysis.

Table 9

Cash flow assumptions

	Base case scenario	
Item	**Initial growth period**	**Beyond growth period**
Criteria	Our base-case EBITDA, operating cash flow projections in the short term, and BRP rely on our corporate methodology. We gave credit to growth through the end of FY2026.	Beyond FY2025, our base-case projections are based on our methodology and assumptions for corporate securitizations, from which we then apply assumptions for capex, finance leases, pension liabilities, and taxes to arrive at our projections for the cash flow available for debt service.
Maintenance capex*	£83 million for FY2024, £89 million for FY2025, and £84 million for FY2026.	£44 million, in line with the transaction documents' minimum requirements.§
Development capex	£34 million for FY2024, £23 million for FY2025, and £25 million for FY2026.	As we assume no growth, we considered no investment capex.

Table 9

Cash flow assumptions (cont.)			
Pension contributions	We considered the plan agreed by the company with the trustee in February 2023.		We considered the plan agreed by the company with the trustee in February 2023.
Tax	£17 million for FY2024, £18 million for FY2025, and £27 million for FY2026.		Thereafter, we considered tax exposure of about £27 million.
Amortization profile	Interest-only until July 2027, corresponding to the class A8 notes' EMD, then benchmark amortization profile for the class A8 notes.		The transaction structure includes a cash sweep mechanism for the repayment of principal following an EMD on each class of class A notes. Therefore, in line with our corporate securitization criteria, we assumed a benchmark principal amortization profile where each class A note is repaid over 15 years following its respective EMD based on an annuity payment that we include in our calculated DSCRs.
	Cumulative decline (%)		
Business Segment	**Base case**	**Downside case**	**Description**
Roadside assistance	0	30	Determined as per appendix B of the corporate securitization criteria. Segment is part of the business and consumer services industry.
Insurance brokerage	0	30	Same as above.
	Liquidity facility at the issuer level		
	Base case	**Downside case**	**Description**
Consideration in the DSCR	No	Yes	Our downside DSCR analysis tests whether the issuer-level structural enhancements improve the transaction's resilience under a stress scenario.

*Including net finance leases. §The AA completed a five-year review on the minimum capex required under the WBS documentation, and agreed to increase it to £44 million from £35 million from the end of February 2023. Subsequently, we adjusted our long-term maintenance capex. BRP--Business risk profile. Capex--Capital expenditure. EMD--Expected maturity date. DSCR--Debt service coverage ratio.

Table 10 details our specific conclusions for each of the five analytical steps in our ratings process for the class A12 notes.

Based on our assessment of AA Intermediate Co.'s BRP as satisfactory, which we associate with a business volatility score of 3, and the minimum DSCR achieved in our base-case analysis, we established a 'bbb-' anchor for the class A notes.

Given our revised base-case forecast and lower debt service, the minimum DSCR achieved in our analysis is at the lower end of the 1.40x-3.25x range, which implies a 'bbb-' base-case anchor. The minimum DSCR achieved when we assigned our preliminary rating was at the upper end of the 1.10x-1.40x range, implying a base-case anchor of 'bb+'.

Table 10

Credit rating steps		
Step	**Result**	**Comment**
Step 1 (unchanged since previous review)		
Eligibility conditions	Met	This transaction continues to meet the eligibility conditions, which allow us to rate through the insolvency of the operating company and differentiate the rating on the corporate securitization debt from the creditworthiness of the operating company, in terms of: Bankruptcy remoteness and asset isolation, replaceability of the management team, compatibility with long-term cash flow projections, sufficient liquidity, and isolation from refinancing risk, among other considerations.

Table 10

Credit rating steps (cont.)

Step	Result	Comment
Step 2 (unchanged since previous review)		
BRP	Satisfactory	Our current satisfactory BRP assessment on the AA (the borrowing group holdco) reflects our view of its strong competitive position as the U.K.'s market leader, low-risk membership-based operating model, with national scale and strong brand recognition, and strong profitability. These are counterbalanced by the AA's limited geographic and service diversification, and moderate customer concentration in the roadside B2B customer segment.
BVS	3*	The holdco's BRP maps to an unadjusted BVS of '3'*
Base-case cash flow assumptions	See table 9, above	
Step 3 (revised)		
Minimum base-case DSCR range	Lower end of 1.40x-3.25x	Principal and interest are fully paid in this scenario according to the transaction terms.
Anchor	bbb-	Determined as per table 1 of our corporate securitization criteria, (see "Global Methodology And Assumptions For Corporate Securitizations" published June 22, 2017). Given our revised base-case forecast and lower debt service, the minimum DSCR achieved in our analysis is at the lower end of the 1.40x-3.25x range, which implies a 'bbb-' base-case anchor. The minimum DSCR achieved when we assigned our preliminary rating was at the upper end of the 1.10x-1.40x range, implying a base-case anchor of 'bb+'.
Minimum downside DSCR range	1.8x-4.0x	Principal and interest are fully paid in this scenario, according to the terms of the transaction.
Resilience score	Strong	Determined as per table 3 of our corporate securitization criteria.
Resilience-adjusted anchor	bbb+	Determined as per table 4 of our corporate securitization criteria.
Liquidity adjustment	No adjustment	The £200 million balance in the liquidity facility represents liquidity support of about 9.8% of the current outstanding senior debt, which is below the 10% level we typically assess as offering significant liquidity support. Therefore, we have not considered any further uplift adjustment to the resilience-adjusted anchor for liquidity.
Step 4 (unchanged since previous review)		
Modifier analysis	No adjustment	The expected maturity date of the class A12 notes, which rank pari passu with the existing class A and all other senior notes, falls in July 2031, in seven years. In line with our corporate securitization criteria, we have not applied any adjustments under our modifier analysis.
Step 5 (unchanged since previous review)		
Comparable rating analysis	-1 notch	Due to its cash sweep amortization mechanism, the transaction relies significantly on future excess cash. In our view, the uncertainty related to this feature is increased by the execution risks related to the company's investment plan and the returns it will effectively generate. The company may need to invest periodically to maintain its cash flow generation potential over the long term, which could erode future excess cash. To account for this combination of factors, we applied a one-notch decrease to the senior class A12 notes' resilience-adjusted anchor.

*The mappings from BRP to BVS are: Excellent=1; Strong=2; Satisfactory=3; Fair=4; Weak=5; and Vulnerable=6. BRP--Business risk profile. BVS--Business volatility score. DSCR--Debt service coverage ratio.

Counterparty risk

Our 'BBB (sf)' rating on the class A12 notes is not constrained by the ratings on any of the counterparties, including the liquidity facility, derivatives, and bank account providers.

Eligible investments

Following amendments to the transaction documents, the counterparties are allowed to invest cash in short-term investments with a minimum required rating of 'BBB+'. Given the substantial reliance on excess cash flow as part of our analysis and the possibility that this could be invested in short-term investments, full reliance can be placed on excess cash flows only in rating scenarios up to 'BBB+'.

Outlook

A change in our assessment of the company's BRP would likely prompt a rating action on the notes. To achieve the same anchor, we would expect higher DSCRs for a weaker BRP and lower DSCRs for a stronger BRP.

Upside scenario

We do not expect to revise upward our assessment of the borrowing group's BRP because it is constrained by the group's weak geographic and service diversification, as well as its exposure to the insurance broker business. We may consider raising our rating on the class A12 notes if our minimum projected DSCR reaches the middle of the 1.4x-3.25x range, under our base-case scenario.

Downside scenario

We could lower our anchor or the resilience-adjusted anchor for the class A12 notes if we were to revise the borrowing group's BRP to fair from satisfactory. This could occur if the group faced significant operational difficulties in relation to its investment plan or if trading conditions in its core roadside service market were to deteriorate, so that it saw a significant loss of customers or lower revenue per customer. Under these scenarios, we would likely observe margins falling below 25% with little prospect for rapid improvement, or an increase in the volatility of the group's profitability.

We may also consider lowering our rating on the class A12 notes if our minimum projected DSCR falls below 1.4x in our base-case scenario or 1.8x in our downside scenario. This could happen if the cash flow available for debt service declines beyond our expected base-case level.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired. The purpose of surveillance is to assess whether the notes are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to S&P Global Ratings to enable it to maintain continuous surveillance on the rated notes.

We view the AA's performance as an important part of analyzing and monitoring the performance and risks associated with the transaction. Although company performance will likely affect the transaction, we believe other factors, such as cash flow, debt reduction, and legal framework, also contribute to the overall analytical opinion.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct.

18, 2019

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Conditions Europe Q2 2024: Credit Heals, Defense Shields, March 27, 2024
- Economic Outlook Q2 2024: The U.K. Is Slowly Turning A Corner, March 26, 2024
- New Issue: AA Bond Co. Ltd. (A10 Tap Issuance), June 23, 2023
- AA Bond Co.'s Class A10 U.K. Corporate Securitization Tap Issuance Assigned Preliminary Rating, June 19, 2023
- New Issue: AA Bond Co. Ltd., Feb. 6, 2023
- AA Bond Co. Class A11 U.K. Corporate Securitization Notes Assigned Preliminary Rating, Jan. 23, 2023
- Transaction Update: AA Bond Co. Ltd., June 25, 2019
- New Issue: AA Bond Co. Ltd., July 13, 2022
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016