Credit Summary: Americold Realty Trust (BBB, Stable)

Temperature-controlled warehouse leader racks solid case for investment-grade ratings.

Morningstar Credit Ratings, LLC
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Contents

Chris Wimmer, CFA
Vice President
+1 646 560-4585
chris.wimmer@morningstar.com

Mike Magerman, CFA
Vice President
+1 267 960-6022
mike.magerman@morningstar.com

Executive Summary

Morningstar Credit Ratings, LLC has determined a credit rating for Americold Realty Trust of BBB with a stable outlook. This rating reflects Americold's leadership in the temperature-controlled warehouse business, the experience and sophistication of its management team, and its tenant roster, which is populated with a considerable number of investment-grade tenants that have long working relationships with the real estate investment trust. As well, Americold increasingly demonstrates a sustainable competitive advantage from a number of sources. These considerations are somewhat offset by its relatively small size and its history as a highly leveraged and secured capital structure. With Americold retiring mortgage debt with new senior unsecured private placement notes and recasting its revolver and term loan as unsecured, meaningful improvement in the credit profile supports our BBB rating.

Key Takeaways

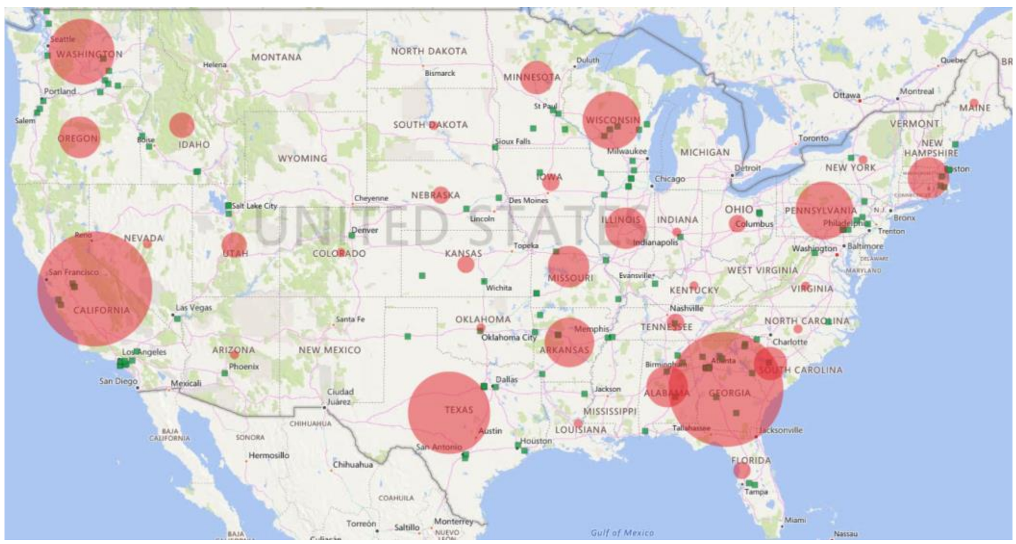
- Americold is the leader in the U.S. temperature-controlled logistics business, with an enviable customer-tenant roster that has worked with the REIT for decades on average.
- We believe Americold maintains a sustainable competitive advantage from multiple sources, including customer switching costs, intangible assets, and efficient scale.
- Americold's size and scale, combined with a savvy and experienced management team drawing from best practices in adjacent sectors, have enabled it to outpace its competitors in developing systems that provide further efficiencies in its portfolio and drive costs lower for its customers.
- Americold has meaningfully improved its credit profile by switching to an unsecured borrowing platform from a secured one and correspondingly and significantly increased alternative liquidity through the release of substantial collateral into an unencumbered portfolio, improving both the Cash Flow Cushion and the Solvency Score pillars.

Americold Realty Trust Overview

Company Description

Americold Realty Trust (NYSE: COLD) is a real estate investment trust and the world's largest owner and operator of temperature-controlled warehouses, or TCWs. Based in Atlanta, Americold owns and operates 156 TCWs with approximately 924 million refrigerated cubic feet of storage in the United States, Australia, New Zealand, Canada, and Argentina. Americold's facilities are an integral component of the supply chain connecting food producers, processors, distributors, and retailers to consumers. Americold serves approximately 2,400 customers and employs approximately 11,000 associates worldwide.

Exhibit 1 Americold Realty Trust Geographic Diversification (U.S. Only)

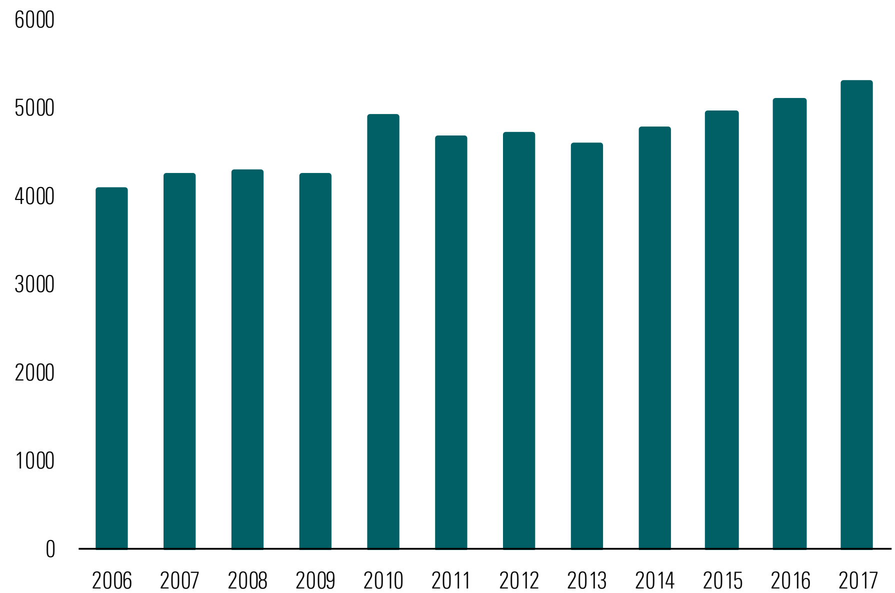


Source: Americold Realty Trust; SNL. Data as of June 30, 2018.
Note: Green squares represent Americold properties; red circles represent property concentration by state (California and Georgia are largest with 14 each). Non-U.S. properties are not represented: Australia, 6; New Zealand, 7; Argentina, 2.

Credit Rating Rationale

The temperature-controlled logistics business is an increasingly key component of the food supply chain, wherein consumer demand for healthier and fresher "farm to fork" items continues to grow at steady pace. Temperature-controlled warehouses provide essential space for food goods that must move through the chain at a constant temperature, where refrigeration and placement in the TCWs, or "racking," are customized based on product and customer needs.

Exhibit 2 U.S. Temperature-Controlled Warehouse Industry Revenue ($ Millions)



Source: IBIS, Americold Realty Trust. Data as of February 2017.

While similar to traditional warehouse properties, in that their primary purpose is storage of commercial goods, many key points of differentiation must be considered. The average area size of a TCW is around 25% larger than that of the average industrial warehouse; however, given that customers lease space denominated in pallet positions, volume is a more relevant measure of capacity (Americold's average facility size is just under 6 million cubic feet; industrywide data is sparse). In terms of barriers to entry from newly constructed TCWs, cost is a constraint, with cold storage requiring meaningfully more investment for refrigeration and other equipment, as are location requirements, customer switching costs, and operator reputation. Food producers and retailers require specific expertise in the presentation and handling of their products, and TCWs need to be located either near points of production or near population concentrations for distribution. Hence, multiple factors limit competition and speculative development.

The top three independent providers of temperature-controlled warehousing in the U.S. represent just over 50% of total market space—Americold is the leader at 23.0%—and no provider outside the top five represents more than 3%. Owners of single assets are abundant. Customers of TCWs include producers of commodities such as Conagra, Danone, Kraft Heinz, and Unilever as well as retailers and distributors, including Kroger, Safeway, Sysco, and US Foods. Americold is the only public REIT specializing in the temperature-controlled warehouse business.

Traditionally, customers have utilized on-demand contracts for space in TCWs based on need. This can lead to mismatches in the demand for and supply of space in the facilities during peak periods, such as harvests and year-end holidays. This in turn can lead to significant cost increases for customers that need to transport goods to alternative facilities, which are often in these scenarios located away from targeted markets and for which on-demand contract rates can be elevated. Working initially with its larger and more sophisticated customers, Americold has transitioned a meaningful portion of its customers' contracts to fixed-storage committed contracts and leases—currently 44% of total warehouse segment revenue, and we anticipate this number to grow. Both Americold and its customers benefit from these arrangements, as the former receives more stable revenue streams and the latter benefit from more predictable and leverageable costs. These leases often have escalators and other features that insulate Americold from potentially costly legislative and regulatory changes, such as those relating to labor or utilities.

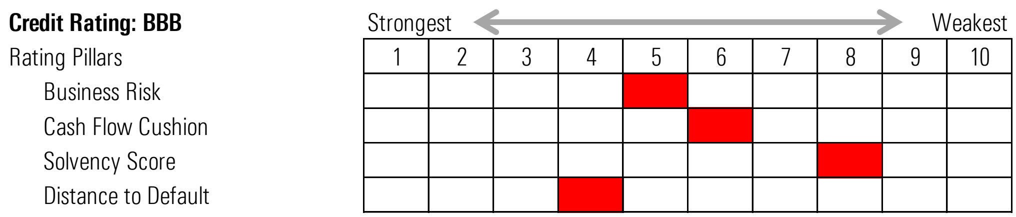
Management has demonstrated talent and expertise from a variety of related industries, including real estate, food distribution, and logistics. The team has made substantial investments over the past five years to maintain and expand the temperature-controlled warehouse business while working to achieve optimal internal efficiency in the portfolio with respect to occupancy and costs, in part by using its customer data to develop detailed customer profitability and standardized underwriting processes, a concept relatively new to this otherwise fragmented sector. Americold has also spent to develop proprietary scalable and customer-facing information technology, which is integrated across the company. In addition, Americold has been successfully introducing contracts and leases that require customers to agree to longer-term commitments for fixed amounts of space, which contrasts with the previous industry standard that had customers paying on an as-utilized basis. Many of these improvements were made possible by not only its size and scale as the number-one provider of temperature-controlled warehouses in the U.S., but also its large and diverse base of customers, many of which have been with Americold for more than 30 years.

The current management team has undertaken the multiyear and meticulous task of transforming the balance sheet, which had been entirely encumbered by long-term mortgage debt and therefore exhibited little flexibility. In 2015, Americold commenced refinancing mortgage debt with secured bank debt, which would provide more flexible repayment terms. In 2018, Americold generated nearly $733 million from its initial public offering and follow-on offerings, $353 million of which was used to pay down debt, meaningfully reducing leverage. As the next step in its balance sheet transformation, Americold has issued $600 million senior unsecured private placement seven-year and ten-year notes to further pay down mortgage debt, as well as recast its revolver and term loan as unsecured, while upsizing the revolver to $800 million. These will dramatically reduce secured debt, lengthen average debt maturity, increase unencumbered assets, and enhance balance sheet flexibility.

Pillar Analysis

MCR's credit rating on Americold Realty Trust is derived from a mix of quantitative and qualitative performance and risk factors integrated into four rating pillars: Business Risk, Cash Flow Cushion, Solvency Score, and Distance to Default. A summary of Americold's pillar rankings is provided in Exhibit 3. Americold's credit rating is supported by its moderate Business Risk and Cash Flow Cushion as well as a strong Distance to Default. Its weak, albeit improving, Solvency Score has a negative impact. Please refer to the Appendix for more detail on the pillar descriptors.

Exhibit 3 Americold Realty Trust Pillar Summary

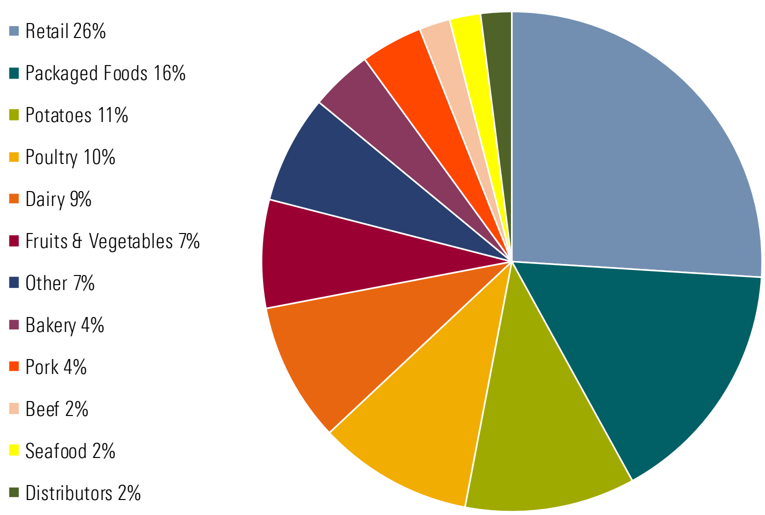


Source: Morningstar Credit Ratings, LLC as of Oct. 30, 2018.

- **Business Risk**—5: Americold's moderate Business Risk is driven by the high-quality and well-positioned portfolio of TCWs, the moderate cyclicality of its business, the diversity of its locations and its tenant roster, and its well-rounded management team. As well, we believe Americold has a moderate sustainable competitive advantage. These attributes are partially offset by its relatively small size and some dependence on the capital markets.
  - **Size**—Small: We project Americold will achieve in excess of $250 million of EBITDA in 2018. We anticipate further growth in revenue and cash flow will continue, though achievement of the next-highest score for this factor may not be achievable over the forecast horizon.
  - **Sustainable Competitive Advantage**—Moderate: Americold currently commands 23.0% of the temperature-controlled warehouse market in the U.S., which is almost 5% higher than the number-two company and more than the number-four through number-ten operators combined. Many TCWs are owned by small operators that own only a single facility. We believe that these advantages will enable Americold to achieve average returns on invested capital in excess of its weighted average cost of capital over the next five years (8.0% versus 6.6%). As Americold continues to lower its cost of capital, especially by improving its credit profile and accessing the senior unsecured debt markets, we expect the spread of its ROIC to increase over its WACC.
  - **Uncertainty**—Medium: We view performance risk as low to moderate, supported by a top 25 tenant roster with whom Americold has enjoyed relationships for 33 years on average. As well, we anticipate steady growth in the demand for refrigerated warehouse space for the foreseeable future. We see insignificant risk of execution in the construction of new TCWs as the REIT typically will build new facilities only when adequate incremental demand has been identified in conjunction with customers, typically a manageable $75 million-$200 million per year.

- **Product/Customer Concentration**—Neutral: Americold owns and operates 156 TCWs totaling nearly 1 billion cubic feet that serve approximately 2,400 customers in and around most major metro areas in the U.S., Australia, New Zealand, and Argentina. The warehouse business caters to a wide variety of commodities from a diverse number of producers, retailers and distributors: retail products (Kroger, Safeway, Smart & Final, and so on), packaged foods (Nestle ice cream and pizza, Campbell/Pepperidge Farm, and so on), potatoes, poultry, dairy, fruits, vegetables, pork, beef, seafood, and other items (Exhibit 4). These considerations are offset by Americold's focus on a single industry, the refrigerated food chain.

Exhibit 4 Americold Realty Trust Diversification by Food Product

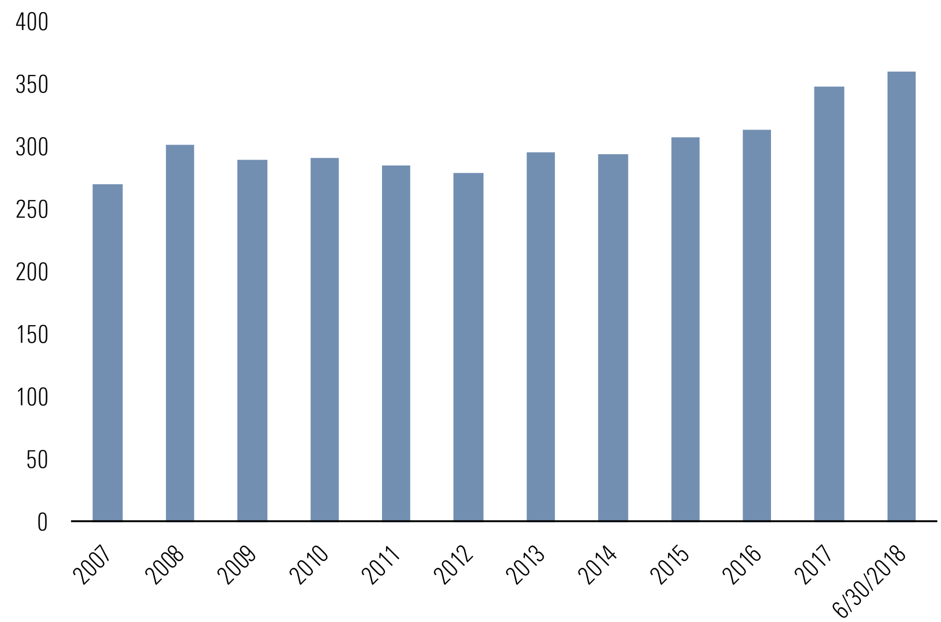


Source: Americold Realty Trust. Data as of June 30, 2018.

- **Management**—Fairly Conservative: We believe Americold has assembled a top management team averaging more than 25 years of experience and knowledge in the real estate, TCW, logistics, manufacturing, and food industry businesses. Our score for management is also supported by the REIT's demonstrated ability and willingness to improve its capital structure to the benefit of creditors and increasingly, unsecured creditors, with the significant unencumbering of its portfolio of high-quality TCWs to take place under the contemplated transaction.
- **Dependence on Capital Markets**—Dependent: Americold historically has been more dependent on capital markets than typical investment-grade REITs; however, should the REIT continue to grow and improve its credit profile within a predominantly unsecured borrowing model, especially by expanding its unencumbered portfolio, our assessment would probably improve.

- **Cyclicality**—Mild: Americold demonstrates moderate cyclicality and enjoys a degree of indifference to the economy relative to other REIT types, as it will capture consumer preference for dining out during expansionary periods and will equally capture increased grocer volumes during contractions (Exhibit 5).

Exhibit 5 Americold Realty Trust Temperature-Controlled Warehouse NOI ($ Millions)



Source: Americold Realty Trust. Data as of June 30, 2108.

- **Property Quality and Positioning**—High: Americold has brought together a portfolio of top-quality TCWs located in important markets in the U.S. and abroad for delivering optimal refrigerated service for its customers' food supply chain needs. The facilities are strategically located to serve nearly every population center within a single day's drive. As well, the facilities are operated in a culture that uses best practices drawn from the logistics, manufacturing, and food industries.

- **Cash Flow Cushion**—6: We forecast average annual adjusted funds from operations of $131 million for the next five years, which is ample relative to projected cash dividends of $109 million per year. Upcoming debt maturities total $180 million of secured term loans in 2020 and $293 million of mortgage debt in 2023, which will provide further opportunity to unencumber the portfolio. Against these and other obligations, Americold expects to unencumber nearly three fourths of its portfolio, or $3.4 billion of assets, pro forma for the contemplated refinancing that will replace secured with unsecured, which provides significant additional alternative liquidity. As well, Americold maintains a $450 million secured credit facility (undrawn at June 30), which will convert to unsecured as part of the anticipated refinancing transactions, with the revolver expected to expand to $800 million from $450 million, and a $475 million unsecured term loan (Exhibit 6).

Exhibit 6 Americold Realty Trust Cash Flow Cushion ($ Millions)

		% of Due
Cash Balance YE2017 (Pre-IPO)	48,873	2.9%
Adj. Unencumbered Assets	1,301,665	77.1%
5-Year Fwd Adj. Avail. CF	925,096	54.8%
Total Cash Flow and Liquidity	2,275,635	**134.8%**
5-Year Cash Commitments	(1,688,579)	

Source: Morningstar Credit Ratings, LLC. Data as of Oct. 30, 2018.

- **Solvency Score**—8: Americold's Solvency Score is the weakest of its pillars and is especially weighed down by its capital structure with relatively high leverage and a relatedly low interest coverage metric. As a result of recent and potential capital markets activity, these metrics should improve and lift Solvency Score by one decile (Exhibit 7).

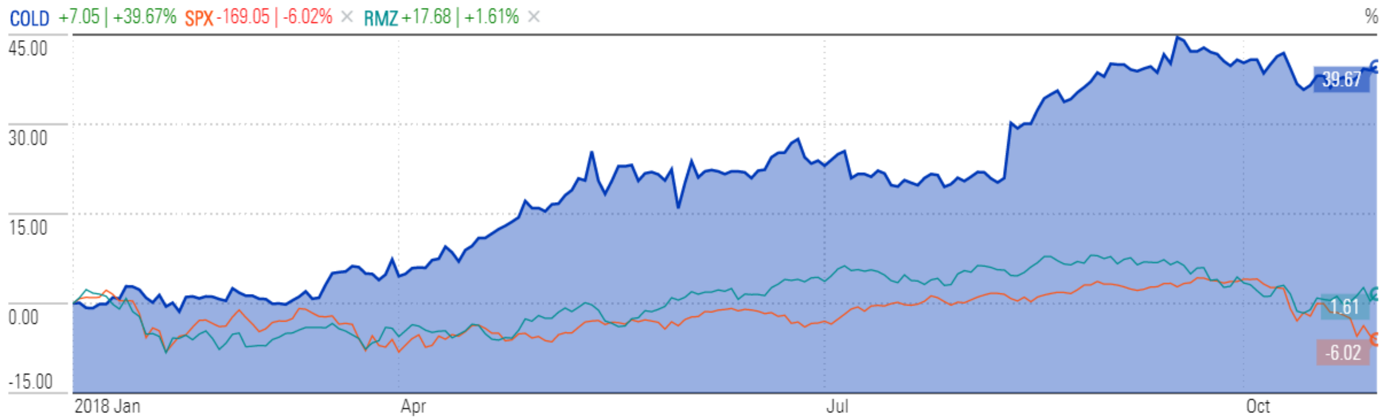
Exhibit 7 Americold Realty Trust Solvency Score

	2018P	2019P*
TL/TA	92.7%	71.7%
Quick Ratio	1.1x	1.7x
ROIC	7.0%	7.2%
Adj. EBITDA / Interest Expense	2.7x	2.8x
Solvency Score Rank	**8**	**7**

Source: Morningstar Credit Ratings, LLC. Data as of Oct. 30, 2018.
*Metrics assume impact of proposed transactions.

- **Distance to Default**—4: Americold has an enterprise value of $5.0 billion compared with a total debt balance of $1.6 billion, providing creditors with a meaningful equity cushion. Since its IPO at the start of the year, Americold has meaningfully outperformed the S&P 500 as well as the REIT index.

Exhibit 8 Americold Realty Trust Common Equity Performance



Source: Morningstar. Data as of Oct. 30, 2018.
COLD: Americold Realty Trust
SPX: S&P 500
RMZ: MSCI US REIT Index

Financial Projections

We assume the capital structure has been improved by both recent transactions (IPO and debt repayment) and pro forma for the proposed transactions (repayment of secured with unsecured, related increase in unencumbered assets). We forecast total rental revenue growth of 4.5% in 2018, followed by 3.5% in 2019 and 3.0% per year thereafter. For interest rates, we assume an increase of 80 basis points in 2018 and 50 basis points per year thereafter, which will mostly affect Americold with future refinancings. In terms of investment, we assume 21 million cubic feet in newly constructed TCWs will be delivered in late 2018 and early 2019 and 20 million cubic feet per year thereafter; we have not included any meaningful acquisitions. For disposition activity, we assumed the nearly 6 million cubic feet sold in 2018 and none thereafter, as we do not believe there will be activity meaningful to our projections. Pro forma for the recently executed transaction, we have taken 73% of our gross depreciable assets and stressed them using a 40% discount, which is derived from the 60% loan/value observed for industrial assets in the wake of the financial crisis. In terms of incremental capital needs, we model zero for 2019, given substantial cash remaining on the balance sheet, and then $50 million incremental unsecured debt and $50 million incremental equity per year thereafter.

Capital Structure

Americold currently has $1.6 billion in debt outstanding, all of which is senior secured, the vast majority consisting of term loans and mortgage debt. There is a small amount, 10%, which is made up of capital lease and sale leaseback financing obligations. As a result of the proposed transaction, we anticipate that secured debt will be reduced to $452 million and new unsecured will total approximately $1.1 billion, consisting of a $600 million senior unsecured private placement and a $475 million senior unsecured term loan (Exhibit 9).

Exhibit 9 Americold Realty Trust Capital Structure

Type	Rate (%)	Maturity	Current Amount ($000)	Debt / EBITDA	Pro Forma Amount ($000)	Debt / EBITDA
Secured						
Australian Term Loan	4.63	Jun-2020	150,200		0	
2010 Mortgage Loans*	4.40-7.92	Jan-2021	452,275		0	
2013 Mortgage Loans*	4.14-11.75	May-2023	293,110		293,110	
New Zealand Term Loan	5.21	Jun-2020	29,801		0	
Senior Secured Revolving Credit Facility	N/A	Jan-2021	0		0	
Senior Secured Term Loan A Facility	4.95	Jan-2023	475,000		0	
Senior Secured Term Loan B Facility	5.79	Dec-2022	0		0	
Other Debt Obligations**	7.00-19.59	Various	159,179		159,179	
Total Secured Debt			**1,559,565**	**6.2x**	**452,289**	**1.8x**
Unsecured						
New Debt Private Placement					600,000	
New Term Loan A Facility					475,000	
Total Debt					**1,527,289**	**6.1x**
Cash and Equivalents					153,200	
Net Debt					**1,374,089**	**5.5x**
Projected 2018 EBITDA					249,684	

Source: Americold Realty Trust; Morningstar Credit Ratings, LLC. Data as of June 30, 2018.
*Cross-collateralized and cross-defaulted: 2010, 46 warehouses; 2013, 15 warehouses.
**Includes capital lease and sale leaseback financing obligations.

Exhibit 10 Americold Realty Trust Peer Financial Comparisons

	COLD	PLD	DRE	LPT	FR	*Average*	*Maximum*	*Minimum*
Rating	BBB	A-	BBB+	BBB	BBB			
Outlook	Stable	Stable	Stable	Positive	Stable			
All values (except per share amounts) in USD Thousands	2018P	2018P	2018P	2018P	2018P			
Income Statement								
Revenue	1,351,599	2,967,202	784,027	698,425	439,923	*1,248,235*	*2,967,202*	*439,923*
Property Net Operating Income	349,661	1,962,020	528,728	484,351	302,123	*725,377*	*1,962,020*	*302,123*
Adjusted EBITDA	247,984	1,833,810	456,497	433,112	267,571	*647,795*	*1,833,810*	*247,984*
FFO	161,151	2,003,663	421,126	354,107	205,211	*629,051*	*2,003,663*	*161,151*
AFFO	113,975	1,754,612	351,950	272,995	160,490	*530,804*	*1,754,612*	*113,975*
Balance Sheet								
Gross Assets	3,628,178	42,123,009	8,583,930	7,278,033	4,100,430	*13,142,716*	*42,123,009*	*3,628,178*
Total Adjusted Debt	1,567,172	11,112,631	2,648,891	2,909,545	1,396,997	*3,927,047*	*11,112,631*	*1,396,997*
Net Adj. Debt + Preferred	1,421,092	8,931,632	2,570,183	2,868,650	1,372,058	*3,432,723*	*8,931,632*	*1,372,058*
Three-Year Average Growth (% YoY)								
Revenue	4.2%	11.3%	7.3%	3.2%	6.3%	*6.5%*	*11.3%*	*3.2%*
Property Net Operating Income	4.9%	11.4%	6.7%	1.8%	6.4%	*6.2%*	*11.4%*	*1.8%*
Adjusted EBITDA	4.2%	13.2%	3.2%	2.2%	8.1%	*6.2%*	*13.2%*	*2.2%*
FFO	22.4%	28.5%	10.1%	3.8%	13.4%	*15.6%*	*28.5%*	*3.8%*
Profitability								
NOI Margin	29.5%	72.8%	71.3%	71.7%	68.9%	*62.8%*	*72.8%*	*29.5%*
G&A / Rental Income	8.4%	12.2%	6.8%	9.0%	6.9%	*8.6%*	*12.2%*	*6.8%*
Adjusted EBITDA Margin	18.8%	61.8%	58.2%	62.0%	60.8%	*52.3%*	*62.0%*	*18.8%*
Adjusted ROIC	7.3%	6.9%	5.6%	6.4%	6.0%	*6.4%*	*7.3%*	*5.6%*
Coverage / Payout / Share Repurchases								
Adj. EBITDA / Interest Expense	2.7	5.5	4.7	4.9	4.1	*4.4*	*5.5*	*2.7*
Adj. EBITDA / Int. Exp. + Pfd. Divs + Cap. Int.	2.7	4.6	4.0	4.1	3.9	*3.9*	*4.6*	*2.7*
Dividends / FFO	71.1%	70.1%	78.4%	69.6%	41.6%	*66.2%*	*78.4%*	*41.6%*
Dividends / AFFO	76.0%	80.1%	93.9%	90.3%	53.2%	*78.7%*	*93.9%*	*53.2%*
Leverage								
Total Debt / Adj. EBITDA	6.3	6.1	5.8	6.7	5.2	*6.0*	*6.7*	*5.2*
Net Debt + Preferred / Adj. EBITDA	5.6	4.9	5.6	6.6	5.1	*5.6*	*6.6*	*4.9*
Total Debt / Total Assets	60.5%	29.5%	36.1%	45.9%	43.7%	*43.1%*	*60.5%*	*29.5%*
Net Adj. Debt + Preferred / Total Assets	53.8%	23.7%	35.1%	45.2%	42.9%	*40.1%*	*53.8%*	*23.7%*
Total Debt / Gross Assets	42.9%	26.4%	30.9%	40.0%	34.1%	*34.8%*	*42.9%*	*26.4%*
Net Adj. Debt + Preferred / Gross Assets	38.2%	21.0%	29.9%	39.4%	33.5%	*32.4%*	*39.4%*	*21.0%*
Secured Debt / Gross Assets	17.6%	2.3%	1.0%	3.7%	7.3%	*6.4%*	*17.6%*	*1.0%*
Secured Debt / Total Debt	41.0%	8.7%	3.3%	9.2%	21.5%	*16.7%*	*41.0%*	*3.3%*
Five-Year Maturity Stats								
Average	126,455	771,528	183,743	268,908	150,199	*300,167*	*771,528*	*126,455*
Maximum	452,275	1,279,151	603,611	461,736	341,552	*627,665*	*1,279,151*	*341,552*
Minimum	2021	2022	2022	2021	2021	*2021.4*	*2022*	*2021*
Maximum / Total Adj. Debt	28.9%	11.5%	22.8%	15.9%	24.4%	*20.7%*	*28.9%*	*11.5%*

Source: Morningstar. Data as of Oct. 30, 2018.

Appendix

Exhibit 11 Descriptors for Pillar Analysis

			Rating Pillars		
	Score Range	**Business Risk**	**Cash Flow Cushion**	**Solvency Score**	**Distance to Default**
Strongest	1-2	Minimal	Very Strong	Very Strong	Very Strong
	3-4	Low	Strong	Strong	Strong
	5-6	Moderate	Moderate	Moderate	Moderate
	7-8	High	Weak	Weak	Weak
Weakest	9-10	Very High	Very Weak	Very Weak	Very Weak

Business Risk Pillar Components

Country Risk (10% of Business Risk Score)

Weakest	Very High Risk
	High Risk
	Moderate Risk
Strongest	Low Risk

Company Risk (90% of Business Risk Score)

	Size	**Economic Moat**	**Sustainable Competitive Advantage**	**Uncertainty**	**Product/Customer Concentration**
Weakest	Very Small	None	None	Extreme	Highly Concentrated
	Small			Very High	Concentrated
	Moderate	Narrow	Moderate	High	Neutral
	Large			Medium	Diversified
Strongest	Very Large	Wide	Substantial	Low	Highly Diversified

	Management	**Dependence on Capital Markets**	**Cyclicality**	**Portfolio Quality & Positioning**
Weakest	Aggressive	Extremely Dependent	Highly Cyclical	Very Low
	Fairly Aggressive	Highly Dependent	Cyclical	Low
	Neutral	Dependent	Average Cyclicality	Moderate
	Fairly Conservative	Low Dependence	Mild Cyclicality	High
Strongest	Conservative	Very Low Dependence	Non-Cyclical	Very High

Source: Source: Morningstar Credit Ratings, LLC.
Note: Economic moat and moat trend provided by Morningstar's Equity Research Group.

Morningstar® Credit Research

For More Information
Greg Hiltebrand
+1 312 244-7353
greg.hiltebrand@morningstar.com

22 West Washington Street
Chicago, IL 60602 USA