SCOPE | Ratings

Progress Étteremhálózat Kft.

Hungary, Leisure and Entertainment

Issuer
BB

Outlook
Stable

Senior unsecured debt
BB+

Rating composition

Business risk profile		
Industry risk profile	BB	BB
Competitive position	BB	
Financial risk profile		
Credit metrics	BB+	**BB+**
Liquidity	+/-0 notch	
Standalone credit assessment		**BB**
Supplementary rating drivers		
Financial policy	+/-0 notch	**+/-0 notch**
Governance & structure	+/-0 notch	
Parent/government support	+/-0 notch	
Peer context	+/-0 notch	
Issuer rating		**BB**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	11.2x	15.7x	12.4x	14.5x
Scope-adjusted debt/EBITDA	3.0x	2.6x	2.5x	2.4x
Scope-adjusted funds from operations/debt	31%	37%	36%	39%
Scope-adjusted free operating cash flow/debt	13%	5%	7%	11%
Liquidity	>200%	No ST debt	No ST debt	>200%

Rating sensitivities

The upside scenarios for the ratings and Outlook are (collectively):

- Increase in market shares.
- Free operating cash flow/debt above 10% on a sustained basis.

The downside scenario for the ratings and Outlook is:

- Debt/EBITDA above 4.0x.

**All credit metrics refer to Scope-adjusted figures.*

Lead Analyst

Lucas Pozza
+49 30 27891-49
l.pozza@scoperatings.com

Related methodology

General Corporate Rating Methodology, February 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Moderate profitability, supported by high value restaurant chain brand, driven by strong marketing strategy validated by consumer research. • Well-defined strategies to preserve its strong market share, including plans for growth in the number of new restaurants as well as facelifts for all existing restaurants. • Sequential de-leveraging and robust interest cover.	• Heavily dependent on franchise (developmental licensee) agreement with McDonald's. • Volatility in free operating cash flow/debt in the past years due to capex plan. • Limited diversification with a single country of operations.

2. Rating Outlook

The Stable Outlook reflects Progress' increased network size and stable market share, after having successfully completed the investment phase. The Outlook also assumes that the issuer will be able to maintain debt/EBITDA below 3.0x, as well as generating sufficient cash to limit the need for additional financing in the medium term.

3. Corporate profile

McDonald's only licensee partner in Hungary

Progress Étteremhálózat Kft. (Progress) is the McDonald's Corporation's developmental licensee in Hungary and one of the largest restaurant operators in the country based on both revenue and profit. Progress operates McDonald's restaurants and uses the trademarks, intellectual property rights and other products under the McDonald's franchise. It is entitled to name itself the 'Developmental Licensee Partner of McDonald's in Hungary'. The company has two primary sources of income: i) revenues generated by own operated restaurants (88% in 2024); and ii) franchisee fees from conventional licensee partners (12%). The company's activities consist solely of operating McDonald's restaurants in Hungary.

Ownership changes in 2019

The first McDonald's restaurant in Hungary opened in 1988. Progress's former name was McDonalds Hungary Kft. Ownership changed in 2019, when Hungarian entrepreneur Sándor Scheer acquired the full stake from the global McDonald's group through his holding company Leones QSR Kft, whose sole investment is in Progress.

National presence through own stores and partners

In Hungary, McDonald's has 115 restaurants, where 60% of those are operated and owned by Progress Étteremhálózat Kft. itself generating HUF 105bn revenues in 2024 (+15.3% YoY). The other 40% stores are operated via Conventional Licensee partners (CL). Progress currently works with 12 conventional license/franchise partners.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
27 May 2025	Affirmation	BB/Stable
30 May 2024	Affirmation	BB/Stable
7 Jun 2023	Affirmation	BB/Stable

5. Financial overview (financial data in HUF m)

			Scope estimates		
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	11.2x	15.7x	12.4x	14.5x	15.7x
Debt/EBITDA	3.0x	2.6x	2.5x	2.4x	2.1x
Funds from operations/debt	31%	37%	36%	39%	45%
Free operating cash flow/debt	13%	5%	7%	11%	14%
Liquidity	>200%	No ST Debt	No ST Debt	>200%	>200%
EBITDA					
Reported EBITDA	9,632	12,884	14,674	16,400	17,627
add: operating lease payments	3,432	3,569	4,193	5,259	5,443
EBITDA	**13,064**	**16,453**	**18,867**	**21,660**	**23,071**
Funds from operations (FFO)					
EBITDA	13,064	16,453	18,867	21,660	23,071
less: interest	(1,163)	(1,046)	(1,522)	(1,493)	(1,470)
less: cash tax paid	(122)	-	(165)	(186)	(199)
Other non-operating charges before FFO	305	484	-	-	-
Funds from operations	**12,084**	**15,891**	**17,179**	**19,980**	**21,402**
Free operating cash flow (FOCF)					
Funds from operations	12,084	15,891	17,179	19,980	21,402
Change in working capital	331	(484)	84	70	50
Non-operating cash flow	1,650	-	-	-	-
less: capital expenditures (net)	(6,071)	(10,476)	(10,530)	(9,976)	(10,315)
less: lease amortisation	(2,799)	(2,826)	(3,260)	(4,294)	(4,478)
Free operating cash flow	**5,193**	**2,105**	**3,473**	**5,780**	**6,659**
Interest					
Net cash interest per cash flow statement	531	302	590	528	504
add: interest component on operating leases	633	743	932	965	965
Interest	**1,163**	**1,046**	**1,522**	**1,493**	**1,470**
Debt					
Reported financial (senior) debt	33,000	33,000	33,000	28,875	24,750
less: cash and cash equivalents	(14,438)	(12,571)	(11,443)	(8,498)	(6,482)
add: non-accessible cash	5,450	7,500	7,875	8,269	6,000
add: operating lease obligations	14,587	15,168	17,820	22,352	23,134
Debt	**38,598**	**43,098**	**47,251**	**50,997**	**47,402**

6. Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Credit neutral ESG profile

Progress is working on a dedicated ESG strategy. It strives for cutting its environmental footprint by reducing its general use of packaging, ensuring selective waste collection (80% of the waste generated in the restaurants is recycled), turning used cooking oil into biodiesel and food waste into biogas. Additionally, through the restaurant modernization program and new store openings, Progress aims to establish other environment-friendly initiatives in its restaurants to reduce energy consumption (e.g. led-bulbs) and having a gas-free operation.

As a large employer, Progress has community support programmes and a good focus on gender equity. Ownership and management structures are well separated. The company pays attention to complying with food safety regulations and avoiding regulatory and reputational risks. The Hungarian entity also invests into product innovation. Internal controls and audits from Mc Donald's Corporation provide further assurance.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BB

Small player on global scale but market leader in Hungary

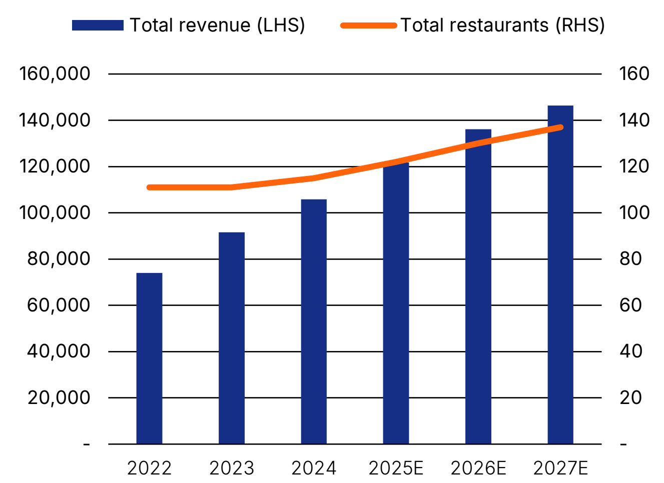
Progress' business risk profile benefits primarily from its position as one of the major restaurant operators in Hungary through its use of the McDonald's brand. Revenues of Progress reached HUF 105bn in 2024 (approx. EUR 260m) which is more than double vs pre-pandemic.

Progress has been benefiting from successful conversion of new stores in strategic locations across the country, which increase its market footprint, as well as the increasing traffic and volumes as consumer demands ramps up. The number of stores has increased to 115 in 2024 (60% operated by Progress) and all restaurants have been refurbished and modernised.

On an international level, the number of McDonald's restaurant in Hungary (11.5 restaurants per million people) is still below of that in Austria (22.5), Germany (16.4) and France (23.6), for example, likely linked to lower purchase power of population and lower urbanization rates. The heavy capex plan of the past years has supported Progress to increase its market share in Hungary.

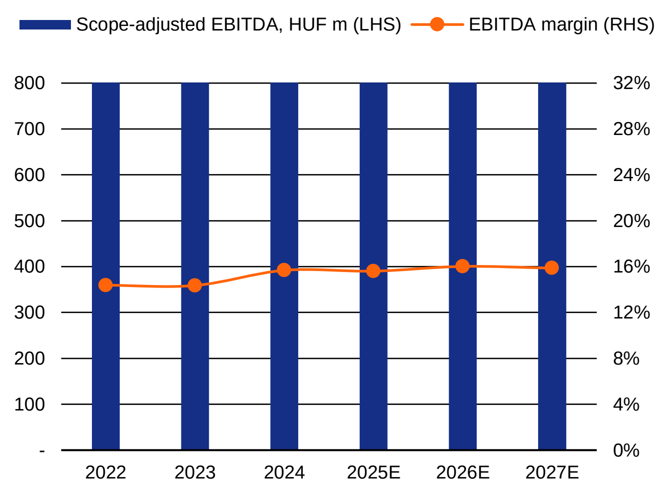
In the medium term, we expect Progress to sustain its moderate operating profitability margins at around 15%-16%, despite increasing competition. However, the company's market position assessment remains constrained by Progress' single country of operations, Hungarian fragmented market, and the overall small scale of operations of Progress when compared on a global level.

Figure 1: Revenues (HUF m) and network size (units) evolution



Source: Scope Estimates, Progress

Figure 2: Operating profitability



Source: Scope Estimates, Progress

Restricted product portfolio but diversified distribution channels

Progress' restaurant portfolio is geographically diversified within Hungary, with strong presence in city centers, highways, instore (store in store) and shopping malls. McDonald's sales channels are diversified: home delivery available in most locations (and growing), drive-thru access and take-away or eat-in options. With regards to suppliers, the company has a strong integration in global supply chains, operating with strategic and long-term partners, minimising its supply chain risk. We note that McDonald's is proactively improving product diversification by increasing the menu variety, adding breakfast items, McCafé shops, pastry options and offering wraps and salads. Ultimately, however, McDonald's product portfolio is still limited to food and beverages.

Moderate and resilient profitability

Historical EBITDA margin has been ranging between 10-18% during 2016-2024 at 15% on average. As of year-end 2024, the company presented a 15.7% margin (HUF 16bn EBITDA), in line with historical levels. The EBITDA margin is around 4pp higher than reported by the company due to adjustments for real estate lease payments received from franchise partners.

The operating environment should remain challenging in 2025 as inflation continues in Hungary, especially in labour and raw materials (agricultural commodities) costs. Regardless, we expect Progress to remain resilient to such pressures as in the past years and sustain a stable profitability level in 2025-2027. Affordability through an adequate pricing strategy, digitalisation and economies of scale will therefore be key to remain competitive and relevant towards consumers.

8. Financial risk profile: BB+

Improving financial risk profile

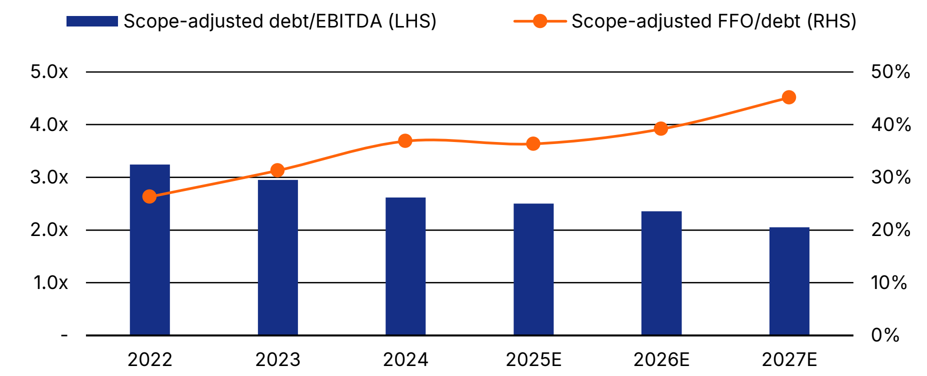
Progress' financial risk profile has been improving over the past years driven by its continuous improvement in leverage levels and cash flow generation. The company was able to successfully conclude its heavy investment phase and scale up operations in 2024, which resulted in an improved nominal EBITDA ahead of expectations while debt levels remain flat.

Adequate leverage level

Leverage, measured as debt/EBITDA, has decreased to 2.6x in 2024 (vs 3.0x in 2023). We expect leverage levels to remain below 3.0x in an improving trend during the forecast period.

The company's debt comprises of the HUF 33bn senior unsecured bond maturing in 2030, which starts to amortise only from 2026 (by HUF 4.1bn) and approx. HUF 3.0bn in bank guarantees. We expect no major changes, besides the annual amortization from 2026, in the forecasted period.

Figure 3: Leverage evolution



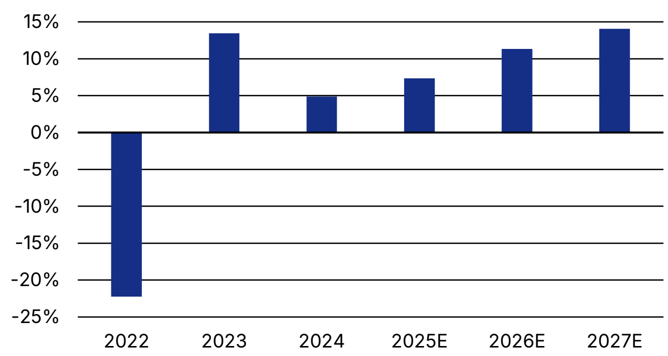
Source: Scope Estimates, Progress

Strong sequential cash flow generation

FFO/debt was at 37% in 2024 (vs 31% in 2023), which indicates a health cash flow generation. We expect it to remain between 35%-40% in 2025-2026, but to further improve to 45% by 2027.

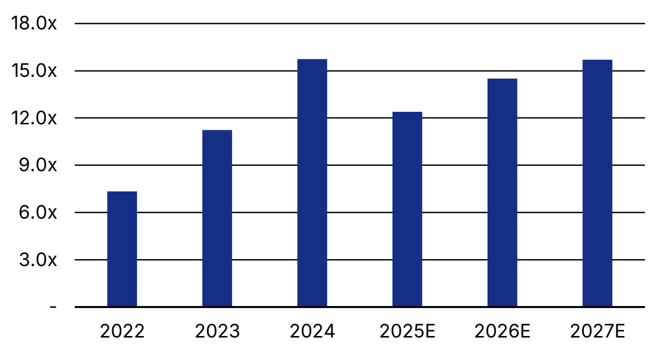
FOCF/debt has declined to 5% in 2024 from 13% in 2023 mainly driven by higher capex. The company also initiated dividends payments in 2024 (HUF 3.1bn paid) from its cash flow generation. The FOCF generation in the next years will be sufficient to a continuation of shareholders returns, debt service and no market pressure for hypothetical new debt issuances.

Figure 4: Free operating cash flow cover



Source: Scope Estimates, Progress

Figure 5: Interest cover



Source: Scope Estimates, Progress

Financing at low fixed interest rates

EBITDA interest cover was strong at above 15x at YE 2024. The purely fixed rate debt having a coupon of 3.0% yearly supports debt protection. We expect the metric to stay very strong, above 10x, in the next three years as there is no new financing need and we project nominal EBITDA to increase.

Adequate liquidity

Liquidity is adequate and benefits from the company's conservative debt maturity profile, with no short-term debt either historically or planned in the coming years. The bond will start amortising in 2026 with HUF 4.1bn annually which does not pose a liquidity risk given the comfortable cash position and positive free operating cash flow generation.

We highlight that Progress's senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 33bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (immediate accelerated repayment). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is three notches. Scope therefore sees no significant risk of the rating-related covenant being triggered.

In addition to the rating deterioration covenant, bond covenants include list of soft covenants among others (i) change of control unless approved by McDonald's Corporation, (ii) net/Debt EBITDA up to 3.5x applicable only if breach is due to raising new debt, and (iii) dividend restriction up to 50% pay-out ratio.

Table 1. Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)	8,988	5,071	3,568
FOCF (t)	2,105	3,473	5,780
Short-term debt (t-1)	-	-	4,125
Liquidity	**No (Re)-financing needs**	**No (Re)-financing needs**	**>200%**

Sources: Scope Estimates, Progress

9. Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers as credit neutral

We view Progress' financial policy as appropriate and prudent, with the commitment to a maximum net debt/EBITDA of 3.5x. No dividends were paid during the investment phase (up to 2023), and company guidance on dividends still allow deleveraging. In 2024, HUF 3.2bn (approx. EUR 7.9m) dividends were paid and we forecast payments in 2025-2027 at 50% of the previous year's profit after tax as limited in the bond prospectus, which is protective of debtholders.

Parent support is neutral as we do not expect support from the owner or his holding company. Governance and structure are credit-neutral, though we view positively the multi-level control mechanisms and decision boards. Peer group considerations do not warrant a change to the rating.

10. Debt rating

Senior unsecured debt rating: BB+

The senior unsecured debt rating of Progress Étteremhálózat Kft. has been affirmed at BB+, one notch above the issuer rating. The assessment is supported by the low likelihood of introduction of new financings, the HUF 87bn in total assets (of which HUF 45bn are fixed), as well as that the size of additional financing is restricted by bond leverage covenants. Based on our assumptions at default year, the company had a buffer of approx. HUF 25bn of additional debt before breaching its bond covenant. Such incremental debt would still result in a recovery expectation of above 50% but that would not be sufficient for a two-notch uplift.

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

Disclaimer