

EVOCA: Coffee Premiumization vs. PIK Accretion

Sticking with the same credit angle as my previous post on HelloFresh, EVOCA is another HY name worth a closer look.

Many seasoned HY players remember N&W Global Vending, now EVOCA — a coffee-machine business built through the integration of several global manufacturers and acquired by Lone Star in 2015. The credit story, on paper, was “easy to sell”: coffee is an attractive end-market, with structural growth and continued “premiumization” (definition taken from a management’s presentation). EVOCA operates across three main areas of business: professional coffee machines, vending machines and maintenance parts, with EMEA accounting for more than 80% of sales.

But the credit story is less shining (I was an investor in Global Vending, and I consistently had the impression that the company’s business plan in the sector was inconsistent with the track record of its previous trajectory and performance and the possible challenges were largely overlooked or given insufficient consideration).

The existing FRNs (550m) were issued in 2024 (it was a refinancing) at c.4.3x pro forma adjusted EBITDA, based on heavily adjusted numbers for getting to roughly €120m. Including PIKs, issued at parent level, the leverage three years ago was already above 7.0x. Not easy, right? Not every analysis, therefore, should have focused solely on the resilience of the coffee business to economic cyclicity.

EBITDA today is now around €90m, with a margin above 25%. Net leverage, again on an adjusted basis, is just below 5.0x. On the surface, not a dramatic deterioration versus 2024. By looking under the hood, however, and the picture is weaker. Recent earnings performance has been soft, mainly driven by lower volumes (again, do you remember Global Vending?). The business is currently cash-flow negative although with a good cushion of liquidity.

And then there are the PIKs. We need to go back to 2019 for understanding the reason why they were issued: to repay a portion of the profit participation notes in favor of the private equity.

The PIK notes have accumulated significantly since the original 2019 issuance and now exceed €400m due to accrued interest. That is a lot of PIK sitting on top of a business generating only c.€90m of EBITDA. This is the reason why at this point, the PIKs look increasingly out of the money at the EBITDA multiples the EVOCA business can realistically support. For HY senior investors, the growing PIK balance is putting additional pressure on the overall capital structure and, ultimately, on the senior debt, which is trading below the 90s.

This is where the story gets interesting.

The question is no longer simply whether coffee is a good or resilient market. This is a wrong analysis. It is whether EVOCA can bear a total debt grown disproportionately to the barely steady or declining financial results. Lone Star now has a tough decision to make: continue to support the business- at which multiples? - or ultimately hand back the keys. For FRNs note holders the experience of Merlin Entertainments (I wrote extensively on it, warning the seniors and predicting the repayment of the unsecured) is a useful reminder of the potential risk. Following the repayment of the SUNs, senior creditors were left exposed to the consequences of the subsequent capital-structure dynamics and guarantees exchange. EVOCA could raise a similar concern: in the event of an LME, senior creditors may also face impairments to shape a business fit with the right amount of debt. In my view, current levels look broadly fair (maybe they should trade a touch cheaper like in May), but a lot will ultimately depend on whether the existing owner remains in place or a new owner takes over, and on how the capital structure is addressed under either scenario.

For the curious investors, the N&W Global Vending book is still available in bookstores.

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