PRESS RELEASE

Spread Research assigns its SR1 short-term rating to the NEU CP instrument of Sodexo Finance DAC with a Stable outlook

Lyon, May 24th, 2018 – Credit rating agency Spread Research assigns its SR1 short-term rating to the NEU CP instrument of Sodexo Finance DAC with a Stable outlook. The short-term instrument rating is part of the financial documentation of the NEU CP programme issued by Sodexo Finance DAC for up to €1.4bn.

Rating rationale

Spread Research has analysed the short-term credit profile of Sodexo S.A., which is guarantor of Sodexo Finance DAC, the issuer of the NEU CP, in order to assign its short-term rating. The outcome is SR1, the second-highest grade in Spread Research's rating scale.

Credit profile

In a highly competitive market, we see Sodexo's large scale and global presence as competitive advantages, enabling it to benefit from more pricing power than competitors and to maintain client retention at a high level. Furthermore, we value Sodexo's exposure to non-cyclical sectors (representing around 51% of group sales), which provides a good protection against the troughs of business cycles.

Although management recently reviewed its full-year guidance regarding organic sales growth and profitability following a weaker than expected operating performance, we take comfort from positive business prospects on the back of higher outsourcing rates in the industry and the position of strength from which Sodexo operates.

Our rating is underpinned by solid credit metrics, fuelled by a cautious financial policy, resilient cash generation, and low indebtedness. Spread Research's adjusted net leverage stood at 2.4x as of 28 February 2018, a low level relative to the resilient nature of Sodexo's business. Looking ahead, we forecast continued positive free cashflow and stable net leverage at a moderate level.

Liquidity profile

Liquidity is strong and driven by a sizeable amount of cash on balance sheet (€1.5bn), high amount of undrawn credit facilities, relatively high proportion of long-term debt (above 3 years). In addition, we expect that positive cash generation will continue.

Credit outlook

Our Stable outlook reflects our view that credit metrics will be stable over the next 12 months. We expect that sizeable cash generation will be offset by high cash distribution to shareholders (through dividends and share buy-backs) and debt-funded acquisitions.

Our methodology for short-term ratings, published in January 2016, is available at www.spreadratings.com/Short-term_rating_methodology.

Sodexo

Founded in 1966, Sodexo is a France-based provider of food services and facility management services to various end-markets. The group is one of the leading global companies in its sector and is relatively well diversified in terms of geographic mix, with an operating presence across 80 countries. The group generated sales of €20.4bn and EBITDA of €1.45bn over the last twelve months (ended 28 February 2018). Sodexo is listed on the Paris Stock Exchange, a member of the CAC 40 ® index and is controlled by the family-owned holding Bellon SA (40.4% of Sodexo shares and 55.8% of voting rights).

Spread Ratings

Spread Ratings is the trademark under which Spread Research operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Spread Research itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Spread Research capitalizes on over fourteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings for issuers. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Spread Research is one of the few rating agencies approved by the Bank of France to provide financial ratings for the NEU CP (short-term), and NEU MTN (medium-term) programs.

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NEU CP Instrument solicited rating Initiation report

Rated Entity: **Sodexo Finance DAC**
Sector: **Services**

Short-term rating: **SR1**
Credit outlook: **Stable**

RATING RATIONALE

- **We initiate coverage on Sodexo Finance DAC and assign an SR1 short-term rating, the second highest grade in our rating scale, to its €1.4bn NEU CP instruments.** Sodexo S.A. is guarantor of the NEU CP instrument issued by Sodexo Finance DAC.
- Founded in 1966, **Sodexo is a France-based provider of food services and facility management services** to various end-markets. The group is one of the leading global companies in its sector and is relatively well diversified in terms of geographic mix, with an operating presence across 80 countries. The group generated sales of €20.4bn and EBITDA of €1.45bn over the last twelve months (ended 28 February 2018). Sodexo is listed on the Paris Stock Exchange and member of the CAC 40®, with a market capitalization of €12.9bn, and **is controlled by the family-owned holding Bellon SA** (40.4% of Sodexo shares and 55.8% of the voting rights).
- Alongside the On-site services businesses (96% of group sales), the group has also an activity named Benefits and Rewards services (4% of group sales) offering pre-paid corporate services such as meal vouchers. This activity is highly profitable compared to the rest of the group, since the underlying operating margin of this business unit stood at 31.4% (vs. 5.5% for On-site services) over the most recent period.
- In a highly competitive market due to a high number of players and rather low barriers to entry, **we see Sodexo's large scale and global presence as strong competitive advantages** compared to local and smaller competitors, enabling it to offer integrated services in many countries. This competitive advantage provides Sodexo with more pricing power compared to small-scale competitors and increases the likelihood of client retention. Furthermore, **we value Sodexo's exposure to non-cyclical sub-sectors** such as healthcare, education or seniors (representing around 51% of group sales), which provides a good protection against the troughs of business cycles. This has been reflected in resilient operating earnings over the last ten years.
- **Sodexo released somewhat weaker than expected results for 1H17/18, which led management to review its full-year guidance** regarding organic sales growth (to 1-1.5% from 2-4% previously) and underlying operating margin (to 5.7% from 6.5%). This was mainly related to poor results in North America and lower-than-expected contributions from large contracts. Although we believe that profitability will remain under pressure over the next twelve months, we stress that business prospects remain positive thanks to increasing outsourcing rates in the industry and the position of strength from which Sodexo operates.
- On the back of low debt interest expenses, limited CapEx and minor working capital changes, cash generation has been solid and relatively stable over recent years. Free cashflow (before dividends) stood at €740m in 2016-17. For several years, the group has directed its sizeable free cashflow towards shareholders through dividends and share buybacks, rather than acquisitions. **Now, management is looking to increase debt-funded M&A, while maintaining a high level of cash distribution to shareholders**. We expect that this will lead to an increase of our adjusted net debt ratio for the company to 2.4x at end-August 2018 (vs. 1.8x last year), which is **still low given the recurrent nature of Sodexo's business.**
- **Sodexo benefits from solid credit metrics on the back of resilient cash generation and low indebtedness**. SR calculates the company's net leverage (Adj. EBITDAR/ Adj. net debt) to be 2.4x as of 28 February 2018 and the coverage ratio (Adj. EBIT / Gross interests) at 11.6x over the LTM. **Liquidity is strong** with a sizeable amount of cash (€1.5bn - excluding restricted cash), and €1.5bn of undrawn credit facilities, which is more than enough to cover upcoming debt over the three next years.

Capital structure

- **Total reported debt stood at €4.2bn as of 28 February 2018** and was mainly made up of i) bonds for a total amount of €1.9bn with maturities ranging from 2022 to 2027, ii) US Private Placements for €1.2bn with various maturities (2018-29) and iii) NEU CP instruments for €920m. Alongside this, Sodexo has several revolving credit facilities and multicurrency credit facilities for a total sum of €1.5bn, which were undrawn as of end-February.
- Including restrictive cash and financial assets related to the Benefits & Rewards activity, **net reported debt stood at €1.7bn or a reported net leverage of 1.1x.** Adjusted for operating leases, pension deficits, restricted cash and financial assets related to the Benefits and Rewards activity, our adjusted net leverage came in at 2.4x.
- Note that Sodexo obtained a new €150m RCF in March 2018 expiring in March 2019.

Conservative financial policy

- Although management plans to increase the pace of debt-funded acquisitions while maintaining a high level of cash distribution to shareholders, **we still view Sodexo's financial policy as prudent since the group targets a moderate reported net leverage range of 1.0x to 2.0x.** We also take comfort from a track record of strong adherence to Sodexo's financial policy.

Liquidity analysis

- Liquidity is strong and driven by a sizeable amount of cash on balance sheet (€1.5bn), high amount of undrawn credit facilities, relatively high proportion of long-term debt (above 3 years). In addition, we expect that positive cash generation will continue.

Credit outlook

- Our Stable outlook reflects our expectation that over the next twelve months, sizeable cash generation will be offset by high cash distribution to shareholders (through dividends and share buy-backs) and debt-funded acquisitions.

Rating sensitivity

- Sodexo Finance DAC stands in the middle range of our SR1 rating. We could upgrade our SR1 rating to SR0 if the group's financial metrics (net leverage and coverage ratios) improve materially and/or geographic diversification is enhanced.
- A downgrade to SR2 is more unlikely as it would require material deterioration in the business profile and credit metrics.

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SPREAD RESEARCH assigns ratings and as such is regulated by ESMA.

REGULATORY DISCLOSURES

Initiation report on NEU CP instrument rating

Rating nature: Solicited short-term public rating (the rating report was published after being reviewed by the issuer)

Limitation of the Rating action:
Spread Research believes the quality and quantity of information available on the rated entity is sufficient to provide a rating. Spread Research has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research: Short-Term Ratings Methodology available at
http://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf

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