

Company: Sodexo  
Sector: Services



SR Rating	Outlook
SR1	Stable

### Rating rationale

We reaffirm our SR1 short-term rating to the €1.4bn NEU CP instruments of Sodexo Finance DAC. Sodexo S.A. is guarantor of the NEU CP instruments 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 72 countries. The group generated sales of €21.2bn and EBITDA of €1.37bn over the last twelve months (ended 28 February 2019). Sodexo is listed on Euronext Paris and included in the CAC 40®, with a market capitalization of €14.6bn. It is controlled by the family-owned holding Bellon SA (42.2% of Sodexo shares and 57.1% of the voting rights).

Alongside the On-site services business (96% of group sales), Sodexo 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, with an underlying operating margin of 30.3% (vs. 5.0% for On-site services) over the last twelve months.

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, smaller rivals, enabling it to offer integrated services in many countries. They provide Sodexo with more pricing power compared to others in the sector, and also increases the likelihood of client retention. Furthermore, we value Sodexo's exposure to non-cyclical sub-sectors such as healthcare, education or seniors care (representing around 50% of group sales), which provides good protection against the troughs of business cycles. This has been reflected in resilient operating earnings over the last fifteen years.

Management has launched a new strategic plan geared towards organic sales growth with the aim to reach an organic growth rate of at least 3% by fiscal 2020 (vs. 1.9% in FY17 and 1.6% in FY18). The main focus will be to turnaround sales performance in North America, notably in both the Education and Healthcare segments, which have lost some market share over recent years. Operating measures include management changes, the renewal of sales strategy in order to improve retention rates, and higher investments in Sodexo's offers. Regarding profitability, the group underlying operating margin came in at 5.4% over the last twelve months, below historical norms (6.4% in FY17, 5.9% in FY16). For FY19, we expect underlying operating margin to stabilize around 5.5%. 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 (around 2% of group's sales), and minor working capital changes, cash generation has been solid and relatively stable over recent years. Free cashflow (before dividends) stood at €815m in 2017-18. For several years, the group has directed its sizeable free cashflow towards shareholders (through dividends and share buybacks), rather than acquisitions. But the group has recently increased debt-funded M&A while maintaining a high level of cash distribution to shareholders, which has led to a rise of our adjusted net leverage ratio (adj. EBITDAR/adj. net debt) for the company to 2.8x (from 2.4x April last year), which is still moderate given the recurrent nature of Sodexo's business.

Sodexo benefits from solid credit metrics on the back of resilient cash generation and moderate indebtedness. SR calculates the company's adj. EBIT/gross interest ratio to be at 8.9x over the last twelve months. Liquidity is strong with a sizeable amount of cash (€1.95bn - excluding restricted cash), and €1.2bn of undrawn credit facility maturing in 2022, which is more than enough to cover upcoming debt over the next three years.

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## Debt structure

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Total reported debt stood at €4.8bn as of 28 February 2019 and was mainly made up of i) bonds for a total amount of €2.2bn with maturities ranging from 2022 to 2027, ii) US private placements for €1.5bn with various maturities (2019-29), and iii) NEU CP instruments for €1.0bn. In addition, Sodexo has a multicurrency credit facility for a total of €1.2bn maturing in 2022 and three others credit facilities of €150m each maturing in 2019 and 2020, which were all undrawn as of end-February 2019.

Including restrictive cash and financial assets related to the Benefits & Rewards activity, net reported debt stood at €1.8bn as of end-February 2019, or a reported net leverage of 1.3x. 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 2.8x.

## Adequate financial policy with conservative net leverage target

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Although net indebtedness has risen due to the increase in debt-funded M&A while a high level of cash distribution to shareholders (dividends around 50% of recurring net income, plus share buybacks) has been maintained, 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 (pre-IFRS16 impact). We also take comfort from a track record of strong adherence to stated financial policy.

## Liquidity analysis

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Liquidity is strong and driven by a sizeable amount of cash on balance sheet (€1.95bn), high amount of undrawn credit facilities, and a relatively high proportion of long-term debt (over 3 years). In addition, we expect that positive cash generation will continue.

## Credit outlook: Stable

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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 buybacks on a discretionary basis) and debt-funded acquisitions.

## Rating sensitivity

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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 would result from material deterioration in the business profile and/or credit metrics.

## REGULATORY DISCLOSURES

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SPRR/2019/000374/RAT/24/05/2019

**Initiation report:** No

**Rating initiation:** SR1 on 24 May 2018.

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

**Name of the rating committee chair:** Anthony Giret, Credit Analyst.

**Material sources used to support the rating decision:**

- Financial statements 2018, 2017, 2016
- Sodexo H1 2018/19 Results Report, Presentation, Conference Call
- Discussions with Sodexo management

**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: available at [www.spreadresearch.com](http://www.spreadresearch.com)

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## PRESS RELEASE



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

**Lyon, May 24th, 2019 – Credit rating agency Spread Research reaffirms 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 both the short-term credit profile and the liquidity profile of Sodexo S.A., which is the guarantor of Sodexo Finance DAC, the issuer of the NEU CP, in order to assign its short-term rating. Spread Research based its analysis on two main pillars – the credit profile and liquidity analysis – as detailed in our methodology for short-term ratings, available on our website (<https://www.spreadratings.com/la-notation-de-votre-entreprise/>).

The outcome is SR1, the second-highest grade in Spread Research's rating scale. This reflects Sodexo's large scale with strong market positions, resilient cash generation, solid credit metrics, as well as very good liquidity.

#### **Credit profile**

In a highly competitive market, we see Sodexo's large scale and global presence as material advantages, enabling it to benefit from more pricing power than smaller rivals and to maintain client retention at a high level. Furthermore, we value Sodexo's exposure to non-cyclical sectors (representing around 50% of group sales), which provides good protection against the troughs of business cycles.

Although organic sales growth and operating profitability have recently been below historical norms, we take comfort from still 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 an adequate financial policy, resilient cash generation, and moderate indebtedness. Spread Research's adjusted net leverage stood at 2.8x as of end-February 2019, a moderate level in the context of 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 (€1.95bn), high amount of undrawn credit facility, and relatively high proportion of long-term debt (over 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 buybacks on a discretionary basis) and debt-funded acquisitions.

**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 72 countries. The group generated sales of €21.2bn and EBITDA of €1.37bn over the last twelve months (ended 28 February 2019). Sodexo is listed on the Paris Stock Exchange and is included in the CAC 40 ® index. It is controlled by the family-owned holding Bellon SA (42.2% of Sodexo shares and 57.1% of voting rights).

**Spread Ratings**

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Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. 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 NEU CP (short-term) and NEU MTN (medium-term) programs.

The public report as well as all regulatory information are available on our website - <https://www.spreadratings.com/>.

**Press contact**

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## PRESS RELEASE



### **Spread Research confirme la note court terme SR1 à l'instrument NEU CP de Sodexo Finance DAC assortie d'une perspective de crédit stable**

**Lyon, le 24 mai 2019 – L'agence de notation financière Spread Research confirme la note court terme SR1 à l'instrument NEU CP de Sodexo Finance DAC assortie d'une perspective de crédit stable. La notation de l'instrument court terme s'inscrit dans le cadre de la documentation financière du programme de NEU CP émis par Sodexo Finance DAC pour un plafond maximum de 1,4 milliard d'EUR.**

#### **Fondements de la Note**

Spread Research a évalué le profil crédit de Sodexo S.A., garante de Sodexo Finance DAC, et son profil de liquidité afin d'attribuer une note court terme au programme NEU CP de celle-ci. Spread Research se fonde pour son analyse sur deux piliers - le profil du crédit et l'analyse de la liquidité – détaillés dans sa méthodologie spécifique court terme, disponible sur notre site internet (<https://www.spreadratings.com/la-notation-de-votre-entreprise/>).

La notation finale est SR1, la deuxième note la plus élevée de l'échelle court terme de Spread Research. Elle reflète la grande taille de Sodexo assortie de fortes positions de marché sur lesquelles elle opère, une génération de trésorerie résiliente, de solides indicateurs de crédit ainsi qu'une très bonne liquidité.

#### **Profil Crédit**

Sur le marché hautement concurrentiel des services aux entreprises, la taille et la présence mondiale du groupe Sodexo sont des avantages concurrentiels qui lui offrent une plus grande influence sur les prix et une meilleure rétention de ses clients.

Nous apprécions également l'exposition significative du groupe à des secteurs non cycliques (représentant environ 50% des ventes de Sodexo), ce qui procure une protection certaine contre les fluctuations macroéconomiques.

Bien que les résultats opérationnels en termes de croissance organique des ventes et de marge opérationnelle aient été en dessous de la tendance historique, nous continuons de tableer sur de bonnes perspectives commerciales pour le groupe. En effet, nous nous appuyons sur des taux de sous-traitance en hausse dans l'industrie des services et des positions de leadership sur les marchés où Sodexo opère.

Notre note repose sur de solides indicateurs de crédit, alimentés par une politique financière prudente, une génération de trésorerie vigoureuse et un endettement modéré. Notre levier net ajusté s'établit à 2.8x au 28 février 2019, ce qui est modéré compte tenu du caractère résilient des activités du groupe. Pour l'avenir, nous continuons de prévoir une génération de flux de trésorerie disponibles positifs et un levier net stable à un niveau modéré.

#### **Profil de liquidité**

La liquidité du groupe est solide. Elle est basée sur une trésorerie conséquente au bilan (1,95 milliard EUR), un montant important de facilité de crédit non utilisé et une forte proportion de dettes financières à long-terme (plus de 3 ans). En outre, nous prévoyons une génération de trésorerie positive.

#### **Perspective de crédit**

Notre perspective de crédit stable reflète notre anticipation de stabilité des ratios de crédit sur les 12 prochains mois. Nous prévoyons que la génération de trésorerie disponible positive sera compensée par les distributions aux actionnaires (dividendes et rachats d'actions de manière discrétionnaire) ainsi que des acquisitions financées par la dette.

## **Sodexo**

Fondé en 1966, Sodexo est un groupe français qui fournit des services de restauration et de facility management destinés à divers marchés finaux. Le groupe est un des principaux acteurs dans son secteur et est relativement bien diversifié géographiquement avec une présence dans 72 pays. Sodexo a généré un chiffre d'affaires de 21,2 milliards EUR et un EBITDA de 1,37 milliard EUR sur les douze derniers mois (finissant le 28 février 2019). Sodexo est coté sur Euronext Paris et est membre du CAC40 ®. Le groupe est contrôlé par la holding familiale Bellon S.A. (42,2% des actions Sodexo et 57,1% des droits de vote).

## **Spread Ratings**

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Notre équipe d'analystes, spécialisés par secteurs d'activité, fournit des opinions de crédit et des notations, publiques ou privées. Nos notes sont reconnues par les régulateurs des activités bancaires (EBA) et assurantielles (EIOPA). Spread Research fait partie des agences de notation habilitées à noter des programmes NEU CP et NEU MTN.

Le rapport public ainsi que l'ensemble des informations réglementaires requises sont disponibles sur notre site internet-<https://www.spreadratings.com/>.

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