



Spread Research assigns its SR1 short-term rating to the NEU CP instrument of Bellon S.A. with a Stable outlook

Lyon, June 5th, 2018 – Credit rating agency Spread Research assigns its SR1 short-term rating to the NEU CP instrument of Bellon S.A. with a Stable outlook. The short-term instrument rating is part of the financial documentation of the planned €150m NEU CP issuance by Bellon S.A.

Rating rationale

Spread Research has analysed Bellon's credit profile in order to assign its short-term rating. The outcome is SR1, the second-highest grade in Spread Research's rating scale.

Credit profile

Bellon S.A. ("Bellon") is a family-owned holding company the only asset of which is 42.3% of Sodexo's issued capital (and 56.5% of voting rights). Sodexo S.A. ("Sodexo"), a provider of food services and facility management services, benefits from strong credit metrics and has generated steadily improving operating results over recent years, reflecting the position of strength from which the group operates and its high client retention rate. This has translated into a steadily increasing dividend paid to Sodexo's shareholders.

We are very comfortable with Bellon's interest coverage ratio, since dividends received in 2017 (€145m) cover around six times both operating and financial expenses (altogether c. €25m). Bellon's positive free cashflow (after dividends) has been mainly used to reimburse financial debt / retain cash on its balance sheet, and to a lesser extent reinvest in Sodexo shares.

Our rating is underpinned by Bellon's cautious financial policy. The holding's policy is to distribute not more than 10% of dividends (received from Sodexo) to its shareholders, and there is a strong willingness to maintain the loan-to-value (LTV) ratio at a low level. As of end-December 2017, Bellon's LTV stood at 10% (at the current Sodexo share price) and we expect the ratio to decrease slightly over the next three years.

Liquidity profile

We assess Bellon's liquidity as satisfactory since i) it could obtain new financing easily given the solid credit metrics, and ii) it could if necessary sell some Sodexo shares while keeping control of the company.

Credit outlook

Our Stable outlook reflects our view that credit metrics will not change materially over the next twelve months. We expect that sizeable cash generation will be balanced by the acquisition of additional Sodexo shares and buy-back of its own shares.

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

Bellon S.A.

Bellon S.A. is the animating holding company of Sodexo. As of May 30 2018, Bellon S.A. held 42.3% of the shares of Sodexo and 56.5% of actual 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

Bellon S.A.

Rated Entity: **Bellon S.A.**
Sector: **Services**

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

RATING RATIONALE

- **We initiate coverage on Bellon S.A. and assign an SR1 short-term rating, the second highest grade in our rating scale, to its €150m NEU CP instruments** (the amount could be upsized to €300m). This reflects the strong credit metrics, cautious financial policy and sound credit profile of the sole owned asset despite the lack of portfolio diversification.
- **Bellon is a family-owned holding company the only asset of which is 42.3% of Sodexo's issued capital** (56.5% of voting rights as of 31 December 2017). Consequently, the company is fully dependent on Sodexo's activities. Bellon is 72.6%-owned by Pierre Bellon (Sodexo's founder) and his children, while other members of the family hold 7.8% and the Sodexo-owned holding company Sofinsod 19.6%.
- Sodexo is a global provider of food services and facility management services to various end-markets. The group generated sales of €20.4bn and EBITDA of €1.45bn over the last twelve months (to end-February 2018). Sodexo is listed on the Paris Stock Exchange and is a CAC 40® constituent, with a market capitalization of €12.6bn. **Sodexo has generated steadily improving operating results over the years, reflecting the position of strength from which the group operates and high client retention.** Also, we value Sodexo's exposure to non-cyclical sectors (representing around 51% of group sales), which provides good protection against the troughs of business cycles.
- Sodexo has paid a steadily increasing dividend to its shareholders thanks to good cash generation. Sodexo's dividend policy is based on a payout ratio of 50% (on recurring net income), which amounted to €360m in 2017 and €410m in 2018 (paid in February). **We are very comfortable with Bellon's interest coverage ratio** (dividend received / financial expenses), since dividends paid by Sodexo in 2017 (€145m) cover around six times both operating and financial expenses (altogether c. €25m).
- Recently, Sodexo reported a weaker-than-expected operating performance (both organic sales and profitability), **which triggered a drop in Sodexo's market capitalization** (by around 15%). Despite this, Bellon's loan-to-value (net financial debt / asset value) at the current share price remains low at 10%. We project the LTV ratio to slightly decrease over the next three years based on sound cash generation and cautious financial policy.
- **Bellon's financial policy is conservative**, and is strongly adhered to. The holding's dividend policy is to distribute not more than 10% of dividends (received from Sodexo) to Bellon's family, and there is a strong willingness to maintain both the dividend paid and the loan-to-value ratio at a low level.
- **Bellon's positive free cashflow (after dividends) has been mainly used to reimburse financial debt / retain cash on its balance sheet, and to a lesser extent reinvest in Sodexo's shares** (in 2016 and 2018). Note that Bellon also bought back its own shares from Bellon family members in 2016 (€150m). Similar buy-back operations may occur in the future.



Capital structure

- Total reported debt stood at €555m as of 31 December 2017 and was mainly made up of i) equity-linked swaps for a total amount of €420m with maturities ranging from 2018 to 2022, and ii) US private placements for €130m maturing in 2022. Note there are several maintenance covenants attached to the equity-linked swaps. We expect compliance with the covenants with a large headroom based on our forecast.
- Including the cash position of €7m, net reported debt stood at €548m, or a loan-to-value ratio of 10.5% at the current share price. Adjusted for operating leases and pension deficits, our adjusted loan-to-value ratio also comes out at 10.5%.
- Note that Bellon is planning to get a revolving credit facility (RCF) of €150m with a maturity of two years, which will be used as a back-up line for the NEU-CP program.

Liquidity analysis

- We assess Bellon's liquidity as satisfactory since i) it could obtain new financing easily given the solid credit metrics, and ii) it may sell some amount of Sodexo shares while keeping control of the company.
- Our liquidity analysis is pro forma of the €150m RCF (with a maturity of two years). Based on our talks with Bellon, we expect the holding to set up the RCF shortly.

Credit outlook

- Our Stable outlook reflects our view that credit metrics will not change materially over the next twelve months. We expect that sizeable cash generation will be balanced by the acquisition of additional Sodexo shares and potential buy-back of shares.

Rating sensitivity

- Bellon is positioned in the low range of our SR1 rating. An upgrade to SR0 would require a diversification of Bellon's investment portfolio, an option which is currently excluded based on our talks with the company.
- We may downgrade our rating to SR2 if Sodexo's credit profile deteriorates, if dividends paid by Sodexo decline substantially, or if Bellon's financial policy becomes more aggressive.





Spread Research

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

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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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