PRESS RELEASE

Qivalio reaffirms its SR3 short-term corporate rating for Sodiaal

Lyon, November 5, 2019 – Credit rating agency Qivalio reaffirms its SR3 short-term corporate rating for Sodiaal.

Rating rationale

Spread Research has analysed the credit profile of Sodiaal in order to assign its short-term rating. The outcome is an SR3 short-term rating. Sodiaal has not yet launched its NEU CP program. In agreement with the issuer, our rating has therefore been temporarily changed from instrument-focused to corporate.

Credit profile

Sodiaal's credit profile is underpinned by a good reputation in the French market with well-known brands and top 5 French market shares in cheese and drinking milk. The group offers a wide range of products derived from milk processing (cheese, drinking milk, cream, butter, food supplements). Sodiaal is one of the world's top 20 dairy companies in terms of revenues, and the dairy products market offers strong opportunities for growth thanks to increasing global consumption.

Our rating is, however, constrained by Sodiaal's average credit metrics and little geographic diversification, which mainly result from its cooperative status and its business model, which is oriented towards the collection and the valuation of milk produced by French farmers, who are the shareholders of the cooperative. We have also factored in the existence of significantly larger peers in a global and challenging market where habits vary depending on the continents/countries.

Liquidity profile

Liquidity is driven by a good amount of cash on balance sheet, large undrawn committed credit lines, and rather long-term maturities. The use of factoring is significant and is expected to remain so given the credit quality of Sodiaal's customers, thus reinforcing the liquidity profile.

Credit outlook

The Stable outlook reflects our view that credit metrics will remain broadly unchanged over the next twelve months: we expect higher EBITDA in 2020 but high Capex will again hamper cash conversion, leading to another year of negative FCF and a stable net leverage ratio (Qivalio adjusted).

Our methodology for short-term ratings is available at www.spreadresearch.com

Sodiaal

Sodiaal is a French cooperative specialised in the collection of milk, and its transformation and conditioning into various dairy products. It is the 8th European group in the dairy products market in terms of revenues. Sodiaal owns well-known brands such as Entremont, Candia and Régilait and jointly owns its historical brand Yoplait with American company General Mills. The group generated c.€5bn of turnover and reported EBITDA of €121m for 2018.

Spread Ratings

Spread Ratings is the trademark under which Qivalio operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Qivalio itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Qivalio (formerly 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. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Qivalio 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.

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Sodiaal - Reaffirming our short-term rating at SR3

Company: Sodiaal
Sector: Consumer Goods

SR Rating	Outlook
SR3	Stable

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Rating rationale

We reaffirm our short-term corporate rating of SR3 for Sodiaal Union (the ultimate holding company of Sodiaal group referred to as 'Sodiaal' in this report). Sodiaal has not yet launched its NEU CP program. In agreement with the issuer, our rating has therefore been temporarily changed from instrument-focused to corporate.

Sodiaal is a French cooperative specialised in the collection of milk and then its transformation and conditioning into various dairy products. It is the 8th European group in the dairy products market in terms of revenues. Sodiaal owns well-known brands such as Entremont, Candia and Régilait and jointly owns its historical brand Yoplait with American company General Mills. The group reported rather stable revenues of c.€5bn for 2018 but decreasing EBITDA (Qivalio's adjusted EBITDA margin dropped by 1 point). The price of milk collected by the group increased during the year. However, the increase was not fully reflected in selling prices, which led to a contraction of margins. Also, volumes were hampered by a shortfall of fat as well as a decrease in demand for drinking milk in France and Europe. Finally, the Lactalis crisis - which stemmed from traces of salmonella found in infant milk produced by one Lactalis factory - weighed on the entire infant milk industry. Consequently, Sodiaal's volumes decreased and non-recurring expenses were incurred in the aftermath of the crisis.

Milk is a raw material used in a wide range of applications such as drinking milk, butter, cheese, yoghurts, and food supplements. The dairy market is large, global and competitive. It involves both large industrial companies and small cooperatives.

Our rating is underpinned by i) growing global demand for dairy products, especially in emerging markets, alongside high consumption in developed countries, and ii) Sodiaal's wide range of products. The group indeed sells all types of milk and milk-based products through several brands. We also factor in iii) Sodiaal's good business position in its core market, France, with a top 5 position for market share in drinking milk and cheese, and well-known brands, not only in France but also in foreign markets, e.g. Yoplait in the US.

Our rating is, however, constrained by i) the presence of significantly larger peers in a very competitive market, ii) Sodiaal's limited geographic diversification compared to market-leading companies with 75% of its revenues generated in France, and iii) the volatility of the dairy products market, both in terms of prices and habits, which favours the strongest and most adaptable firms. We also factor in iv) Sodiaal's historically low EBITDA margins and relatively high adjusted net leverage. Both indicators deteriorated in 2018 but are expected to recover slightly in 2019 before plateauing in 2020 with a net leverage ratio (Qivalio adjusted) projected at c.5.2x (vs 5.9x at end-2018). Free cashflow after dividends is expected to remain negative over our forecast period as Sodiaal intends to make significant Capex as part of its #Value plan, which will offset the recovery in EBITDA margin. Both the net leverage ratio and the level of free cashflow will depend on the level of Capex the group will adopt going forward, meaning the group will also have the flexibility to adapt its investments to its cash and liquidity position. The first part of the #Value plan started in 2018 and did help to soften the deterioration of performance. In 2019, Sodiaal purchased part of an infant milk factory operated by Synutra in Carhaix. This significant purchase is expected to weigh on 2019 FCF and credit metrics. On a positive note, however, it is expected to boost Sodiaal's sales going forward, ahead of schedule.

Unlike some of the its larger peers in the market, Sodiaal is a cooperative and, as such, has a responsibility for collecting and selling the milk produced by its French farmers, who are the shareholders of the group. Such a status may explain some of Sodiaal's average credit metrics, such as its limited geographic diversification and low EBITDA margins. We reaffirm our positive opinion regarding the development plan set up in 2018, which aims to focus more on profitability than volumes and to increase sales outside France, which is essential in order to reach a critical size and ensure success in such a fast-moving market.

Debt structure

Most medium and long-term financial debt is issued by Sodiaal International, the financing holding of the group. Sodiaal Union's financial debt represented only 8% of the total amount of financial debt in the group as of end-2018.

Sodiaal International's financial debt is mainly composed of private placements (Euro PP, US PP, Shuldschein) and revolving credit facilities.

Sodiaal Union's net adjusted leverage was relatively high at end-2018 (5.9x). The difference with the ratio reported by the company (2.2x) derives from our adjustments, mainly factoring debt, as well as operating leases and pensions.

Liquidity profile

Sodiaal's liquidity profile deteriorated between end-2017 and end-2018, on the back of a revision of our projections over the forecast period, particularly resulting from higher Capex and lower EBITDA, based on recent figures. Liquidity is still driven by sizeable undrawn cash facilities but is somewhat constrained by significant factoring debt and rather high short-term debt. Nevertheless, given the credit quality of Sodiaal's customers, we have no reason to believe factoring contracts may be terminated in the short term, which eases potential concerns on the liquidity front. Sodiaal may also adapt its level of Capex if it needs to preserve good liquidity.

Credit outlook

The Stable outlook reflects our view that credit metrics will remain broadly unchanged over the next twelve months: we expect higher EBITDA in 2020 but high Capex will again hamper cash conversion, leading to another year of negative FCF and a stable net leverage ratio (Qivalio adjusted).

Rating sensitivity

Sodiaal is positioned in the middle of the SR3 category, making an upgrade unlikely in the short term. We may, however, upgrade our rating if Sodiaal's EBITDA margin and geographic diversification were to improve significantly over the medium term, leading to better credit metrics.

Meanwhile, we may downgrade our rating if Sodiaal proves unable to improve its EBITDA margin and geographic diversification, leading to further deteriorated credit metrics and/or if its liquidity continues to shrink.

Regulatory disclosures

SPRR/2019/00451/05/11/2019

Review report on solicited short-term rating

Rating initiation: 8 November 2018

Latest rating action: Initiated at SR3 on November 8, 2018

Rating nature: Solicited, short-term, public rating (the rating was issued after having been reviewed by the issuer)

Name of the rating committee chair: Maxime GUIONIE, Senior Credit Analyst

Material sources used to support the rating decision:

- Consolidated financial statements 2015, 2016, 2017, 2018

- Company presentation and 2018 annual report

- Details of financial debt at end-2018

- Meeting with Sodiaal Head of Financing

Limitation of the Rating action:

- Qivalio believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating

- Qivalio has no obligation to audit the data provided

Our methodology for short-term ratings is available at www.spreadresearch.com

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