PRESS RELEASE

SPREAD RATINGS

Qivalio assigns its SR2 short-term rating to the NEU CP instrument of ITM Entreprises (a subsidiary of Groupement Les Mousquetaires)

Lyon, 3rd of July, 2020 – Credit rating agency Qivalio assigns its SR2 short-term rating to the planned €1.25bn NEU CP instrument of ITM Entreprises

Rating rationale

Qivalio has analysed the credit profile of ITM Entreprises in order to assign its short-term rating. The outcome is an SR2 short-term rating.

Credit profile

Les Mousquetaires is the third-largest food retail group in France. It operates a franchisee business model with the group in charge of upstream activities (wholesale, purchasing & logistic) while downstream (the running of local stores) is not part of the consolidated scope and is operated by local entrepreneurs, "the associates". Our rating applies to the upstream operations. The group is ultimately owned by around half of its associates. It has diversified towards Belgium, Poland and Portugal in terms of geography and, in terms of activities, towards mobility and do-it-yourself (DIY). However, French food retail remains its main activity. The food retail activity focuses on supermarkets with a significant rural positioning with a physical presence each 17km. The group benefits from a good price positioning which is made possible by, among others, its vertical diversification in food processing. The group has been strengthening its market share, reaching 15% at end-2019 from 14% in early 2017, and has reported solid like-for-like growth of 1.9%, 2.7% and 1.6% for 2019, 2018 and 2017 respectively.

The rating is underpinned by resilient demand (as highlighted by the currently low impact from coronavirus), the group's competitive position with solid and growing market share, and its good positioning with low dependence on the poorly performing large hypermarkets, which are characterized by significant non-food products. The rating is further strengthened by a lean structure, with associates committed and rewarded to run well their local businesses, and who are involved in the management of the group. However, we consider that the governance is less transparent than what would be expected for a company of its size.

As of end-2019, the group reported net leverage was 0.8x which is adjusted for the real estate debt and EBITDA as well as a reasonable LTV of 40%. As such, the group benefits from a strong real estate-to-debt coverage ratio. Our rating remains, however, constrained by relatively high leverage with at end-2019 a Qivalio net adjusted debt of €2.5bn (which includes the debt of property companies) and net adjusted leverage ratio of 3.2x. The group benefits from a strong debt coverage ratio with €3.5bn of consolidated owned real estate assets. For our leverage calculation we have made minor debt adjustments which concern employees benefits and no adjustment for operating leases, given their minor relevance. Leverage has been stable over recent years and is the resulting of the significant investments being made in real estate to grow the network and improve the logistic base. Free-cash flow generation has been limited over recent years, at €36m over the last 3 years.

Liquidity profile

The funding mostly relies on general corporate financing from relationship banks and a limited number of institutions. The tenure of these financings run between five and seven years, a relatively long maturity but still shorter than usual real estate-based financing and so requires more recurrent refinancing, which impacts the liquidity profile of the group which we consider relatively low. The group is currently implementing €800m of committed revolving facilities with its relationship banks with the intention to have €400m of confirmed credit facilities for end-2020. The new facilities will improve the liquidity profile once implemented.

Our methodology for short-term ratings, is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrLongTermCorporateRatingMethodology.pdf

Our full report is available at:

https://www.spreadratings.com/notations-sollicitees/

Groupement Les Mousquetaires

With over 4,000 stores in Europe and revenues of €45.3bn in 2019, Groupement Les Mousquetaires (or "Les Mousquetaires") is one of Europe's leading retail groups. Founded in 1969, Les Mousquetaires gathers together over 3,000 independent entrepreneurships and numbers around 150,000 employees. The brands operated by Les Mousquetaires are: Intermarché & Netto (food); Bricomarché, Brico Cash & Bricorama (Do It Yourself); Roady, Rapid Pare-Brise, American Car Wash & Izyscoot (mobility). Les Mousquetaires is the fourth-largest food processor in France with 62 industrial sites. It has its own logistic and property companies. In addition to France, Les Mousquetaires is present in Belgium, Poland and Portugal.

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 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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ITM Entreprises - Initiating our short-term NEU CP rating at SR2

Company: ITM Entreprises
Sector: Retail

SR Rating	Outlook
SR2	Stable

Published on **03 July 2020**

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Rating Rationale

We assign an SR2 rating to ITM Entreprises (ITME), a subsidiary of Les Mousquetaires SAS (LM, or the group). ITME is contemplating implementing an NEU CP program for up to €1,250m. Gradually, ITME will implement committed revolving facilities from its relationship bank for an amount of €800m and a rolling period of 18 months.

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The rating is underpinned by resilient demand (as highlighted by the currently low impact from coronavirus), the group's competitive position with solid and growing market share, and its good positioning with low dependence on the poorly performing large hypermarkets, which are characterized by significant non-food products. The rating is further strengthened by a lean structure, with associates committed and rewarded to run well their local businesses, and who are involved in the management of the group. However, we consider that the governance is less transparent than what would be expected for a company of its size.

As of end-2019, the group reported net leverage was 0.8x which was adjusted for the real estate debt and EBITDA as well as a reasonable LTV of 40%. As such, the group benefits from a strong real estate-to-debt coverage ratio. Our rating remains, however, constrained by relatively high leverage with at end-2019 a Qivalio net adjusted debt of €2.5bn (which includes the debt of property companies) and net adjusted leverage ratio of 3.2x. The group benefits from a strong debt coverage ratio with €3.5bn of consolidated owned real estate assets. For our leverage calculation we have made minor debt adjustments which concern employees benefits and no adjustment for operating leases, given their minor relevance. Leverage has been stable over recent years and is the resulting of the significant investments being made in real estate to grow the network and improve the logistic base. Free-cash flow generation has been limited over recent years, at €36m over the last 3 years.

Capital structure

The group indebtedness is concentrated in ITME (44% of the debt), and in the property companies (38% of the debt). ITME is the main holding company, at the statutory level, it has a limited real estate portfolio of €64m but it owns the other group subsidiaries. IEM is the main property company with a €1.4bn real estate portfolio.

The group indebtedness relies on (i) 8 relationship banks (syndicated facilities, amortizing loans, asset backed facilities/representing 55% of the gross debt), (ii) private placements subscribed by institutions (25%), (iii) associates (17%), along with (iv) others (3%). The debt with associates includes short-term deposits collected from the associates and their operating companies as well as c. €250m of bonds subscribed by the associates.

The group's banking facilities are restricted by covenants including an LTV ratio caped at 50% (40% at end-2019), and a corporate debt to (i) corporate EBITDA of 2.75x (0.8x at end-2019) and (ii) to corporate equity of 100% (23% at end-2019).

Liquidity profile

The funding mostly relies on general corporate financing from relationship banks and a limited number of institutions. The tenure of these financings run between five and seven years, a relatively long maturity but still shorter than usual real estate-based financing and so requires more recurrent refinancing, which impacts the liquidity profile of the group which we consider relatively low. The group is currently implementing €800m of committed revolving facilities with its relationship banks with the intention to have €400m of confirmed credit facilities for end-2020. The new facilities will improve the liquidity profile once implemented.

Credit Outlook

We have a Stable outlook over the next 12 months. We expect the group to slightly deleverage over time with Qivalio's adjusted leverage ratio expected to be below 3.0x from 2020. In the first three months of 2020, the group recorded 9% growth in revenues fully driven by food retail, with 12% growth in France, while the DIY activities underperformed (save in Poland). The group expects a broadly neutral EBITDA impact from Coronavirus.

Rating Sensitivity

An upgrade in rating to SR1 could be triggered if the company deleverages significantly and extends the maturity profile of its debt. We see such a scenario as feasible in the event of significant real estate asset disposals.

A downgrade to SR3 could be triggered by a deterioration in credit metrics entailing a negative outlook.

REGULATORY DISCLOSURES

SPRR/2020/000546/RAT/03/07/2020

Initiation report: Yes

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: Maxime Guionie, Senior Credit Analyst.

Material sources used to support the rating decision:

- Financial statements 2019, 2018, 2017, 2016, 2015
- Discussions with management and management presentation

Limitation of the Rating action:

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

Qivalio has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research and the meaning of each rating category is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrLongTermCorporateRatingMethodology.pdf

https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.pdf

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