BUREAU VERITAS SA

775690621 CORPORATE

A- ISSUER RATING
Long term

OUTLOOK
Stable

EF1 ISSUER RATING
Short-term

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Bureau Veritas SA's long term rating at A-, maintaining its Stable outlook. Concurrently, we affirm Bureau Veritas's short-term rating of EF1.
- Our ratings reflect Bureau Veritas's (BV) sustainable top-line growth and stable credit metrics YoY. In FY23, the company reported sales growth of 3.8%, significantly lower than the 13% growth achieved in FY22, attributed in part to a significant €300m FX headwind affecting both revenue and margins. Looking forward, we project a CAGR (2023-26) of 5%, in line with the TIC market's growth. As expected last year, adjusted Ebitda margin remained stable at 19.4%, despite a decrease in profitability from consumer products segment, in favor of the industry one. The adjusted net leverage ratio slightly improved from 1.6x in FY22 to 1.5x in FY23 thanks to steady adjusted FCF generation and a 3.9% increase in adjusted EBITDA. We expect this ratio to further improve to reach 1.2x by end-2026, factoring in a share buyback of €200m planned for 2024 and an annual €50m cash outflow for bolt-on acquisitions. Moreover, BV's exposure to rising interest rate is very limited, with 99.8% of its current debt fixed, ensuring the interest coverage ratio remains above 12.0x in the years ahead.
- BV holds the position of the second-largest group in terms of market share within the testing, inspection and certification (TIC) industry after the swiss SGS. Over the past decade, the group has made more than 60 cross-border acquisitions, most often bolt-on which have significantly strengthened the company's domain-specific expertise and enabled it to gain access to promising local markets with high growth potential and to geographically diversify its operations (+140 countries). The group has strategically pivoted its business model towards services associated with customers' operational expenses (OpEx). This shift, driven by the development of new products and the expansion of global trade, aims to secure recurring revenue streams on top of its traditional focus on customers' (CapEx).
- Our rating is, however, slightly constrained by our industry risk assessment (score of BBB+), which is closely exposed to global supply chains across diverse sectors. Moreover, it is constrained by lower profitability in consumer products (such as toys, textiles and electrical goods) due to the global decrease in demand for electrical and wireless equipment, as well as the resulting temporary reduction in new product launches. The downward trend in this segment is also shared by BV's close competitors such as Intertek and SGS. Furthermore, our rating is constrained by rather a moderate equity/debt ratio of 70%.
- The testing, inspection, and certification (TIC) industry has medium ESG risks under our methodology (heatmap score of between 3 and 3.5). This results in a sector assessment which is not impacted by industry-related considerations. The sustainability assurance and certification represent a pivotal and rapidly growing sub-sector of the TIC industry. As a consultancy firm providing guidance on sustainability initiatives and facilitating their evaluation, BV benefits from an in-house sustainability approach (BV Green line) serving both the firm and the customers alike and contributing to 55.6% of FY23 revenues. That materializes in a well-defined ESG framework with explicit objectives aimed at tackling corruption, fortifying cyber systems, and safeguarding the welfare of the workforce. BV's inclusion in the CAC40 ESG index underscores its commitment to upholding ESG standards. According to our rating methodology, the company's ESG policy is advanced, with a score between 0 and 1, which counts positively on our financial assessment and therefore improves our rating accordingly.

ISSUER DESCRIPTION

Headquartered in France, Bureau Veritas (BV) is a leading player in the testing, inspection, and certification (TIC) industry. It has expertise in various sectors, including consumer products, commodities, industrial activities, and marine & offshore facilities. Through its eight business divisions, BV provides B2B quality control solutions and operates as an independent entity to grant accreditations. Bureau Veritas operates in various end-markets through its 83,000 employees, serving c. 400,000 clients in over 140 countries. The group maintains a well-balanced geographic portfolio, with Europe representing 35% of its FY23 revenues, followed closely by the Asia-Pacific region (APAC) at 28.0%, and the Americas at 28%. Bureau Veritas also has minimal client concentration risk, as its largest 25 clients collectively account only for 11% of its total revenues.

For FY23, the group reported €5.9bn in sales for €1.1 bn in adjusted EBITDA. The EthiFinance Ratings-adjusted net leverage ratio stood at 1.5x at end-2023. BV's operations span 140 countries, where it has approximately 82,000 employees. BV is listed on the Paris stock exchange with a current market capitalization of c. €12.2bn as of April, 24th 2024.

LIQUIDITY

- **Excellent liquidity profile with strong refinancing capacities**

We consider BV's liquidity profile to be 'Superior' as the company can repay all its upcoming debt maturities without refinancing for more than two years. BV's good access to the bond market, its solid relations with banking counterparties, and the comfortable headroom under covenants support our assessment.

CREDIT METRICS EXPECTED EVOLUTION (CMEE)

- **Stable CMEE**

We have a Stable CMEE for BV, as we expect credit metrics to remain broadly unchanged over the next twelve months.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. Millions of €.	2022	2023	2024E	2025E	2026E	*23vs22%*
Turnover	5 651	5 868	6 161	6 469	6 793	*3.8%*
Adj.EBITDA (1)	1 096	1 138	1 188	1 248	1 324	*3.9%*
EBITDA Margin (1)	19.4%	19.4%	19.3%	19.3%	19.5%	*0.0pp*
EBIT	799	824	868	918	977	*3.1%*
EBIT Margin	14.1%	14.0%	14.1%	14.2%	14.4%	*-0.1pp*
Total Assets	7 119	6 644	6 678	6 912	6 975	*-6.7%*
Equity	1 928	1 994	1 944	2 112	2 307	*3.4%*
Total Adjusted Financial Debt (Adj) (2)	3 398	2 861	2 954	2 954	2 755	*-15.8%*
Net Financial Debt (Adj)(2)	1 736	1 687	1 860	1 748	1 613	*-2.8%*
Equity/TFD (2)	56.7%	69.7%	65.8%	71.5%	83.7%	*12.9pp*
NFD/EBITDA (1) (2)	1.6x	1.5x	1.6x	1.4x	1.2x	*-0.1x*
Funds From Operations	759	815	845	882	941	*7.4%*
FFO/NFD (2)	43.7%	48.3%	45.5%	50.4%	58.4%	*4.6pp*
EBITDA/Interest (1)	12.9x	12.5x	13.0x	12.2x	13.5x	*-0.4x*

(1) Adj EBITDA includes restructuring expenses

(2) Adjusted Debt includes IFRS 16, pension benefits and other financial liabilities

EthiFinance Ratings

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RATING SNAPSHOT

CREDIT RATING	
Business Risk Profile	**A-**
Industry Risk Assessment	*BBB+*
Industry 's ESG	***Neutral***
Competitive Positioning	*A-*
Governance	*A-*
Financial Risk Profile	**A-**
Cash flow and leverage	*A-*
Solvency	*BB*
Company's ESG	***Positive***
Anchor Rating	**A-**
Modifiers	-
Final Rating	**A-**

RATING SENSITIVITY

- **List of ratings:**
  - **LT corporate rating: A-**
  - **ST corporate rating: EF1**

- **Ratings Positive factors (↑)**

An upgrade of our long-term rating would derive from a significant improvement of credit metrics, notably a net adjusted leverage ratio of 0.8x and/or an interest coverage ratio above 25.0x on a sustainable basis. An upgrade is contingent upon the TIC overall market growth.

An upgrade of our short-term rating would result from an upgrade of our long-term rating to A along with at least a Stable CMEE.

- **Ratings Negative factors (↓)**

A downgrade of our long-term rating could occur should the company report deteriorated credit metrics, such as an Ethifinance adjusted net leverage above 1.7x and/or an interest coverage ratio below 10.0x on a sustainable basis. This would be resulting from a strong deterioration in profitability.

A downgrade of our short-term rating would result from a significant downgrade of our long-term rating used as a reference, and therefore seems improbable at present.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
  - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA 191.Corporate Rating Methodology Short Term-202303.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.