A-	**ISSUER RATING** Long-Term
Outlook	Stable
EF1	**ISSUER RATING** Short-Term
Initiation date	29/11/2022
Rating date	12/10/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings has upgraded its long-term corporate rating for Bureau Veritas SA to A- (from BBB+), changing its outlook to Stable (from Positive). However, Ethifinance Ratings reaffirms its short-term corporate rating of EF1 for Bureau Veritas SA.
- This rating upgrade results from Bureau Veritas having delivered the sustainable top-line growth and improved overall credit metrics we had expected. Such growth stems mainly from strong volumes coupled with an effective pricing strategy, although hampered by a negative FX impact affecting both revenue and margin. Bureau Veritas is one of the leaders in testing inspection and certification services (TIC), and structures its business model around various B2B end-user sectors, mainly buildings & infrastructure, industry, and marine & offshore (M&O). The group's business model has shifted more towards services related to customers' operative expenses (OpEx), with the development of new products and global trade, which helps to achieve recurring revenues compared to a traditional focus on customers' CapEx (capital expenses).
- Based on the 1H23 results, we expect Bureau Veritas' FY23 performance to be in line with its guidance, by maintaining a stable operating margin, while positioning itself in growing segments such as infrastructure projects (dual propulsion systems and LNG-fueled ships) and cybersecurity. Our adjusted net leverage ratio improved from 1.9x in FY21 to 1.6x in FY22 thanks to steady adjusted FCF and growing adjusted EBITDA (+9.9% in FY22 according to our calculation). We expect this ratio to further improve to 0.8x by end-2025, assuming no significant M&A or share buyback program.
- Our rating is, however, slightly constrained by our industry risk assessment (score of BBB+) as well as our EBITDA-to-interest ratio for Bureau Veritas, and to a greater extent by an average equity-to-debt ratio compared with other financial metrics.
- In line with our updated methodology, the services industry has medium ESG risks (heatmap score of between 2 and 3.5), which is neutral for our industry assessment. Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), which counts positively on our financial assessment and therefore slightly improves our rating.

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 six business divisions, BV provides B2B quality control solutions and operates as an independent entity to grant accreditations.

For FY22, the group reported €5.7 bn in sales and €1.1 bn in EBITDA. The EthiFinance Ratings-adjusted net leverage ratio was 1.6x at end-2022. 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. €10.5 bn as of October, 4th 2023.

FUNDAMENTALS

BUSINESS RISK PROFILE

INDUSTRY RISK ASSESSMENT

- **Long-term growth supported by ongoing green transitioning and rising demand in emerging markets**

The testing, inspection and certification sector (TIC) has assumed a pivotal role in the global trade ecosystem, helping to safeguard the quality and quantity of products and facilities. In an interconnected world where goods and services are readily accessible from diverse locations and at various times, having transparency and standardized norms has become increasingly necessary. Additionally, TIC services help reduce mass recalls and uphold adherence to regulatory bodies and standards governing diverse sectors. While Western countries have a longstanding history of stringent regulatory frameworks, in many emerging countries - such as China and the South-East Asian region - there is growing demand for such expertise due to the development of native industries and a rapid acceleration in exports. As of 2023, the market size of the TIC industry is estimated at $236.7bn, poised to exhibit a CAGR of 6.8% during the period from 2023 to 2028 (According to Mordor Intelligence). This growth trajectory is particularly driven by the emergence of sustainability practices, which is anticipated to stimulate demand for supply chain audits aimed at ensuring compliance with constantly evolving standards.

- **Regulatory approvals, requirements on reputation, and connections, constitute high barriers to entry**

Key players operating in the market are Intertek Group PLC, SGS SA, Bureau Veritas SA, and Eurofins Scientific SE. Entering the TIC industry requires an accreditation in many countries, which is usually a lengthy process and can only be achieved over the long term. In order to compete with the market leaders, a new entrant must have a solid reputation and brand identity capable of establishing trust among trade partners. On top of that, companies also have to forge lasting relationships with a wide range of companies within the supply chain to secure inspection mandates and service contracts. Consequently, we assess the TIC sector as an industry with high barriers to entry.

- **Moderate volatility as industry players are increasingly depending on clients' operating activities and much less on client's capex**

Demand for TIC services is driven by several key factors, including the introduction of new products in the market, the construction of new facilities, and the extension of operations into new geographic regions. These dynamics are linked to broader macroeconomic conditions and business cycles, as companies may curtail their production level and defer capital expenditure and expansion plans during periods of economic downturn or uncertainty. For instance, the Covid-19 pandemic hindered companies from conducting essential testing, assessment, and certification tasks that necessitated traveling and on-site activities. Furthermore, companies discouraged in-person visits out of concern for their workers. These factors collectively contributed to an overall contraction in the revenue generated within the sector. However, over the past decade, most TIC companies have gradually reduced their dependence on CapEx, to focus more on 'OpEx' services, which provide recurring business as they are related to the day-to-day business of clients.

COMPANY'S COMPETITIVE POSITIONING

- **A leading player in the global TIC market**

Bureau Veritas is the second-largest group in terms of market share within the TIC industry. The market is characterized by small, local players. The company consistently bolsters its global and local footprint through strategic acquisitions and investments in innovative solutions, thereby expanding the group's range of services. Over the past decade, Bureau Veritas has made more than 60 acquisitions across different continents, most often bolt-ons which have significantly strengthened the company's domain-specific expertise and enabled it to gain access to promising local markets with high growth potential.

- **Strong business and geographic diversification with a balanced portfolio and limited client concentration**

Bureau Veritas has a significant presence across various sectors, including marine & offshore, consumer products, industrials, agrifood and commodities, and buildings & infrastructure. The company offers a wide range of services and solutions that span the entire lifecycle of products and facilities, from construction through operation to eventual decommissioning (the removal of industrial equipment and facilities which are no longer in use). In recent years, the firm has also introduced a wide range of sustainable solutions tailored to clients committed to the environmental transition, represented by its 'BV Green Line'. This suite of solutions is designed to assist companies in gauging the impact of their ESG initiatives.

In addition to its sectoral diversification, Bureau Veritas operates in various end-markets, serving c. 400,000 clients in over 140 countries. The group maintains a well-balanced geographic portfolio, with Europe representing 35.0% of its FY22 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.

GOVERNANCE

- **Shareholder profile: active investor holding more than one-third of the company**

French investment firm Wendel has been the largest investor in Bureau Veritas since 2004, with a stake of c. 35.5%. Wendel takes an active role as an investor, aligning its strategy with a long-term perspective, which imparts a measure of stability for Bureau Veritas' shareholding structure. The other top shareholders comprise renowned institutional investors such as Wellington Management Group, Vanguard, and Blackrock.

In 1Q23, Wendel issued a convertible bond for a total of €750m and maturing in 2028, exchangeable into ordinary shares of Bureau Veritas. In the event that Bureau Veritas' share price surpasses the conversion price upon the bond's maturity, Wendel's ownership position could potentially be diluted in favour of new minority interests.

- **Management quality: prudent financial policy with a good track record**

Bureau Veritas continues to benefit from a management with a sound track record delivering stable sales growth and resilient profit margin. It is now under the leadership of a new CEO, Hinda Gharbi, who took over the role in June 2023, having joined the group in May 2022 after 26 years with Schlumberger. She replaced Didier Michaud-Daniel, who held the position for 12 years. She heads a 12-member executive committee, which reports to a 12-member board of directors. We assess financial policy as prudent, given the firm's robust financial profile, excellent liquidity profile, and an EthiFinance Ratings-adjusted net leverage ratio between 1.6x and 2.5x for the past few years, including during the pandemic.

- **ESG Policy: A clear in-house sustainability approach serving both the firm and its customers**

As a consultancy firm providing guidance on sustainability initiatives and facilitating their evaluation, Bureau

Veritas has established a well-defined ESG framework with clear goals, such as tackling corruption, fortifying cyber systems, and safeguarding the welfare of its workforce. Notably, Bureau Veritas is included in the CAC40 ESG index, attesting to its commitment to ESG standards. In addition, in accordance with our rating methodology, it benefits from an improved credit rating attributable to the ESG improvements achieved in FY22. As part of its forward-looking sustainability goals, Bureau Veritas aims to reduce by 42% its scope 1 & 2 GHG emissions by 2030 (vs 2021 as a base year).

FINANCIAL RISK PROFILE

RESULTS AND PROFITABILITY

- **Mid-to-high-digit organic growth in FY22 fuelled by industrials and commodities divisions**

BV's sales in FY22 increased by 13.4% yoy, with organic growth put at 7.8%. The industry business (11.4% organic growth), the marine & offshore business (9.4%), and the agrifood & commodities business (9.3%) particularly drove growth in yoy terms. Given good results also for 1H23, we expect BV's revenues to grow by 5% in FY23 (in line with the management's guidance), sustained by the ongoing environmental transition (wind, solar and hydrogen), which provides momentum to all segments as demand for supply chain auditing and certifications increases. We expect the buildings and infrastructures business (29% of FY22 revenues) to benefit the most as more renewable energy sites and eco-buildings are being built.

The company's margin remained good in FY22 although slightly down, with adjusted EBITDA reaching €1.1bn in FY22 vs. €1.0bn in FY21, equivalent to a margin of 19.4% vs. 20.0% in FY21. The slight contraction was due to the operation turmoil caused by lockdowns in China as well as some impact from one-off mobilization costs (recruiting, training, etc) in an environment of growing demand for opex industry services. For 1H23, BV reported organic revenues growth of 9.4% yoy with a steady operating margin of 15%, resulting from strong volumes and pricing efficiency. Over our forecast period (2023-25), we have projected our adjusted EBITDA margin to be in the range 19.7-19.9%, slightly above the 2022 margin.

CASHFLOW AND LEVERAGE

- **Solid financial profile**

The group generated €237m of adjusted free cash flow (post-dividends) in FY22, reflecting a strong operational performance and well-managed working capital. We expect FCF to remain steady, at between €260m and €290m over our forecast period, as the dividend payout ratio is expected to be maintained at a reasonable level and with no share buyback program nor a major M&A operation scheduled for the foreseeable future.

Our ratings are supported by BV's solid financial profile. The EthiFinance Ratings-adjusted net leverage ratio improved from 1.9x at end-2021 to 1.5x at end-2022. Concurrently, the interest coverage ratio remained stable between 2021 and 2022 at c. 12.8x. Funds from operations (FFO) was covering nearly half of net debt as of end-2022, at roughly 47.7%, compared to 38.7% in FY21. We anticipate that BV's financial ratios will continue to improve throughout our forecast period, supporting the rating upgrade.

SOLVENCY AND LIQUIDITY PROFILE

- **Good Solvency ratio**

As of end-2022, BV's reported gross debt amounted to €2.6bn, and exhibited minimal change in comparison to end-2021. This debt consisted predominantly of bonds and US private placement (USPP). Our debt adjustment procedure resulted in a total of €0.8bn of debt-like items being added, such as employee benefits, lease liabilities under IFRS 16, and other financial liabilities. BV's net adjusted debt amounted to €1.7bn at end-2022, marking a 6% decrease from the previous year, largely attributed to a strong cash balance of c. €1.6bn. The group's solvency ratio stood at 56.7% as of end-2022. We anticipate that by end-2025, the group's total gross debt will be almost completely covered by equity. Additionally, the group's exposure to high interest rates is relatively low, with almost all of its overall debt being at fixed rates and with no major repayment before 2025. Consequently, we expect the interest coverage ratio (ICR) to remain broadly stable over the forecast period (from 12.9x in 2022 to 13.8x in 2025).

- **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' generally good access to the bond market, solid relations with banking counterparties, and a 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 slightly improve within the next twelve months, but not to a significant extent.

MODIFIERS

- **Controversies**

We have not identified any controversies regarding Bureau Veritas SA or any of its subsidiaries in the past financial year.

- **Country risk**

Bureau Veritas is rather well diversified geographically, and therefore does not have significant country risk exposure.

MAIN FINANCIAL FIGURES

Main financial figures. Millions of €.

	2021	2022	2023E	2024E	2025E	22vs21
Turnover	4,981	5,651	5,933	6,230	6,541	13.4%
Adj.EBITDA (1)	997	1,096	1,166	1,237	1,292	9.9%
EBITDA Margin (1)	20.0%	19.4%	19.7%	19.9%	19.8%	-0.6pp
EBIT	719	799	896	967	1,022	11.2%
EBIT Margin	14.4%	14.1%	15.1%	15.5%	15.6%	-0.3pp
Total Assets	6,753	7,119	6,934	7,673	7,527	5.4%
Equity	1,707	1,928	2,207	2,479	2,764	12.9%
Total Financial Debt (Adj) (2)	3,274	3,398	3,183	3,309	2,809	3.8%
Net Financial Debt (Adj)(2)	1,854	1,736	1,808	1,317	1,096	-6.4%
Equity/TFD (2)	52.1%	56.7%	69.3%	74.9%	98.4%	4.6pp
NFD/EBITDA (1) (2)	1.9x	1.6x	1.6x	1.1x	0.8x	-0.3x
Funds From Operations	718	777	852	879	913	8.2%
FFO/NFD (2)	38.7%	44.7%	47.1%	66.8%	83.3%	6.0pp
EBITDA/Interest (1)	12.7x	12.9x	13.5x	14.2x	13.8x	0.2x

(1) EBITDA is adjusted for restructuring expenses

(2) Adjusted Debt is inclusive of IFRS 16, pension benefits and other financial liabilities

RATING SNAPSHOT

CREDIT RATING	
Business Risk Profile	***BBB+***
Industry Risk Assessment	*BBB+*
Industry 's ESG	***Neutral***
Competitive Positioning	*BBB+*
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**

- **Positive factors which would influence the ratings (↑)**

An upgrade of our long-term rating would derive from a significant improvement of credit metrics, notably an EthiFinance Ratings-adjusted net leverage ratio below 1.0x on a sustainable basis, as well as a significant improvement in the equity-to-debt ratio above 100%.

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.

- **Negative factors which would influence the ratings (↓)**

A downgrade of our long-term rating could happen should the company report deteriorated credit metrics, such as an Ethifinance adjusted net leverage above 2.0x on a sustainable basis. Our forecasts assume no significant M&A or share buyback programme, as nothing on these fronts has been communicated by management. However, should one of these options materialise, this could be the trigger for a potential downgrade.

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.

REGULATORY INFORMATION

LEI: 969500TPU5T3HA5D1F11

Initiation report: No

Rating initiation: 29 November 2022 at BBB+ and EF1

Last rating action: Initiation on November 29, 2022

Rating nature: Unsolicited long-term and short-term corporate ratings (this report is paid by investors, not the issuer)

With rated entity or related third party participation: No, the report was published without having been reviewed by the issuer.

With access to internal documents: No

With access to management: No

Ancillary services provided to the entity: 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.

Name of the rating committee chair: Guillermo Cruz Martinez, Chief Rating Officer

Material sources used to support the rating decision:

- Annual reports 2019, 2020, 2021, 2022
- Half-year reports 2020, 2021, 2022, 2023
- Investor presentations and press releases 2020, 2021, 1H22, FY22, 1H23
- “Testing, inspection, and certification (TIC) market size & share analysis - growth trends & forecasts (2023 - 2028)” – Mordor Intelligence.

Limitation of the Rating action:

- EthiFinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating
- EthiFinance Ratings has no obligation to audit the data provided

Principal methodologies used for these ratings:

https://files.ethifinance.com/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

https://files.ethifinance.com/documents/methodologies/CRA_191.Corporate_Rating_Methodology_Short_Term.pdf

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