



ISSUER RATING
ShortTerm

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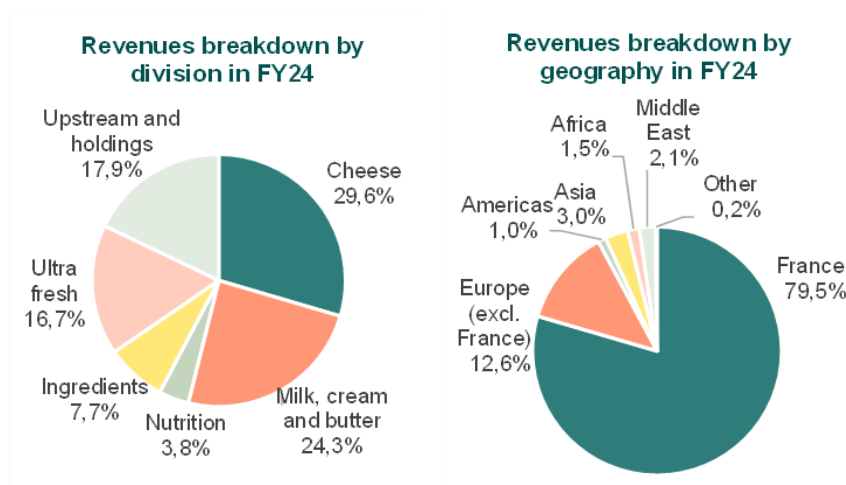
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Rating action and rationale

- EthiFinance Ratings affirms the short-term rating of EF3 for Sodiaal International. Sodiaal International is the main industrial and financing holding of the Sodiaal group, but financial statements are produced for Sodiaal Union (Sodiaal), the ultimate parent holding which is a cooperative. Since most production assets are owned directly or indirectly by Sodiaal International, where most financial debt is located, our rating for Sodiaal International is considered to be equivalent to a rating of Sodiaal Union as per our methodology.
- Sodiaal is a French cooperative specialized in the collection of milk, and its transformation and conditioning into various dairy products.
- Our rating is supported by Sodiaal's good market share and brand image in France, and elsewhere in Europe, through its main brands Candia, Entremont, and Yoplait. In addition, the food sector presents good characteristics, in particular high barriers to entry which is positive for our assessment of Sodiaal. Sodiaal has extensive know-how and covers a wide range of milk-derived products (cheeses, butter, cream, ultra-fresh, etc.), thus having somewhat positive product diversification.
- In addition, since FY23, Sodiaal's profitability and credit metrics improved with an adjusted EBITDA margin of 4.7% in average for FY23-24 (vs 3.6% for FY20-22), and an adjusted net leverage ratio below 4.0x (vs c. 5.7x). In its new strategic plan for the period 2024-29, it targets additional improvements in profitability through better productivity and product mix.
- However, despite these improvements, credit metrics remained median. The net adjusted leverage ratio is at level we consider as still high, and the FFO/ net debt ratio remained deteriorated. This is linked to Sodiaal's business model as a cooperative, thus owned by the milk farmers, limiting its abilities to switch to lower-cost sources. Sodiaal also operates in a capital-intensive sector, requiring significant investments each year, and these investments are barely covered by the FFO. In its new strategic plan, Sodiaal planned to invest c. €1bn, which will limit deleveraging. In addition, in 2025, we also expect the net leverage ratio to deteriorate to c. 4.5x by year-end as a consequence of the acquisition of Yoplait Canada. Consequently, over our forecast period (2025-27), we expect the leverage ratio to be above 4.0x.
- Finally, as a direct consequence of Sodiaal's cooperative status, the group is largely focused on the French market (c. 80% of its sales), thus limiting its geographical diversification. Therefore, it relies quite heavily on food trends in one country and the purchasing power of French consumers.
- The agribusiness industry has medium-to-high ESG risks under our methodology (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. Regarding environmental factors, agribusiness has a high impact on resources as a major user of land and water but also on pollution with the contamination of soils and water basins through intensive use of fertilizers. The sector also has an impact on climate through the use of carbon-intensive processes, and it significantly impacts biodiversity. Moreover, consumers are highly concerned by issues linked to food safety and quality. The sector has a medium impact on communities as access to good food is an essential part of social stability and contributes to a population's health.
- Our assessment of the company's ESG policy is neutral (company ESG score of between 1.5 and 3.5). Sodiaal benefits from good governance practices despite the lack of independent board members, through its cooperative status. Regarding social factors, we assess its practices as average, with a decrease of its accident frequency rate, but a limited level of women in its management. The environmental factors are also addressed with commitments to reduce scope 1 and 2 emissions, as well as water consumption.

Issuer description

Headquartered in Paris, Sodiaal Union is a French cooperative specialized in the collection of milk and then its transformation and conditioning into various dairy products. It is one of the largest milk producers in France, with over 14,500 producers collecting around 4.2 billion liters of milk annually. The collected milk is used to produce a wide range of dairy products, including fresh milk, cheese, butter, and milk ingredients, to name a few, under well-known brands such as Candia, Entremont, and Yoplait. The group has more than 50 production sites in France and employs c. 9,100 people in France and abroad.



Source: SODIAAL

For FY24, Sodiaal Union reported revenues of €5.8bn, flat compared to FY23, and adjusted EBITDA of €270.2m. The EthiFinance Ratings-adjusted net leverage ratio was 3.8x at end-2024.

Fundamentals

Business risk profile

Industry risk assessment

- Long-term growth supported by resilient demand and related to GDP and population growth

Dairy products are central to people's diets and are consumed daily in different forms, both fresh and processed (butter, cheese, milk powder, etc.). Globally, fresh dairy products represent the larger part of dairy products consumed (c. 9kg/capita vs c. 4kg/capita for processed dairy products). However, the breakdown is different between developed and emerging countries. In the US and the EU, processed dairy products account respectively for 63% and 58% of the dairy products consumed, while in Pakistan and India, the main dairy products consumers, consumption is oriented towards fresh dairy products (respectively 89% and 87%).

The market is quite resilient, as milk and milk derivatives support inelastic demand. The sector's main growth drivers are changes in per capita consumption and growth of the global population. Globally, dairy products are expected to grow by 1.6% per year until 2034, with fresh dairy products growing faster than processed dairy products (source: OECD-FAO). The breakdown would be different by region, with fresh dairy products expected to grow faster in India and Pakistan while in Europe, the US and in China growth will be limited. Overall, we expect that growth for the industry will be much in line with GDP growth.

However, in Europe and in France, production is constrained by a decrease trend in dairy livestock over the past 10 years. In France, dairy livestock has decreased by 13.7% since 2014, linked to the lack of generational renewal, and animal diseases. This materializes in a drop in milk production by c. 6% over the past 10 years, despite some improvement in productivity (genetic progress and efficiency in production mainly).

- Strong barriers to entry linked to stringent regulations and high capital requirements

Due to the health sensitivity of dairy products, the industry is subject to stringent food safety regulations. Players must comply with rules through the entire production process; breaches may result in fines or even suspension of production. Companies in the sector also face high capital requirements in order to build or to renovate factories, and to respond to the evolution of demand and safety regulations. In addition, climate change is increasing the need to improve energy efficiency in production plants, thus requiring additional investments.

- Good profitability of the food industry overall, but characterized by some revenues volatility

The overall profitability of the food industry is quite good, with average EBIT margins around 13%. However, for dairy players, profitability is quite lower as revenues are usually driven by trends in milk prices, volumes of milk collected, and production costs. In particular, production costs are correlated to prices for grains, as production costs of the farmers are linked to the costs of feeds. Energy also constitutes a significant part of costs of dairy players such as Sodiaal, as they are responsible for organizing the collection of milk through trucks and processing it in factories.

These commodity prices are affected by various factors, such as adverse weather, war or geopolitical tensions.

Milk prices usually follow other commodity prices but often with a time lag. The strong correlation between selling prices and volatile commodity markets adds to the high level of uncertainty over revenues - and to some extent profitability - of the sector. However, under the new EGALIM law in France, negotiations occur to ensure fair pricing along the value chain. This reduces price volatility, but does not prevent some lag between increases in production costs, and Sodiaal's ability to pass them through to customers after negotiations.

Company's competitive positioning

- **Leading player in the French dairy industry with a special business model**

Sodiaal is a leading player in the French dairy industry and one of Europe's 10 largest dairy companies. The milk collected in France represents c. 20% of total French production. The group enjoys a significant market share in France, behind Lactalis, Danone and Savencia. The group also owns some popular brands in France such as Candia, Entremont (2nd French cheese brand in value) and Yoplait (11.5% of market share in ultra fresh). Yoplait is also well known abroad, particularly in the UK, and in Canada. In the cheese segment, in addition to the brand Entremont, c. 18% of the milk collected by Sodiaal is used to make around 20 AOP cheeses (Protected Designation of Origin) such as Comté.

However, Sodiaal is a cooperative, a special business model; as the company's suppliers, the milk farmers, own the company. As a consequence, Sodiaal cannot switch to lower-cost sources, and is compelled to collect milk from its farmers, sometimes in remote areas. Additionally, competition is fierce in the dairy industry in France. As a consequence, Sodiaal's EBITDA margins are significantly lower than those of its main competitors (Sodiaal's EBITDA margin was below 4.0% on average over 2022-24).

- **Great range of product offerings but with limited geographic diversification**

As a leading player in the dairy market, Sodiaal has a wide range of products to offer, ranging from everyday food and beverages - such as milk, cheese, and yogurts - to nutrition products and food additives. However, the group lacks geographical diversification as more than 90% of its sales are generated in Europe, with a significant concentration in the French market (c. 80%). The acquisition of Yoplait Canada in FY25 would contribute to an improvement, but it still remains limited.

Governance

- **Management quality: new ambitions with the strategic plan 'Grow Together'**

Sodiaal's financial policy is constrained by the relatively high net leverage ratio. The group has not been very active in M&A, unlike its peers, but its limited profitability translated into only average credit metrics. However, Sodiaal introduced its new strategic plan for the 2024-29 period in June 2024. The main goals of this new plan are to promote the farming industry, while improving the profitability of its activities. The plan also included significant capex related to environmental transition, and improvements in productivity (c. €1bn overall).

Sodiaal's management experienced some changes recently, with Antoine Colette taking the position of CEO, and the chairman of the board being replaced by Jean-Michel Javelle. Antoine Colette comes from the food industry whereas Jean-Michel Javelle represents the milk producers.

- **Shareholder profile: a cooperative owned by milk farmers**

Sodiaal Union's shares are owned by its milk producers (c. 14 500). The farmers elect 25 milk producers to sit on the board, which supervises the executive committee. The unique holding structure may give incentives to the producers, but it also constrains the company's margin by limiting its ability to source from lower-cost milk suppliers, unlike some of its peers.

- **ESG policy: building a sustainable farming system**

Sodiaal's ESG strategy focuses on building a sustainable system that supports its different stakeholders. Environmental is an important part of its commitment with clear targets to be achieved by 2030. Its main targets include a reduction of 50% of its scope 1 and 2 emissions between 2019 and 2030 (-21% achieved in 2024 vs 2019), and 30% of its scope 3 emissions (-22% in 2024), a reduction of 20% of its carbon emissions by liters of milk (-6.6% in 2024), and a reduction of 40% of its water consumption (-21% in 2024). Milk farmers are directly involved in Sodiaal's environmental commitments. The social pillar is also a key element for Sodiaal, with the promotion of installations for new farmers, and the presence of women in the management. Both are KPIs in the sustainability-linked debt of Sodiaal, in addition to direct CO2 emissions reduction.

Financial risk profile

Results and profitability

- **Flat revenue and improvement in EBITDA margin**

In FY24, Sodiaal reported revenues of €5.8bn, flat compared to FY23. This was due to mixed factors, with a relatively unchanged evolution of milk collection, whereas the milk sales mix deteriorated. Volume effects were positive for cheese and ultra-fresh products, whereas it was negative for milk, cream and butter. The price effect was more limited, after the period of high inflation, but was positive for butter, cream, and ultra-fresh products. By geography, France's sales were flat, Europe was slightly positive, whereas Asia decreased once again.

Adjusted EBITDA slightly deteriorated to € 270m (vs €276m in FY23), corresponding to a 4.7% EBITDA margin (vs 4.8% in FY23). It has been impacted by lower profitability on the upstream activities and on the cheese segment, while butter prices were favorable. The ingredients and nutrition activities were even better. However, this level of profitability remained satisfactory and higher to the level experienced by Sodiaal in 2019-22, with an EBITDA margin of around 3.5%.

Over our forecast period, we expect revenues to increase, following the acquisition of Yoplait Canada in January 2025, and the partnership with Arla Foods to produce all of Arla's infant milk products. Profitability should improve over our forecast period, driven by a better product mix, and an increase in productivity.

Cashflow and leverage

- **Credit metrics still below average with some improvements expected over our forecast period**

Free cash flow (after dividends) slightly improved in FY24 to €36m (vs €11m in FY23), on the back of a positive change in working capital, despite important capex (€137m).

However, Sodiaal's credit metrics remain constrained by its business model, resulting in a rather high EthiFinance Ratings-adjusted net leverage ratio. At year-end 2024, Sodiaal's adjusted net leverage ratio stood at 3.8x (vs 3.9x as of end-2023), mainly due to higher profitability.

Considering the acquisition of Yoplait in Canada in January 2025, we expect the adjusted net leverage ratio to slightly deteriorate and be around 4.5x at year-end 2025. After 2025, and despite significant capex planned (c. €180m / year), we expect our net leverage to improve on the back of higher profitability.

Capitalisation

- **Well-spread maturities but a significant recourse to factoring**

As of December 31, 2024, Sodiaal's gross reported debt stood at €688m (vs €712m at end-2023). It mainly comprised private placements such as USPPs and Shuldscheins, loans (BEI loans, bank loans and a €100m term loan) as well as a €700m RCF. Maturities are rather long, and well-spread. The maturity of the RCF has been extended in 2024 to 2029, with a one-year option.

Our debt adjustments amounted to €589m, as we added back several items that we consider debt-like, such as employee benefits, operating leases, and factoring (€376m). Net adjusted debt amounted to €1,036m at end-2024.

A part of Sodiaal's debt is subject to financial covenants tested annually of which a net leverage below 3.5x and an interest coverage ratio above 3.5x. Both ratios were complied with at end-2024, respectively at 2.1x and 8.1x.

Liquidity

- **Adequate liquidity profile**

Sodiaal's liquidity profile is 'Adequate' as per our methodology, as the company can repay its upcoming debt, without refinancing, for the next two years. We also believe that the company can obtain financing from financial institutions relatively easily, especially considering its pivotal role in the French dairy market. However, it may struggle to get financing through capital markets, because of its special business model.

Modifiers

- **Controversies**

Over the course of our review, we have found one controversy regarding an ongoing investigation launched in 2022 by the French anti-trust authorities regarding possible collusion on prices with competitors. At this stage of the investigation, our rating has not been impacted by controversies as Sodiaal has not received any fines or been

instructed to change its business model. EthiFinance Ratings will continue to monitor the situation and will adjust its controversy score based on the results of the investigation.

- **Country risk**

Sodiaal mainly operates in France and in Europe, and therefore does not present any specific country risk.

Credit metrics expected evolution (CMEE)

- **Stable CMEE**

We have assigned a Stable CMEE as we expect the group's credit metrics to be broadly unchanged in a years' time.

Financial forecasts

Our main assumptions for our financial forecasts over FY25-27 are:

- Moderate growth in revenues, mainly driven by the Yoplait Canada acquisition.
- Slight improvement in profitability, with an adjusted EBITDA margin of around 5%.
- Capex of c. €180m / year linked to the significant investment plan until FY29.
- Adjusted net leverage to improve after FY26, and to be around 4.0x on average.

Main financial figures

Main financial figures. millions of EUR					
	FY22	FY23	FY24	23vs22	24vs23
Turnover	5 527	5 789	5 774	4,7%	-0,3%
EBITDA (1)	197	278	273	41,3%	-1,6%
EBITDA Margin	3,6%	4,8%	4,7%	1,2pp	-0,1pp
EBIT	25	114	104	352,1%	-8,8%
EBIT Margin	0,5%	2,0%	1,8%	1,5pp	-0,2pp
EBT	-68	66	84	196,9%	n/a
Total Assets	2 820	2 742	2 724	-2,8%	-0,6%
Equity	580	634	735	9,2%	16,0%
Total Financial Debt (2)	1 407	1 298	1 278	-7,7%	-1,6%
Net Financial Debt	1 090	1 079	1 036	-1,0%	-4,0%
Equity/TFD	41,3%	48,8%	57,5%	7,6pp	8,7pp
NFD/EBITDA	5,5x	3,9x	3,8x	-1,7x	-0,1x
Funds From Operations	139	205	212	52,7%	3,7%
FFO/NFD	16,9%	23,1%	25,0%	6,2pp	1,9pp
EBITDA/Interest	6,0x	6,5x	8,2x	0,5x	1,7x

⁽¹⁾ EBITDA is adjusted mainly for operating leases.

⁽²⁾ Debt is adjusted for the capitalisation of operating leases, factoring, and the provision for pensions.

Rating sensitivity

- **List of ratings:**
 - Short-term corporate rating: EF3

- **Short-term rating positive factors (↑)**

Sodiaal's current rating remains constrained by its financial profile. With a Stable CMEE and an 'adequate' liquidity profile, an upgrade of our short-term rating would require a significant improvement in the group's credit metrics, in particular a net adjusted leverage ratio of around 3.0x on a sustainable basis. However, considering Sodiaal's specific business model and the acquisition of Yoplait Canada in 2025, which deteriorated the net leverage ratio, such an upgrade is improbable in the near future.

- **Short-term rating negative factors (↓)**

A downgrade of our short-term rating would require a significant deterioration of Sodiaal's financial profile. Such deterioration could occur should the net adjusted leverage ratio be around 6.0x on a sustainable basis. Given Sodiaal's current strategic plan to improve profitability, we don't expect this scenario.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

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.

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 - General : <https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203>
- 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.

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