A

ISSUER RATING

Long-Term

Outlook	Stable
Initiation date	29/11/2022
Rating date	28/11/2023

Contacts

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Rating Action and Rationale

- EthiFinance Ratings raises LDC's rating from "A-" to "A", maintaining its Stable outlook.
- The rating upgrade is based on the reduced impact of the LDC controversies compared to last year, as there are no new significant controversies and no legal and/or financial consequences. However, we believe that the rating is still penalised by one notch due to these controversies. We will continue to monitor the rating in the coming months for possible consequences.
- Our ratings reflects LDC's resilience and strategic agility amidst noteworthy market challenges in 2022-2023. LDC faced significant raw material cost increases due to the inflationary situation, which is expected to continue in the short term, and a bird flu outbreak that affected farms in the French Vendée and southwestern region, leading to reduced sales volumes in FY2022. Despite these challenges, LDC enhanced profitability through its ability to increase its prices and maintaining an efficient cost structure. Thus, LDC keeps its leadership in the French poultry sector and continues to expand strategically into new segments and the European market.
- Financially, LDC showcases a robust credit profile, underpinned by solid financial fundamentals in FY2022 and the first semester of FY2023. The company's strong solvency and net cash position reflect prudent financial management. Its financial strength is further evidenced by robust financial ratios, such as a historically negative net financial debt, a high Equity/Total financial debt ratio and interest coverage ratio, and its capacity to generate an adequate Free Cash Flow.
- From a business standpoint, LDC holds a significant 40% market share in the French poultry market. Its extensive vertical integration, long-standing track record, and stable shareholder support provide significant competitive advantages and bargaining power. LDC's strategy, involving organic growth and over 15 acquisitions since FY12/13, somewhat mitigates its modest diversification fundamentals, with a significant concentration in France (around 86% of turnover FY2022) and poultry products (approximately 85%). Central to its diversification strategy are developments in the egg segment and ongoing international expansion with new acquisitions. The strategic purchase of Matines in 2022 and Ovoteam in 2023 enhances LDC's business, now contributing over €300m to turnover, emphasizing its commitment to diversify its operations.
- In the first semester of 2023, LDC's proactive measures against bird flu, including biosecurity enhancements and monitoring plans, led to a slight recovery in sales volumes. Additionally, strategic pricing adjustments to stimulate consumption after a decline in tonnage contributed to a 10.5% revenue interannual increase and 21.1% EBITDA interannual increase, without any significant changes in its financial structure that impact the rating.
- However, various controversies have negatively impacted its rating, leading to a one-notch downgrade from the anchor rating. These controversies encompass a range of concerns, including animal mistreatment, environmental issues in the supply chain and workplace accidents, among others. Notably, in June 2023, the French animal rights organization L214 filed a complaint alleging animal mistreatment at a farm associated with LDC. These factors could impact the group's brand image and potentially lead to reductions in tonnage volumes under unfavorable scenarios.
- In line with our new methodology, the Food sector has a medium-high ESG risk profile (sector heat map between 3.5 and 3.9), mainly due to its environmental impact and associated risks (diseases, animal mistreatment,...). The potential for ESG factors to materially influence the sector's companies in the medium term implies that a transition towards new practices is necessary. Inaction could result in a significant impact on the sector's overall stability or profitability levels in the short to medium term. This assessment impacts negatively on the industry rating and is reduced by one notch.

- LDC's ESG performance has shown slight improvement, with a satisfactory assessment (74/100) that has a positive impact on the rating. The Group addresses ESG issues through the establishment of a CSR Committee, engagement with partner farms for sustainable practices, and compliance with environmental regulations like ICPE. Investments in wastewater and sludge treatment facilities, strategies for reducing consumption and increasing recycling, and the use of recyclable packaging highlight LDC's commitment to environmental stewardship. The Group's response to the avian flu epidemic through the reciprocal inter-location aid plan exemplifies its crisis management capabilities, yet underscores the operational vulnerabilities to external shocks.

Issuer Description

Headquartered in France, LDC is the largest players in the French poultry market with renowned brands including Loué, Le Gaulois, Maître Coq, and Marie. With its three divisions, LDC breeds, transforms, and sells chicken and catered food to French and international customers. The majority ownership lies with the founding families—the Lamberts, the Chancereuils, the Huttepains, and the Guillets. Its market share stood at €2,550m as of 24/11/23, with a free float of 13%. For FY2022, ending in February 2023, LDC reported a turnover of €5,846m with EBITDA of €547.4m, representing a 9% EBITDA margin, an improvement from 8% in FY2021. The company maintains a robust net cash position, as evidenced by its negative net financial debt.

Main Financial Figures

Main financial figures. thousands of EUR	FY20	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Turnover	4,428,218	5,068,957	5,846,130	6,244,240	6,420,000	6,600,690	15.3%
EBITDA	358,574	398,525	547,400	599,773	606,861	630,366	37.4%
EBITDA Margin	8.1%	7.9%	9.4%	9.6%	9.5%	9.6%	1.5pp
EBIT	188,898	213,227	299,894	340,101	337,069	353,332	40.6%
EBIT Margin	4.3%	4.2%	5.1%	5.4%	5.3%	5.4%	0.9pp
EBT	189,450	212,503	296,444	327,768	343,004	361,028	39.5%
Total Assets	2,973,410	3,258,415	3,718,409	2,842,400	2,990,900	3,140,600	14.1%
Equity	1,528,624	1,713,819	1,884,837	2,094,520	2,301,290	2,518,890	10.0%
Total Financial Debt	516,456	511,626	570,640	545,097	520,697	497,389	11.5%
Net Financial Debt	-71,741	-150,160	-354,343	-502,318	-668,841	-861,925	-136.0%
Equity/TFD	296.0%	335.0%	330.3%	384.2%	442.0%	506.4%	-4.7pp
NFD/EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	-
Funds From Operations	302,000	329,193	485,721	503,240	526,000	550,740	47.5%
FFO/NFD	n/a	n/a	n/a	n/a	n/a	n/a	-
EBITDA/Interest	143.9x	210.9x	102.4x	118.4x	112.4x	109.9x	-108.5x

Credit Rating

Credit Rating	
Business Risk Profile	**BBB-**
Industry risk assessment	*BB+*
Industry's ESG	*Negative*
Competitive Positioning	*BBB*
Governance	*BBB-*
Financial Risk Profile	**AAA**
Cash flow and leverage	*AAA*
Solvency	*AAA*
Company's ESG	Positive
Anchor Rating	**A+**
Modifiers	*YES*
Rating	**A**

Rating Sensitivity

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

An upgrade to A could derive from an amelioration of the business risk profile of LDC, notably with respect to diversification, combined with improved ESG practices.

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

Major events regarding disease or company reputation could lead to a significant deterioration of credit metrics and potentially of our rating (NFD/EBITDA>0x; FFO/NFD <80%; EBITDA/Interest <40x). A rating downgrade could also derive from a more aggressive financial policy with significant debt-funded M&A.

REGULATORY INFORMATION

LEI: 969500W6740M4US9ES57

Follow-up report of the long-term corporate rating.

Last rating action: "A-" rating with a Stable outlook to LDC (November 29, 2022).

Rating nature: Unsolicited long-term rating (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, Chief Rating Officer.

Material sources used to support the rating decision:

- 1Q23 trading update, 1H23 Results.
- 2022, 2021, 2020 annual reports.
- Bloomberg.

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.

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, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.