EthiFinance Ratings

SODEXO FINANCE DAC

301940219

CORPORATE

EF1

INSTRUMENT RATING
Neu CP

Initiation date 02/12/2022
Rating Date 27/11/2024

Contacts

Lead analyst
Anne Guy
anne.guy@ethifinance.com

Committee chair
Marc Pierron
marc.pierron@ethifinance.com

Rating action and rationale

- EthiFinance Ratings affirms the short-term rating for the €1.75bn NEU CP programme of Sodexo Finance DAC (Sodexo), at EF1. Sodexo S.A. is the guarantor of the NEU CP instruments issued by Sodexo Finance DAC. Consequently, our rating is similar to that for Sodexo SA and is therefore based on Sodexo SA's consolidated financial statements.
- Our rating is supported by Sodexo's extensive global footprint and its diverse range of services, spanning from food services to facility management. These activities cater to a broad spectrum of end-markets, including Education, Corporate Services, and Healthcare. This comprehensive portfolio positions Sodexo favorably against local competitors, granting it a competitive edge, and the ability to deliver integrated services across multiple countries. In February 2024, Sodexo spun-off Pluxee, its BRS activity, encompassing prepaid cards, restaurant vouchers, mobility passes, and leisure passes. This operation deteriorated Sodexo's credit ratios, with a net adjusted leverage of 2.9x excluding Pluxee, vs 2.3x at YE22 including Pluxee. Nevertheless, Sodexo demonstrated its capabilities to deleverage quickly. Its net adjusted leverage improved from 2.9x at YE23 to 2.3x at YE24, supported by strong cash-flow generation. Over our forecast period (FY25-FY27), we expect the net adjusted leverage to remain at this level. We also value its credit profile, supported by a prudent financial policy, and its robust ESG commitments.
- In FY24, Sodexo also simplified its ownership structure, selling to Bellon SA, its main shareholders, the fully owned stake it had in Sofinsod, the holding that owned a 19.6% stake in Bellon SA. This disposal, amounting to €918m, had no impact on the cash situation of Sodexo, as the proceeds have been distributed to shareholders through an exceptional dividend payment.
- However, our rating is slightly constrained by the industry risk assessment as the catering industry is a highly competitive market, due to the high number of players. This weighs on margin levels, which are quite low (EBIT margin between 4% and 5% in average). With moderate growth prospects, client retention is a significant driver as well as maintaining sound margins.
- The Commercial & Professional Services industry has medium ESG risks under our methodology (sector heatmap score between 3 and 3.5). This results in a sector assessment which is not impacted by industry-related considerations. Regarding environmental factors, the sector has a low impact on climate issues (not involving heavy manufacturing industry, which limits GHG emissions) and on biodiversity. However, it presents a high impact via suppliers, the industry being a large user of human resources, which generates dependencies and human rights and labor management concerns.
- Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), which weighs positively on our financial assessment. Sodexo stands out in terms of environmental factors, with a reduction of greenhouse gas emissions (scopes 1 and 2) and of water consumption over the last 2 years. Regarding social factors, they remained unchanged compared to last year, being characterized by good practices with quality and security management, training of employees, and a low accident frequency-rate. Governance considerations, despite being sound, remained impacted by the concentration of the roles of chairman and CEO.

Issuer description

Founded in 1966, Sodexo is a French company that offers food services and facility management services across various sectors, including business and administrations, healthcare and seniors, and education. As one of the leading global companies in its industry, Sodexo operated in 45 countries, as of August 2024. Its primary source of revenue, up to 96%, comes from its on-site services. Geographically, these services are distributed across three main regions, with North America accounting for c. 47%, Europe c. 35%, and the Rest of the World the remaining c. 18%.

In February 2024, Sodexo's BRS activity (€1.1bn of revenue in FY23), branded as Pluxee, which offers prepaid cards, restaurant vouchers, mobility passes, leisure passes, was spun-off.

Sodexo's revenues for FY24 were €23.8bn (up by 5.1% compared to last year excluding Pluxee), along with an adjusted EBITDA of €1.5bn. At end-August 2024, our adjusted net leverage ratio stood at 2.3x, compared with 2.9x last year.

Fundamentals

Business risk profile

Industry risk assessment

- **Rather good prospects for the catering industry**

This industry is in a state of constant renewal in order to meet the changing expectations of customers, with more digitalized interactions. We believe that, given its comfortable positioning within the sector, with good client retention

(94.2% in FY24), Sodexo is well placed to take advantage of growth opportunities. In addition, home office, which peaked during Covid crisis, tends to be reduced as some companies recently recalled their staff full-time in the office. Sodexo will benefit from this trend.

- **Brand image & size are moderately effective barriers to entry**

Although we consider that niche brands can emerge quickly in the market, becoming a leading company is more difficult. This is because of the multitude of long-term partnerships needed to develop global brands, and the efficient supply chain and operations required in order to be profitable. Consequently, we consider barriers to entry to be moderate.

- **Moderate degree of volatility**

Catering industry players have exposure to food commodity price increases (such as grain or meat). However, a large portion of activities are based on contracts that are inflation-indexed. As a result, players can pass inflation through to clients, thereby driving growth in revenues, while maintaining profitability. As an example, over its FY24, Sodexo's price increases were 4% in average.

Company's competitive positioning

- **Sodexo has solid position & market share**

In a highly competitive market - due to a high number of players – we see Sodexo's large scale and global presence as strong competitive advantages compared to local, smaller rivals, enabling it to offer integrated services in many countries. These advantages provide it with greater pricing power, compared to others in the sector, and increase the likelihood of client retention. Furthermore, we value its exposure to non-cyclical sub-sectors such as healthcare, education, and seniors care (together representing a significant portion of group sales), which provides good protection against the troughs of economic cycles.

- **Good geographical diversification**

Sodexo's rating is supported by good geographical diversification with a strong presence in North America and Europe. These regions provide the bulk of Sodexo's revenues (47% and 35% respectively for FY24). Sodexo's activities also address a broad spectrum of end-markets, including Education, Corporate Services, and Healthcare.

Governance

- **Shareholders**

Sodexo is listed on Euronext Paris with a market capitalization of €12.0bn as of November 7th 2024. It is controlled by the family-owned holding company Bellon SA (42.8% of Sodexo shares and 57.8% of the voting rights as of end-August 2024). As of August 2024, the rest of the capital was mainly held by institutional investors, and the remainder by employees and individual investors. In July 2024, Sodexo sold to Bellon SA its fully owned stake in Sofinsod, a holding owning 19.6% of Bellon SA's share capital, for a total amount of €918m. The proceeds from the disposal have been distributed to shareholders through an exceptional dividend.

- **Management quality**

Since September 2021, Sophie Bellon has been the CEO of Sodexo, in addition to her functions as chair of the board since 2016. However, this combination of roles is somewhat mitigated by her good track record.

In addition, we view Sodexo's financial policy as rather conservative. The dividend policy - which aims to distribute 50% of the underlying net profit - is reasonable given the recurrent nature of the company's revenues and its solid cash-flow generation. This is in addition to the moderate capex (below 2% of its sales historically). Following the spin-off of Pluxee, Sodexo's adjusted net leverage increased significantly (from 2.3x at YE22 including Pluxee to 2.9x at YE23 excluding Pluxee). However, the company has already demonstrated its capacity to deleverage (adjusted net leverage of 2.3x at end-August 2024) and we expect Sodexo to maintain this leverage, assuming no significant M&A.

- **Solid ESG policy**

Sodexo is a leading global company in the food services sector. It is committed to addressing ESG issues through its strategy, "Better Tomorrow 2025". In particular, the company aims to reduce carbon emissions (scopes 1, 2 and 3) by 34% by 2025 (from the 2017 base), as approved by the SBTi. At end-August 2024, Sodexo had achieved a 29.7% reduction of its GHG emissions. Furthermore, Sodexo launched the "WasteWatch" program in 2019, aimed at reducing food waste by 50% by 2025. Implemented in 77% of food sites based on raw material cost at end August 2024, this solution has already resulted in an average food waste reduction of 40.7% on the sites where it has been implemented.

Financial risk profile

Results and profitability

- **Solid increase in revenues and EBITDA margins improvement**

Sodexo's revenues for FY24 were €23.8bn, up by 5.1% at current exchange rates (7.0% excluding currency effects). In North America, revenues grew by 6.0% to €11.1bn (vs €10.5bn last year). In this continent, Sodexo benefited from the ongoing returns to the office, new contracts, and a pricing effect. Europe was up by 4.7% at €8.4bn (vs €8.1bn in FY23), supported by major sports events (o/w Olympic Games), volume and price increases. Finally, Rest of the World was up by 3.7% with mixed performance as India and Australia displayed good growth while China and Brazil were underperforming.

On the profitability side, adjusted EBITDA stood at €1.5bn in FY24 (vs €1.4bn in FY23). Our figures show a slight improvement in EBITDA margin at 6.5%, versus 6.2% in FY23. This is due to revenue growth, inflation management resulting in price increases in all areas, as well as a reduction of headquarter costs. Going forward, we expect margins to improve to 6.8% over our forecast period (FY25-FY27).

Cashflow and leverage

- **Strong improvement in net leverage ratio**

Operational cash generation remained strong for FY24, with FFO amounting to €1.2bn versus €1.1bn in FY23. Change in working capital slightly weighted on cash generations (€43m). Our FY24 adjusted FCF (after leases repayments and dividends) deteriorated to -€756m (vs €20m), as the company made an exceptional dividend payment linked to the disposal of Sofinsod to Bellon for €918m. Excluding the exceptional dividend payment, adjusted FCF would have improved. Capex (excluding client investments of €135m) amounted to €358m, representing c. 1.5% of Sodexo's revenues.

The adjusted net leverage ratio of the group improved to 2.3x at YE24 (vs 2.9x at YE23), in line with the pre-spin-off level. This is linked to EBITDA growth and the good cash-flow generation. Over our forecast period (FY25-FY27), we expect the adjusted net leverage ratio to remain at the current level thanks to solid cash-flow generation, and despite recurring capex (c. 2.5% of the revenues, including client investments) and some bolt-on acquisitions (€300-400m/year).

Capitalisation

- **Well-spread maturities and significant sources of liquidity**

As of end-August 2024, Sodexo reported gross financial debt of €4.7bn, excluding IFRS 16 (€728m). Our net adjusted financial debt, including IFRS 16 and pensions (€274m) stood at €3.6bn. Debt is mainly composed of bonds with maturities ranging from April 2025 to April 2031. In addition to the existing bonds, Sodexo had a multicurrency RCF of €1.75bn maturing in July 2029, which was undrawn at end-August 2024. Finally, it has two commercial paper programs (NEU CP), each amounting to €1.75bn, none of which were drawn at YE24. Note that the issuing companies are Sodexo SA and Sodexo Finance DAC. However, the NEU CP instrument of Sodexo Finance DAC benefits from the independent, autonomous, irrevocable, and unconditional guarantee of the parent company (Sodexo SA).

Liquidity

- **Excellent liquidity and strong refinancing profiles**

We assess the liquidity profile of Sodexo as "Superior", the best category according to our short-term methodology. This reflects Sodexo's strong refinancing profile and very strong liquidity, more than enough to cover debt maturities for more than two years.

Modifiers

- **Controversies**

Over the course of our review, we found no significant controversies regarding the group.

- **Country risk**

Sodexo operates essentially in the US and in Europe, and therefore does not present any particular country risks.

Credit metrics expected evolution (CMEE)

- **Stable CMEE**

We assess the CMEE to be Stable, as we expect Sodexo's credit metrics to remain unchanged over the next twelve months.

Main financial figures

Main financial figures. millions of (€m)	FY23	FY24	24vs23
Turnover	22 637	23 798	5,1%
Adjusted EBITDA	1 398	1 541	10,2%
EBITDA Margin	6,2%	6,5%	0,3pp
Adjusted EBIT	976	1 109	13,6%
EBIT Margin	4,3%	4,7%	0,3pp
EBT	985	428	-56,5%
Total Assets	20 794	15 024	-27,7%
Equity	4 554	3 798	-16,6%
Total Financial Debt	6 689	5 741	-14,2%
Net Financial Debt	4 019	3 604	-10,3%
Equity/TFD	68,1%	66,2%	-1,9pp
NFD/EBITDA	2,9x	2,3x	-0,5x
Funds From Operations	1 130	1 191	5,4%
FFO/NFD	28,1%	33,0%	4,9pp
EBITDA/Interest	8,8x	9,6x	0,8x

Rating sensitivity

- **List of ratings:**
  - NEU CP rating: EF1

- **Factors which could influence positively the rating (↑)**

An upgrade to EF1+ would require a material improvement of the group’s financial metrics. In particular, a net adjusted leverage below 1.0x on a sustainable basis. Given Sodexo’s current guidance, we see this as rather improbable.

- **Factors which could influence negatively the rating (↓)**

A downgrade to EF2 could be considered if the net adjusted leverage ratio deteriorated to 3.0x on a long-term basis. Such a deterioration could be possible in the event of a significant decrease of the operating cash flow generation, or in the event of debt-funded acquisitions. Such an evolution would entail a downgrade of our long-term rating that is used as a reference for the short-term rating.

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/corporateratingmethodology-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.