MOODY'S

Rating Action: **Moody's downgrades Elior Group S.A.'s CFR to B3; outlook remains negative**

02 Jun 2023

Paris, June 02, 2023 -- Moody's Investors Service (Moody's) has today downgraded Elior Group S.A.'s (Elior or the company) corporate family rating (CFR) to B3 from B2, the probability of default rating to B3-PD from B2-PD, and the rating on the backed senior unsecured notes due 2026 to B3 from B2. The outlook remains negative.

RATINGS RATIONALE

Today's downgrade of Elior's CFR to B3 reflects Moody's expectations that Elior's profitability, on a standalone basis, will be lower than previously forecasted in the next 12-18 months, as a consequence of the ongoing inflationary pressure that the business faces and the time lag required to fully pass-through price increases to customers. The rating agency expects that Derichebourg Multiservices (DMS), whose acquisition closed on 18 April 2023, will positively contribute to the company's profitability, albeit not fully offset the negative trends on the company's standalone business in fiscal 2023. Consequently, Moody's expects that FCF generation, on a Moody's adjusted basi and including DMS, will remain negative in fiscal year ending September 2023 (fiscal 2023) and for the fourth consecutive year, thus preventing any significant improvement in the liquidity profile. Governance was considered a key rating driver for this rating action, as a consequence of changes in guidance and the turnover in top management in the recent past.

Elior disclosed a positive reported EBITA in H1 2023 (ending March) of EUR41 million and a recovery in its EBITA margin, in the same period, to 1.7% (compared to -0.7% in H1 2022 and -1.1% in fiscal 2022), thanks to ongoing price increases and operating efficiencies. However, management also commented that inflationary trends, particularly in food, are now expected to abate later than initially anticipated. Consequently, the reported EBITA margin in fiscal 2023 is now expected to end in the lower range of the previous guidance of 1.5% to 2%, despite the ongoing pass-through of inflation to customers. Moody's understands that this profitability guidance includes DMS's asset contribution.

As a consequence, the rating agency now forecasts that Moody's adjusted EBITA margin, including DMS contribution, will remain well below 2% in fiscal 2023 and will only trend towards 2% in the next 12-18 months, while Moody's adjusted FCF will continue to remain negative, break even at best, in the same period. Similarly, the rating agency forecasts Moody's adjusted EBITA/ interest to remain below 1x in fiscal 2023 and to marginally improve in fiscal 2024, while Moody's adjusted debt/ EBITDA is expected to remain above 7x in fiscal 2023 and to moderately improve in fiscal 2024.

The B3 CFR is nevertheless supported by the company's leading market position in contract catering, its balanced end market diversification and its steady progress in contract renegotiations, coupled with ongoing pass-through of price increases, gradually improving profitability.

LIQUIDITY

Moody's continues to view Elior's liquidity as weak, which reflects the rating agency's expectations of ongoing cash burn and tight covenant leeway. The company ended H1 2023 with cash and equivalents on balance sheet of EUR45 million, while the undrawn, committed credit facility amounted to EUR300 million and the remaining available receivable securitization program, expiring in October 2024, amounted to EUR19 million.

Moody's expects the company to burn around EUR60 million of FCF on a Moody's adjusted basis in fiscal 2023 and thereafter to gradually improve FCF. The company will need to reimburse a total of EUR56 million in fiscal 2024, relating to the amortization of the EUR225 million French state guaranteed loan.

We expect the net leverage covenant to be complied with in the next 18 months, albeit with tight headroom, particularly as of March 2024 testing date.

ESG CONSIDERATIONS

Moody's changed its assessment of Management Credibility and Track Record to 4 from 3, reflecting the turnover in top management and guidance changes. The rating agency also changed its assessment of Board Structure and Policies to 3 from 2, reflecting the change in ownership with Elior now majority owned by Derichebourg SA. The overall exposure to governance risks (Issuer Profile Score) is unchanged at G-4. Elior's Credit Impact Score ("CIS") remains CIS-4.

STRUCTURAL CONSIDERATIONS

The B3 rating on the backed senior notes, at the same level as the CFR, reflects their pari passu ranking with the RCF and the term loan. The backed senior notes, the RCF and the term loan are unsecured, but benefit from upstream guarantees from material subsidiaries accounting for at least 80% of consolidated EBITDA. We understand that debt proceeds were on-lent to the subsidiary guarantors, meaning that there are no limits on the guarantee of the subsidiary guarantors under the debt indenture. The backed senior notes, the RCF and the term loan are senior to the French state-guaranteed loan, which is unsecured and unguaranteed from operating companies.

RATING OUTLOOK

The negative outlook reflects execution risks with regards to the full pass-through of inflation to customers which could delay the return to positive FCF and weaken the liquidity profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Considering the negative outlook, an upgrade is unlikely in the next 12-18 months. The outlook could be stabilized if FCF generation, on a Moody's adjusted basis, turns positive, with a Moody's adjusted EBITA interest coverage of at least 1x and an adequate liquidity, all on a sustainable basis.

The rating could be upgraded if Moody's adjusted EBITA margin increases well above 2% on a sustainable basis, thus leading to sustainably positive FCF generation on a Moody's adjusted basis. An upgrade would also require Moody's adjusted EBITA/ interests to increase to at least 1.5x, liquidity to remain at least adequate and Moody's adjusted debt/ EBITDA to decline below 6.5x.

The rating could be downgraded if the company's operating performance and FCF further deteriorate, thus additionally affecting the liquidity, or if there is evidence of an unsustainable capital structure.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at https://ratings.moodys.com/rmc-documents/356424. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in France, Elior is a global player in contract catering and support services. In the fiscal year ended September 2022, the company generated revenues of almost €4.5 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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