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ELIOR 2023-2024 Full-Year Results

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Operator : Thank you for standing by. Good morning, everyone, and welcome to Elior Group's full-year 2023-24 financial results conference call. As a reminder, today's call is being recorded.

The management discussion and slide presentation plus the Q&A session are being broadcasted over the internet. I turn the call over to Didier Grandpré, Elior Group's CFO. Please go ahead.

Didier Grandpré: Good morning, ladies and gentlemen. Welcome to Elior Group's full year results presentation. We have provided detailed financial information in our press release issued earlier today, which is available on Elior's website. I invite you to read the disclaimer, on slide 2, which is an integral part of our presentation**.**

We will start with a short overview of the main Group's key indicators at the end of September and then review the financial results in more detail. The business review will highlight how we successfully improve all levers of profitability. Following the integration of DMS, we have developed a new ESG roadmap that we will share before concluding with the outlook for the new year. Then I will take your questions.

Full year 2023-2024 has been an important step in the deployment of the new Elior Group since the merger of Elior and Derichebourg multiservices teams in april 2023. Indeed, full-year 2023-2024 achieved a strong recovery in the profitability and recorded a strong positive FCF allowing the group to continue deleveraging. In the top end of our anticipation, the group posted a growth of 5,1% on an organic basis. The EBITDA improved by €127m to reach €333m and the adjusted EBITA margin increased by 170 bps to reach 2,8%. We also recorded good progress on the balance sheet thanks to a return to a positive free cash-flow of €215 million. This contributed to further reduce the leverage ratio down to 3.8x at the end of September 2024, comfortably below our bank covenant. On a full year basis, the group continued to deploy new synergies with annualized synergies that further increased by €6m in H2 to reach €36m at the end of September 2024

Now, let's move to Elior's full year results in detail. Starting with slide 7 on revenue

Consolidated revenue exceeded 6 billion euros in fiscal year 2023-2024, compared to 5.2 billion a year ago. The 15,9% year-on-year increase reflects: 1/ a solid organic growth of 5.1% in the top range of our guidance; 2/ a positive 11.1% contribution from acquisitions including an additional 6 months and a half from DMS for €554 million and the full year revenue from the acquisition of Cater to you Food services on the US Education market for €20m. The currency impact was limited at -0.3%

If we look at the performance of the year on a pro-forma basis (including 12 months of DMS in full year 2022-2023), the growth stood at 4.9%. This performance was supported by a robust like for like growth, fuelled by both price increases of +3.3% and a robust volume growth of +2.3%. Commercial momentum remained strong with openings at +8.1% close to previous post-covid years. Net development growth excluding voluntary exits was again positive at +0.8%. Volume exits were stable over the last 2 years leading to a retention rate of 91.2% or 92.7% excluding voluntary exits.

Now let's move to the operational profitability.

After the turn-around recorded in FY 2023, Full year 2024 recorded a further improvement in Adjusted EBITA by 108 million euros or 183% year on year, from 59 million euros in 2023 to 167 million euros at the end of September 2024.

Group's adjusted EBITA margin was up +170 basis points year-on-year, from 1.1% last year to 2.8% this year. This strong performance on adjusted EBITA came from: 1/ First, a positive scissor effect thanks to price renegotiations that more than counter-balanced the declining cost inflation. This resulted in a positive net inflation of €41m on the full year (€21m in H2 after €20m in H1); 2/ Second, an increased contribution from the net development of €16m vs €7m last year thanks to a relevant focus on new offers and reinforced pricing discipline; 3/ Third, the disciplined execution of our transformation plans increasing cost synergies and operational efficiencies brought an overall cost reduction of €55m in 2024, following €50m in Full-year 2023; 4/ Finally, DMS and other acquisitions added €10m profit on EBITA.

After the net amortization of intangible assets, that increased in Full-year 2024 due to the integration of DMS and a one-shot depreciation of around €10m in the US, the EBITA stood at €131m, an increase of €98m year-on-year. Non-recurring charges amounted to minus 31 million euros, €50m less than last year. These charges were mainly related to the execution of our restructuring plans in France and some reorganizations decided by our new management in the US for a total amount of €23m. Net financial charges amounted to minus 105 million euros this year versus minus 78 million euros last year, reflecting the increase in the average net debt including the full effect of DMS factoring, and interest rates at their highest level during our first 3 quarters. Income tax was a loss of 36 million euros compared to a profit of €29m last year.

The current tax amounted to minus €24m compared to minus €11m in 2022-2023 reflecting a stable tax CVAE and a higher amount of taxable profit in France. Deferred tax amounted to minus €13m this year compared to +40 million euros last year following the integration of DMS and the re-evaluation of the recoverability of tax loss carry forwards in France. This year, deferred tax assets were utilized as a result of profit generated in France. At the end, net income stood at a loss of €41m, significantly reduced compared to last year while the adjusted net profit recorded a turnaround at €9m compared to a loss of -6 million euros last year.

Moving to our free cash flow bridges starting on page 12.

Adjusted EBITDA amounted to 333 million euros. Capex totalled 98 million euros, equivalent to 1.6% of revenue, slightly above 1.5% last year. IFRS16 lease payments amounted to 85 million euros. Non-recurring cash expenses of 23 million euros reflected mainly the implementation of our restructuring plans in Europe. Net change in OWC was strongly positive at €107m, driven by receivables. After tax paid of -19 million euros, Free Cash-Flow stood at €215m.

This corresponds to the Free Cash Flow improvement by €212m compared to last year excluding securitization, driven by: 1/ a sharp improvement in adjusted EBITDA by +121 million euros, which remains the key driver for deleveraging; 2/ a strong improvement in operating working capital by +112 million euros mainly driven by customers' receivables and 3/ to a lesser extend the reduction in restructuring expenses while the increase in CAPEX and IFRS16 leases mainly come from the integration of DMS and higher tax paid from the increase in taxable profits in France and the US. The contribution from the new securitization program amounted to €61m in September 2024.

As a result of the strong FCF generation, the net debt decreased by €124m down to €1269m at the end of September, representing 3.8 times the EBITDA, showing a steady trend of group's deleveraging. Interest paid amounted to €91m and IFRS 16 debt decreased by €35m in 2023-24. Bolt-on Acquisitions, which represented 0.4% of revenue were mainly made in HK and India to expand our regional footprint in Asia. They were part of our overall 2% of capital allocated to capex and acquisitions.

Available liquidity came to 394 million euros at the end of September 2024, increasing by 81 million euros year on year. We started reimbursing the PGE in 2024 for €56m. The commercial papers were repaid at the beginning of the fiscal year for €20m. The liquidity benefited from the new securitization program as explained in the next slide. It triggered the reduction of overdraft lines by €24m.

Just few words on our new securitization program. Some of group's entities sold their trade receivables as part of a securitization program, which was restructured and extended in September 2024. Notably, this new Securitization program now covers the receivables from DMS subsidiaries replacing the legacy factoring program and subsidiaries in the United Kingdom and Italy. The maximum amount of the program has been raised to €800m from €360m before September 2024 and its maturity has been extended to September 2027. At September 2024, the amount of receivables derecognized under the « Off » Sub-program amounted to €370m compared to €285m at the end of September 2023. Proceeds from the new program are primarily applied to the repayment of the Term Loan, which was partially reimbursed by anticipation at the end of October for €61m.

The significant increase in the EBITDA combined with the reduction in the net debt contributed to a continuing deleveraging. The leverage ratio was further reduced to 3.8 times (vs 5.4 last year and 4.1 in March) based on reported net debt of €1269m and covenant EBITDA of 336 million euros. This ratio remains comfortably below our covenant test level of 4.5 times that applies from September 2024 onwards. This constant improvement since March 2023 after the acquisition of DMS illustrates the benefits of a strategy which is more than ever focused on profitability improvement and cash flow generation. This positive trend has moreover been acknowledged by recent improving credit agencies rating from S&P and Fitch.

Now, I would like to move on to the next section of this presentation with a business review.

On a pro forma basis, total revenue increased by 5.1% with both segments contributing. Contract Catering revenue increased by +5.5%, benefiting notably from a strong commercial momentum in Spain and the UK, while portfolio rationalization concerned mainly France and Italy. Multiservices revenue increased by +4.1% boosted by the strong performance of the Facility Services in France. Along with the revenue growth, the EBITA was multiplied by almost 2.5 times, with again both segments contributing. In the continuing trend of profitability improvement achieved in H1, the EBITA margin raised as well by +160 bps on a proforma basis in fiscal year 2023-2024

Over the last 2 years, profitability has increased by 390 basis points for the total group with +410 bps for the Contract Catering Segment leveraging on all drivers. In the context of continued decelerating inflation in food, momentum in price negotiations and revisions confirmed the positive scissor effect that was expected in fiscal 2023-2024. As an example, activities in France recorded an average 5.4% of price increases during the year, catching-up from the highest inflation levels in the first quarter of the year before. The cumulated annualized price increases stood at €462m at the end of September 2024, adding another +150 million euros this year. A carry-over of +57 million euros renegotiation will again support price effects in Full-Year 2025. Net development remained positive over the last 3 years although a bit lower in Full-Year 2024 being presented on a proforma basis. This was fuelled by a good momentum in the signature of new contracts.

Most importantly, the net development is accretive to the operating margin with a constantly improving contribution to the EBITA from €5m in Full-Year 2022, up to €16m in Full-Year 2024. Voluntary exists of loss-making contracts were almost stable year-on-year with a total contribution of 4 million in the EBITA, representing close to 10 bps of margin improvement over 2 years. Both dynamics illustrate the management guidelines to favor profitability improvement while still growing revenue globally.

The third driver is about cost optimization as the result of: 1/ a continuous optimization of our operations through the reduction of our references; 2/ a standardization of our menus especially in education and 3/ an increased productivity in our central kitchens and cook-on-site restaurants.

New organizations implemented as part of the integration of DMS did deliver the expected savings throughout the year. They were complemented by the first benefits from the partial internalization of interim and maintenance services to catering activities in France. All contributed to €24m of synergies recorded in fiscal year 2023 – 2024.

Still on synergies on page 24, with the new organizations implemented in France, Spain and Portugal, the focus has been extended to the real estate optimization, the migration to common IT infrastructures and applications and sales synergies that will continue to get progressively deployed towards our objective of €56m of EBITA improvement by the end of Full-Year 2026 on a run rate basis.

At the end of September 2024, annualized synergies amounted to €36m, above the €30m initially targeted for the end of Full-Year 2026. Regarding sales synergies, I selected few examples for the 3 geographies where we combine contract catering and multiservices activities. The first one in France demonstrates our ability to offer the broad range of our portfolio of services to brand new customers. The second one in Spain provides evidence of our capacity to leverage strong relationships with existing customers to further expand the partnership, in this case providing a compelling contract catering offer. The third one illustrates our capacity to leverage our strong regional presence and foster commercial development thanks to a solid territorial anchoring.

This year marked a decisive step in ESG matters for our group, with the integration of Derichebourg Multiservices' activities. Building on the commitments we have upheld in the past, we have established new objectives under our new roadmap, *"Aimer sa Terre, Horizon 2030"*. This initiative aims at providing meaningful direction by aligning our social and environmental ambitions within a common framework.

Although the group is not yet subject to the requirements of the CSRD (Corporate Sustainability Reporting Directive) this year, we have proactively anticipated this regulatory evolution by structuring our strategy around a double materiality analysis. This approach has identified key environmental and social priorities for our stakeholders and business activities, ensuring impactful commitments that align with external expectations and are integrated into our operations.

Elior’s 2030 objectives are structured around four key pillars: preserve resources, serve and feed sustainably, cultivate talents and differences, and support a responsible economy. You’ll find here some precise targets, which will be followed through dedicated KPIs related to the reduction of food wastes, reduction in greenhouse gas emissions, of sourcing or staff promotion…

If we look at 2023-2024, Elior's results show significant progress toward the 2030 objectives, summarized here by the same strategic pillars. The group improved notably in the reduction in food waste by -47% in 1 year and the reduction in our Greenhouse gaz emissions by 12%, contributing this way to better preserve resources. These results reflect encouraging progress while highlighting areas for continued improvement in order to meet Elior's ambitious 2030 goals.

Now, let me now share with you the outlook for the new fiscal year 2024-2025. All efforts made throughout Full-Year 2024 established strong foundations for the further development of Elior. The start of the year confirms the positive trend. Growth and profitability drivers should further contribute to the Fiscal Year. Inflation should still record a positive balance in Full-Year 2025 while at a lower level than last year as inflation has been trending to pre covid level. Continuous operational efficiency improvement and price discipline should further support margin improvement this year. Free cash flow generation remains the priority with a conservative financial policy.

As a result, the group expects for 2024-2025, an organic growth between +3% and 5%, an adjusted EBITA margin above 3%, a leverage ratio below 3.5 times at the end of September 2025. The medium term ambition is confirmed with an amount of cumulated synergies of €56m at the end of 2026, a debt net / EBITDA leverage ratio below 3 times at the end of September 2026.

Now on slide 30 with some concluding remarks.

FY 24 was a critical year for Elior. It was important for Daniel Derichebourg and the management team to deliver results according and I would say even slightly better than expectations for the year, which we did! The strong performance of the year is clearly the result of the new customer-centric pragmatic approach implemented since April 2023 and the streamlined organization having a constant focus on operational improvement and operational excellence. Priority to generate free cash-flow and deleverage was set by the new shareholder at his very first day in our organization and remains the key decision driver.

Just a quick final remark on the financial calendar to indicate that future press releases will be published post market.

Thank you for your attention and we will now open the floor for the Q&A session.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from Estelle Weingrod from JP Morgan. The line is open now. Please go ahead.

Estelle Weingrod (JP Morgan): Hi. Good morning. I have three questions, if I may. The first one, adjusted for exits, I mean, retentions came down a little from 93.6% last year to 92.7% this year. Could you just provide some colour there? Also, how should we look at retention next year? Are there more exits incorporated in your 3-5% organic growth guidance?

And I also have just a question on your margin guidance for next year, implying a 20 basis point expansion year-on-year. Could you provide more colour on the different moving parts? It seems a bit conservative to us.

And just a last one, if you can help us quantify the impact of the French and UK new budgets into next year, if it has an impact, and also on an annualised basis? Thank you very much.

Didier Grandpré: Thank you, Estelle. Okay. So starting with retention. So retention has been calculated this year for all activities, including Multiservices, based on 2023 revenue pro forma. Actually, facility services have historically lower retention rate than the average in Contract Catering. We could observe the same for the perimeters coming from DMS, meaning in France and a bit more in Spain, but represents the biggest volume from DMS.

The US were also a bit lower than last year, which was a kind of very high performance while still remaining above the average. Spain was, generally speaking, a very active market this year, including in catering. We have at the end of the day one of the highest net development balance we recorded within the organisation despite a lower retention rate than last year, but I would say, for the benefit of a margin improvement, and again, consistent with our strategy to favour profit improvement versus revenue growth.

So on the margin guidance, and your third question indicate as well that there is still some uncertainty in the current macroeconomic context, geopolitical and regulatory environment. So actually, our guidance factors, the expected drivers that remain largely the same although with a lower intensity compared to last year for some of them. So for instance, we are still expecting a net positive inflation balance in 2025, but at a lower level as inflation has been continuously decelerating since the beginning of 2023.

There are, as you are indicating, some uncertainties around labour costs and social charges. And to answer to this question, it's a bit premature, I would say, to precisely quantify the impact. The evolution of the regulation is not yet finalised to our understanding. But yeah, this could be part of the uncertainties that I was mentioning.

Operational efficiencies should again still continue to contribute to margin improvement. But I would say at a level rather comparable to the second semester of 2024 as we are entering into the fourth year of operational transformation.

On the other side, synergies significantly contributed this year with a cumulative amount of €29 million at the end of September, while new ones continue to be implemented. And closing the gap to this 56 total synergies expected at the end of 2026 on a run rate basis should be achieved progressively over the next two years.

And finally, we are still expecting a net development accretive for the new fiscal year.

Estelle Weingrod: Okay. Thank you. Just one thing. Are you modelling any contract exits in your 3% to 5% organic growth guidance for next year?

Didier Grandpré: So the contract exit, as you have seen were relatively at the same level over the last two years, I would say, consistent with our objective to rationalise most of our contract portfolio by the end of September 2024. So there could be still some contracts, but I would say, with an expected limited impact in next fiscal year.

Estelle Weingrod: Okay. Thank you very much.

Didier Grandpré: You're welcome.

Operator: Thank you. We will take the next question from line Pravin Gondhale from Barclays. Your line is open now. Please go ahead.

Pravin Gondhale (Barclays): Good morning. Thank you very much for taking my questions. I have three questions, if I may. Firstly, can you talk about the moving parts of organic growth in H2 '24 and the guidance for next year, especially on the volumes and net new there? So the volume growth seems to have accelerated in the second half of this year. What were the key drivers of that? And what are your expectations for the next year like-for-like volume growth?

And then net new, excluding the voluntary exits in second half, seems to have slowed down compared to the first half. You talked about accretive to next year. But can you just elaborate further on that?

And then finally, can you give some colour on the current trading trends? What the pricing growth and net new trends are you seeing in education and elsewhere? Thank you.

Didier Grandpré: Okay. So regarding organic growth, the volume came from several geographies, and including in H2 as well, the impact from facility services, where, in H1, actually, the DMS contribution was reported under the perimeter. And we are presenting this on a run rate basis to make the comparison, let's say, a bit easier.

It was, this year, in particular, if we look at catering, also driven by higher attendance in our restaurants and as well the development, which is somehow connected to this higher attendance related to the development of what we call the annexes. So all the events which are organised around, let's say, the traditional cook on-site, the breads and so on.

So we are factoring stabilisation of this driver next year. As I was mentioning, we're still expecting a contribution for the inflation, but slowing a little bit down compared to last year as the cost inflation has been decelerating over the year. And when we activate the price revision, which is again a mechanism whereby we look backwards the last 12 months, actually, the reduction of the inflation turns into a lower price increase from that perspective.

Current trading is, I would say, in line with our guidance with a very few weeks of activities. Net development has been actually a bit reduced, as you mentioned, in the second half of 2024. You have as well an impact from comparison which is made on a pro forma basis.

But as a matter of fact, the most important element for us has been the associated continuous improvement of accretive margin, which reflect of an approach where we are maybe more selective and more focused on the tenders that we are pursuing and making sure that we answer at the right level of price to contribute to further margin improvement.

Pravin Gondhale: Thank you. Just a quick follow-up on my volume question there. You said that you expect the guidance factors stable volume year-on-year next year. But as we lap the like-for-like benefit of DMS acquisition in the first half of FY'25, shouldn't the volume growth be somewhat positive next year?

Didier Grandpré: So what I mean is that it will be part of overall organic growth that were factored for next year with actually a reduced contribution from that perspective, which is counterbalancing, I would say, a lower negative impact from voluntary exits.

Pravin Gondhale: Thank you. That's really helpful. Thank you.

Operator: Thank you. As a reminder, if you like to ask a question, please signal by pressing star one on your telephone keypad. We will take the next question from line Jaafar Mestari from BNP Paribas. Your line is open now. Please go ahead.

Jaafar Mestari (BNP Paribas Exane): Hi. Good morning. I have a couple, if that's okay? On the price increases so far, you're talking about €57 million, if I heard correctly, of carryover, which, if it's the same number as you've been sharing in the last couple of years, is basically the price increases that you've negotiated but has not been recorded effectively in the fiscal year. And so just that would take you to very strong margins in full year '25, unless two things. One, you don't think you can pass on future inflation, but it seems to be normalising.

Or you're making some big assumptions on labour cost increases, for example. So just trying to reconcile that because €167 million adjusted EBIT this year, plus €57 million of carryover price increases, that's 3.6% margin. So just trying to understand what you're budgeting for here, please?

And then maybe on the other end in terms of trying to assess if the margins are capped in a way. Your new business you're sharing in the presentation, EBIT of €16 million on the new contracts that were opened this year. It is accretive to this year's margins, but in a way, it's only 3.4%. So is there further analysis there? Are some of the more mature contracts at much higher margins than that, that you've been opening recently and that number is impacted by recent openings, for example? Yeah, trying to understand the range of potential margins, please.

Didier Grandpré: Starting with the first one. So we're here, obviously, speaking about the pricing increases prior to the cost inflation, so which, as a reminder still remains. I would say from a comparison standpoint, the carryover was slightly lower than what we had last year, around €20 million. So we did see, as last year, a positive contribution of the price revision around education, in particular. So you're correct. These are price increases that we got at the end of the fiscal year, 2023-'24 but have not yet impacted our account or that will start impacting our results as we are entering into the new fiscal year.

But they are also to be put in front of inflation that will continue. So what we are contemplating in our margin improvement is that we will still have a positive net inflation balance, but that should be lower than what we recorded this year.

Then regarding the margin from the commercial development, what we show was actually the momentum we have in the opening of new contracts as we wanted to highlight that this is the first and main driver of the net commercial balance, while actually the accretive margin is the difference from a year-over-year basis, taking into account as well the impact of the contract losses.

So what it means is that as we are continuing the commercial development with new contracts replacing some contract losses, we are continuing to improve the margin.

Jaafar Mestari: I mean maybe just to follow up on this carryover of inflation. I perfectly understand that, in the last three years, you've had a carry-over but it hasn't just added to the following year's EBIT because you had another year of very high inflation that took time to pass through price increases, etc., etc. So it was a bit of a race each year with that carryover never really dropping through to the bottom line.

I guess my question is specifically into 2025, are we not finally in a year where the cost inflation of '25, because it's low enough finally, because it's not abnormal price increases, can it finally be dealt with during '25? And so finally, that carryover benefits you? Or do you still think you now almost permanently have this cycle of a lag that you will not be able to deal with 2025 inflation in the year?

Because my understanding because it's very high. It's very high, and so it takes longer than normal to negotiate. We need big agreements, we're asking clients for a lot. But at some point, when inflation is slowing off, it will be back to the normal cycle with a very, very small lag. And at some point, that carryover will benefit us. Or is it not '25 yet, is it a bit later?

Didier Grandpré: No. I would say '25 should be the year of a normalisation from that perspective. But again, as the inflation has been decelerating in 2024, we are still benefiting in 2025 from a positive delta from the price revision compared to the cost inflation.

If you look at it from over four years, the last four years, or including 2025, actually, the first year, we are actually lagging a little bit behind in terms of our ability to pass through the cost inflation to our customers, that created in the first two years of the inflation period a negative inflation balance.

We started the recovery in 2024 as we are capturing in our price revision the highest peak of inflation from the previous month. It's still the same mechanism for 2025, at least, in Europe in the context of this rating inflation but at a lower level. And then, yes, we would expect, for instance, 2026 to be balanced from that perspective as the inflation is trending to a pre-COVID level and to a kind of normalised level in terms of intensity.

Jaafar Mestari: Yeah. That's great. That's very clear. And in a way that's what's prompted the guidance upgrade in May, right? It's like, finally, you reached that tipping point, and you went into a positive balance. I guess, knowing that, I don't know if we were expecting a very high carryover at the end of this year if the balance becomes, in a way slightly positive already. I wasn't expecting you to have that much secured that has not yet benefited revenue. I was just questioning if €57 million is not allowing you some more operating leverage than you seem to be assuming?

Didier Grandpré: That's consistent with the assumptions that we have taken for our guidance, which is at least 3% for next year.

Jaafar Mestari: Thank you very much.

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. It appears there's no further questions at this time. I'll hand it back over to your host for closing remarks.

Didier Grandpré: Okay. Thank you very much for your attendance and question this morning. So we are happy to publish results, but we're fully in line with our guidance and expectations for next year. We remain very enthusiast for further improving our results in the year that is just starting, and let's review this in six months' time frame.

In the meantime, I wish you a very nice day. Thank you very much.

Operator: Thank you for joining today's call. You may now disconnect.

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