MOODY'S RATINGS

Rating Action: Moody's Ratings changes outlook on Elior's B3 ratings to positive from negative

09 Dec 2024

Paris, December 09, 2024 -- Moody's Ratings (Moody's) has today changed to positive from negative the outlook on Elior Group S.A.'s (Elior) ratings. Concurrently, we affirmed the company's B3 corporate family rating (CFR), its B3-PD probability of default rating (PDR) and the B3 rating on the backed senior unsecured notes due July 2026.

"The outlook change reflects the company's improved operating performance in 2024 and our expectation that profitability will continue to further increase over the next 12-18 months, driving improvement in credit metrics," says Sarah Nicolini, a Moody's Ratings Vice President-Senior Analyst and lead analyst for Elior.

"The positive outlook also incorporates our expectation that the company will refinance its approaching debt maturities in a timely manner," adds Ms. Nicolini.

RATINGS RATIONALE

Elior's performance in fiscal 2024 (ending September 2024) was solid, with revenue growing organically by 5.1% year over year, and 15.9% overall, driven by sustained volume growth and pricing, coupled with positive new contracts. Price increases above inflation and continued efficiency gains have resulted in margin growth, with the company's Moody's adjusted EBITA margin increasing to 2.3%, from 1.1% in fiscal 2023.

Concurrently, Elior's Moody's adjusted free cash flow (FCF) turned positive and reached €33 million, while the interest coverage metric (Moody's adjusted EBITA/interest) improved to 1.2x, compared to 0.6x in fiscal 2023. Similarly, Moody's adjusted debt/EBITDA decreased to 6x from 8.6x in fiscal 2023.

Over the next 12-18 months, we forecast that the company will continue to grow revenues by 4% per year, on an organic basis, driven by improved retention rates, price increases and new market entries. In addition, margins will improve owing to ongoing costs optimization and synergies. This will result in a Moody's adjusted

EBITA margin in the 3%-4% range, similar to pre pandemic levels. We forecast that the improved profitability will decrease Moody's adjusted debt/EBITDA towards 4.5x in the next 12-18 months; this metric will strongly position Elior in its rating category. While FCF generation will improve, this growth will not be material given the expected increase in capex to support investments.

Elior's B3 rating continues to be supported by its leading market position in contract catering, its balanced end-market diversification and the continued pass-through of price increases to customers and cost optimization, which are sequentially improving profitability.

The rating also reflects the company's still low margins relative to peers and the limited free cash flow generation owing to increased capex plans. This limits headroom for deviation in case operating performance does not improve as we currently expect. It also reflects the company's approaching debt maturities, which we expect it to address in the coming months.

LIQUIDITY

Elior's liquidity is currently adequate. At fiscal 2024 end, the company had €142 million of cash and €170 million available under its revolving credit facility (RCF) maturing in July 2026, out of a total committed of €350 million. We forecast that the company will be FCF breakeven in 2025 and generate €45 million of FCF in 2026, on a Moody's adjusted basis.

The company has recently signed a new receivable securitization programme amounting to €800 million that will expire in September 2027 and that we expect to be almost fully used.

Over the next 12 months, Elior will need to reimburse €56 million per year, related to the amortization of the €225 million French state-guaranteed loan, and €39 million in July 2025, related to the partial repayment of the RCF. The company repaid €61 million of the outstanding term loan in October. Thereafter, in July 2026, Elior will need to repay the remaining €40 million term loan, the €550 million backed senior notes and the drawn RCF. We expect that the company will address the refinancing of the July 2026 debt maturities in a timely manner, and no later than 12 months before the maturity.

The RCF and the term loan contain a maintenance net leverage covenant of 4.5x, tested semi-annually, that we expect to be complied with over the next 12-18 months.

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 that account for at least 80% of consolidated EBITDA. The backed senior notes, the RCF and the term loan are senior to the French state-guaranteed loan, which is unsecured and does not have guarantees from operating companies.

RATIONALE FOR POSITIVE OUTLOOK

The positive outlook reflects our expectation that Elior will continue to improve its profitability and cash flow generation, which will in turn lead to stronger credit metrics. The positive outlook also incorporates our expectations that the refinancing of the approaching debt maturities will be completed in a timely manner, and at a cost of debt that will not materially deteriorate its interest coverage ratio.

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

The rating could be upgraded if the company's operating performance in 2025 continues to be strong and in line with our expectations such that its Moody's adjusted EBITA margin increases well above 2% on a sustained basis and this translates into a materially positive FCF generation from 2026. An upgrade would also require an interest coverage ratio (Moody's-adjusted EBITA/interest) increasing to at least 1.5x and a Moody's adjusted debt/EBITDA ratio remaining below 6.5x. An upgrade would require liquidity to remain at least adequate, with a sizeable, undrawn RCF, and a successful refinancing of the upcoming debt maturities.

The rating could be downgraded if the company's operating performance and FCF deteriorate, thus weakening its liquidity, or if the company is unable to refinance its upcoming debt maturities.

PRINICIPAL 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 2024, the company generated revenue of around €6 billion and EBITA of €167 million.

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 .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Sarah Nicolini
Vice President - Senior Analyst

Ivan Palacios
Associate Managing Director

Releasing Office:
Moody's France SAS
21 Boulevard Haussmann
Paris, 75009
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.