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CREDIT OPINION
13 February 2023

Update

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RATINGS

Elior Group S.A.

Domicile	Paris, France
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Elior Group S.A.

Update following confirmation of B2 rating and change in outlook to negative

Summary

On 2 February 2023, we confirmed Elior Group S.A.'s (Elior) corporate family rating (CFR) at B2 and we changed the outlook to negative, from rating on review for downgrade, to reflect our expectations that the persistent inflationary environment, coupled with protracted contract renegotiations, will pose continued risks to profitability improvements and will prevent a further significant recovery in Elior's standalone margins. In our assessment, we exclude the potential assets contribution from Derichebourg S.A. We expect the company's free cash flow (FCF), on a standalone basis, to remain negative in the next 12-18 months, translating into weak liquidity, despite the successful amendment of the September 2023 covenant test.

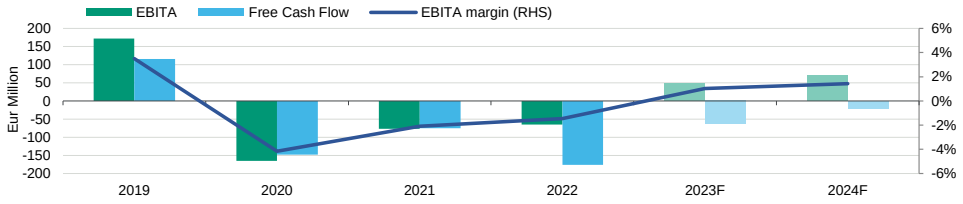
We forecast Moody's-adjusted EBITA margin to gradually improve towards 1.5% in the next 12-18 months and Moody's-adjusted FCF to average around -€40 million per year over the same period, increasing sequentially although remaining negative. Similarly, we expect EBITA/interest to remain below 1x and Moody's-adjusted debt/EBITDA to trend towards 7x in the next 12-18 months.

More positively, the rating incorporates Elior's leading market position, its balanced end-market diversification, the continued improvement in client retention rate after the pandemic and the steady progress in contracts renegotiations. We expect organic growth in revenue to remain strongly positive, signalling that the company's business model remains viable.

Exhibit 1

Despite improvements, free cash flow (on a standalone basis) is likely to remain negative over the next 12-18 months

Moody's-adjusted negative EBITA, EBITA margin and free cash flow



Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

This report was republished on 13 February 2023 to include a corrected amount on price increases.

Credit strengths

» Leading market position in contract catering: number three in Europe and number four worldwide

» Balanced end-market diversification, with exposure to healthcare and education, which accounted for 58% of group revenue in December 2022

» Broad customer base, with multiyear contracts and high retention rates

Credit challenges

» Predominance of profit-and-loss contracts with clients, which implies frequent renegotiations of conditions, causing delayed pass-through of price increases to customers in a persistent inflationary environment

» Profitability, on a standalone basis, still well below pre-pandemic levels over the next 12 months and continued negative FCF, although gradually improving

» Historically low Moody's-adjusted EBITA margin compared with that of other rated contract catering or facility management companies

Rating outlook

The negative outlook reflects our expectations that, despite the progress on contract renegotiations, price increases already achieved might not be sufficient to fully offset further inflationary pressures. Profitability is likely to continue to be under pressure, with the Moody's-adjusted EBITA margin trending towards 1.5% in the next 12-18 months and FCF remaining negative at an average of -€40 million per year, both on a standalone basis. The negative outlook also takes into consideration our expectation that Moody's-adjsted EBITA/interest will remain below 1x and Moody's-adjusted debt/EBITDA will trend towards 7x.

Factors that could lead to an upgrade

Considering the negative outlook, an upgrade is unlikely in the next 12 months. The outlook could be stabilised in case of a longer track record of sustainable improvements in profitability, positive FCF generation, adequate Moody's-adjusted EBITA interest coverage of at least 1.5x and sufficient capacity to respect 2023-24 financial covenants tests. A successful closure of the Derichebourg S.A. (Derichebourg) transaction could provide upside to the rating and would need to be assessed once the full details on the new group's financial strategy and financial policies become available.

In the longer term, the rating could be upgraded if Elior successfully manages the persistent inflationary pressure, such that its Moody's-adjusted EBITA margin progressively and sustainably increases well above 2.5% and then ultimately reverts to around 3%, more in line with the pre-pandemic levels. An upgrade would also require FCF to turn sustainably positive in excess of 5% FCF/debt and liquidity to become adequate. An upgrade would also require Moody's-adjusted EBITA/interest expense to remain sustainably above 2x and Moody's-adjusted debt/EBITDA to be lower than 6.0x on a sustained basis.

Factors that could lead to a downgrade

The rating could be downgraded if Elior's Moody's-adjusted EBITA margin looks unlikely to improve to 2% in the next 12-18 months, a level that would support positive FCF generation; Moody's-adjusted FCF/debt fails to increase to low-single-digit percentages and approach 5%; or its liquidity deteriorates further. Negative rating action may also materialise if adjusted debt/EBITDA remains above 7x.

Key indicators

Exhibit 2
Elior Group S.A.

in EUR millions	FYESep-2019	FYESep-2020	FYESep-2021	FYESep-2022	2023-proj.	2024-proj.
Revenue	€4,923	€3,967	€3,690	€4,451	€4,674	€5,001
EBITA Margin %	3.5%	-4.2%	-2.1%	-1.5%	1.0%	1.4%
Debt / EBITDA	3.6x	103.6x	16.3x	16.8x	7.9x	7.0x
EBITA / Interest Expense	2.2x	-4.5x	-1.7x	-1.2x	0.7x	1.0x
RCF / Net Debt	19.4%	-0.2%	1.3%	0.4%	6.5%	9.8%

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Periods are financial year-end unless indicated. LTM = Last 12 months.
Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

Headquartered in Paris, France, Elior Group S.A. (Elior) is the third-largest contract catering company in Europe with leading market shares in its core European markets. It operates primarily in France (44% of revenue in December 2022), Spain, Italy and the US. Its main activities are the preparation and provision of meals and related food services as well as, mainly in France, soft facilities management services.

The company has been listed on Euronext Paris since 2014. As of fiscal 2022 (30 September 2022), Derichebourg held a 24.36% share in Elior, Emesa 5.08% and Fonds Stratégique de Participations 5.25%, while the remaining 65.31% was in free float.

On 20 December 2022, Elior announced that it entered into an agreement with Derichebourg, according to which Derichebourg will contribute its multiservice business (DMS), a leading French company in outsourced services for industrial and service companies, to Elior in an all-stock transaction. The agreement values DMS' equity at €450 million, with a 9.1x fiscal 2022 EBITDA multiple, excluding synergies. In exchange, Elior will issue 80 million of shares at €5.65, representing a 119% premium to Elior's share price as of 23 November 2022. The transaction, which will need to be approved by an extraordinary general meeting and the antitrust regulator, is likely to be finalised in April-May 2023.

Detailed credit considerations

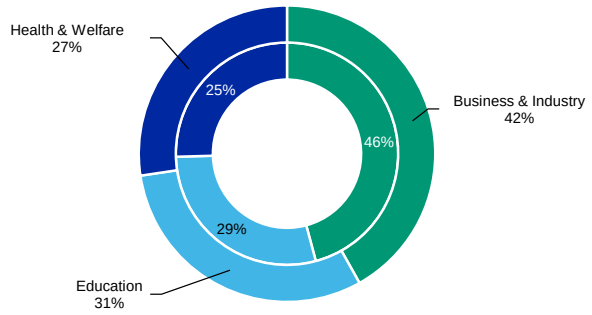
Leading market position and broad customer base continue to support Elior's business profile

Elior is the third-largest contract catering company in Europe (fourth-largest worldwide) based on revenue, after Compass Group PLC (A3 positive) and Sodexo SA (Baa1 stable). According to the company's estimates, Elior is the leader in France, Spain and Italy, and it is the fourth largest and fifth largest in the UK and the US, respectively.

Elior competes against multinational companies such as Compass and Sodexo in all its core markets, as well as smaller national or regional players. While the market is fairly concentrated in France and the US, with the top three companies accounting for more than 60% of overall sales, the competitive landscape in the other markets is more fragmented, with the top three caterers accounting for less than 50% of the market in Spain, the UK and Italy.

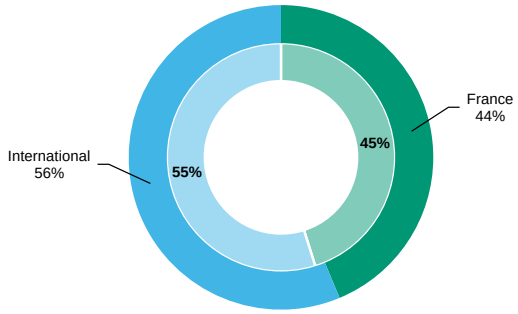
Elior has a diversified customer base with low customer concentration across various end markets (see Exhibit 3), supporting its portfolio diversification. The five largest clients accounted for 7% of total revenue in fiscal 2022. The company has maintained retention rates slightly above 91% since March 2020. France is still the company's largest market (44% of revenue as of December 2022), as Exhibit 4 illustrates.

Exhibit 3
Elior serves diverse end markets
Revenue by customer segment



Numbers for the 12 months that ended December 2022 are in the outer circle and numbers for 2019 are in the inner circle.
Source: Company reports

Exhibit 4
Exposure to France remains high
Revenue by geographical region



Numbers for the 12 months that ended December 2022 are in the outer circle and numbers for 2019 are in the inner circle.
Source: Company reports

The predominance of profit-and-loss-based contracts creates challenges in an increasingly inflationary environment

Most of Elior's contracts with customers are negotiated on a profit-and-loss basis, meaning that the pass-through of price increases is not automatic, but it needs to be discussed, case by case, together with some other elements of the contract. This poses challenges to Elior, particularly in the context of continuously increasing inflation because of a time lag before renegotiated contracts, or contracts that are currently under renegotiation, will begin to improve the company's profitability, amid an increasing cost base.

Elior has a well-diversified customers and contracts base. Although the company has continued to actively renegotiate contracts with all customers, showing a steady progress (73% of contracts successfully renegotiated as of 31 December 2022, compared to 67% as of 30 September 2022) and passing price increases to offset inflation (€234 million on a 12-month rolling basis as of December 2022), the speed of improvement has been slower than expected because of the challenges in renegotiating some contracts, particularly with public customers in France.

We expect such lengthy renegotiations with some clients, coupled with persistent inflationary pressures, to constrain profitability improvements, although we also recognise the absence of losses related to the Preferred Meals business in fiscal 2023 because Elior exited this business already at the end of fiscal 2022.

Management continues to guide for positive EBITA in fiscal 2023, ranging between 1.5% and 2% of revenue, supported by price increases already negotiated and ongoing contracts renegotiations.

We expect margins to remain low and FCF to be negative, despite some achieved improvements

We estimate that Elior's Moody's-adjusted EBITA margin will remain between 1% and 1.5% in the next 12-18 months, thus leaving the company with little headroom to withstand further deterioration in margins. Similarly, we expect FCF to remain negative, although progressively improving towards FCF neutral over the same period.

Given the negative FCF, we expect Elior to finance its seasonal cash requirements by using its factoring programme or temporarily drawing under its revolving credit facility (RCF). While availability remains ample under both programmes, the RCF is subject to a maintenance financial covenant on net leverage. We expect the covenant to be complied with in the next 18 months, despite with potentially tight headroom, particularly as of the March 2024 testing date.

Recovery in credit metrics is still uncertain

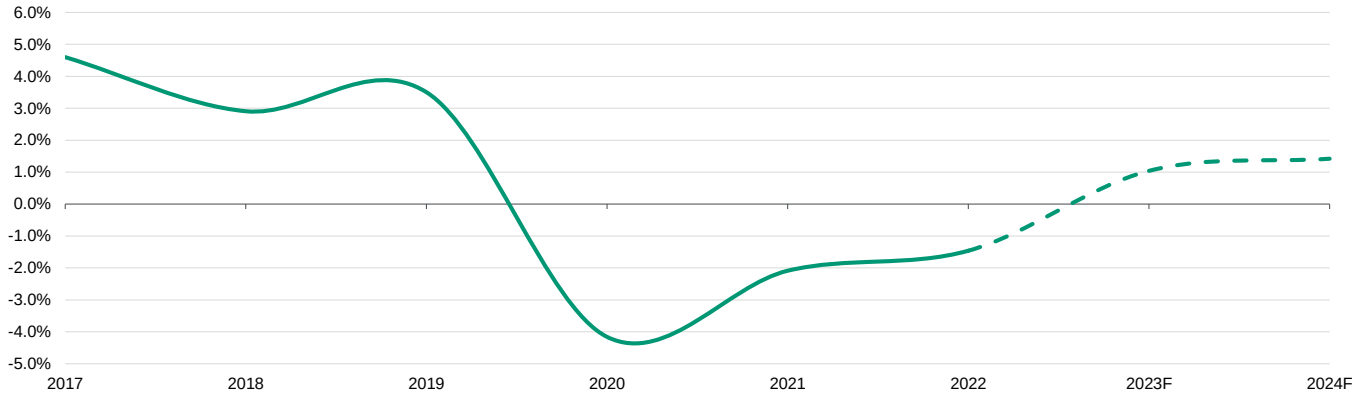
Fiscal 2022 credit metrics were almost in line with our previous expectations: Moody's-adjusted EBITA margin was -1.5%, Moody's-adjusted FCF was -€176 million and Moody's-adjusted EBITA/ interest expense was -1.2x, while Moody's-adjusted debt/EBITDA remained above 16x.

As a consequence of our expectations on profitability and cash flow highlighted above, we forecast Moody's-adjusted debt/EBITDA to progressively trend towards 7x in the next 12-18 months, thanks to some recovery in profitability, while Moody's-adjusted EBITA/interest is likely to remain below 1x. Such credit metrics, on a standalone basis, still remain weak and considerably below Elior's pre-pandemic levels.

In our view, recovery prospects and the related timing continue to remain uncertain: while the company has regained almost all the revenues lost during the pandemic (94% as of December 2022), profitability recovery seems more doubtful today, in light of the persistent inflationary pressure and lengthy contract renegotiations. As a result, this uncertain profitability recovery is preventing the company from significantly improving its FCF and ultimately recovering its credit metrics to pre-pandemic levels.

Exhibit 5

Moody's-adjusted EBITA margin is likely to remain low though fiscal 2023 and 2024



Margins in fiscal 2017-18 exclude Areas. Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Derichebourg's asset contribution could potentially be credit positive, subject to closure and successful execution

We believe that the announced asset contribution from Derichebourg, if finalised, could potentially be credit positive. The combined entity will be the second-largest company by revenues in the French market after Sodexo, thanks to DMS' additional revenue contribution of €943 million (as of fiscal 2022), and will offer a full range of integrated services, from catering to facility management. DMS will also contribute new activities to the combined entity, namely support activities to the aeronautics industry, management services in urban areas and human resources solutions, which could help the combined group internalise some of its key staff sourcing needs. Clients diversification will also improve moderately because DMS is more exposed to small and medium-sized companies, whereas Elior is more focused on large corporates, education and health.

From a financial point of view, DMS will positively contribute to the EBITA of the new group because it generated around €27 million of EBITA in fiscal 2022, excluding the urban display division that DMS sold in May 2022. Furthermore, Elior estimates that it could extract potential cost synergies of around €18 million on a run-rate basis, adding to the combined profitability of the group.

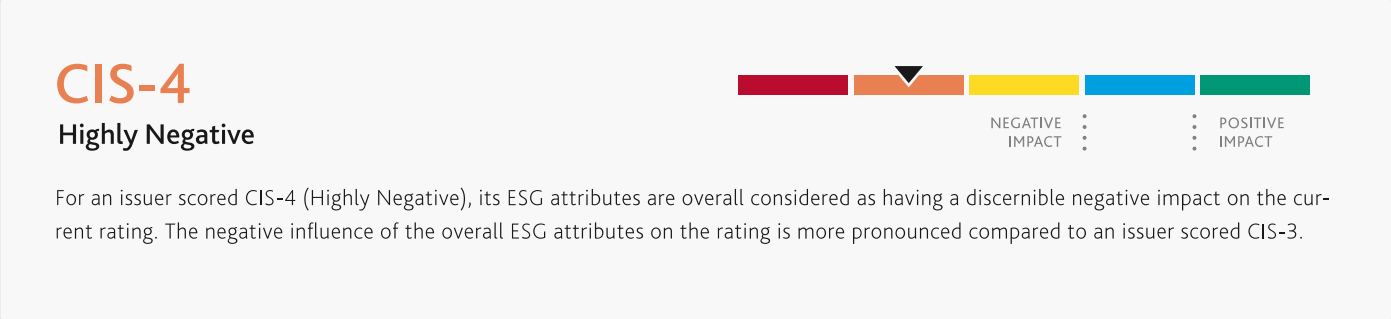
At the same time, there is still a number of areas that need to be clarified before assessing the final credit impact: these include the strategy of the combined entity, management's ability to extract synergies as expected, the cash flow generation of the combined entity and its financial policy, coupled with an evaluation of the associated execution and integration risks. Least but not last, we also highlight that the transaction still needs to be cleared by the relevant antitrust authorities and approved by an extraordinary general meeting.

ESG considerations

Elior Group S.A.'s ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 6

ESG Credit Impact Score

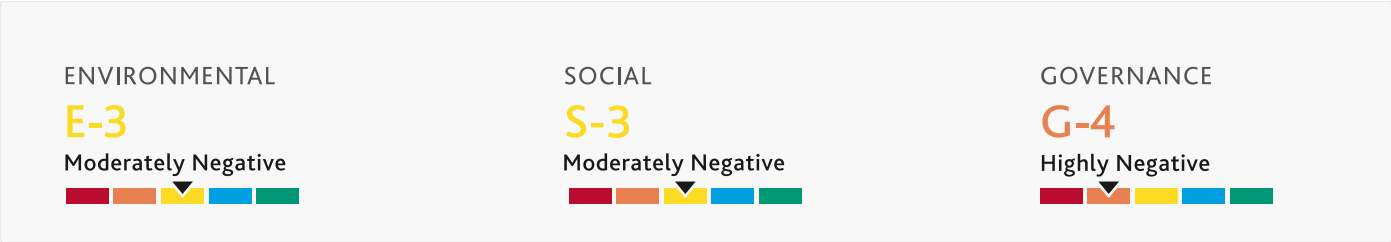


Source: Moody's Investors Service

Elior Group SA's ("Elior") ESG credit impact score is highly negative (**CIS-4**). This reflects our assessment that ESG attributes are overall considered to have a highly negative credit impact on the company's credit rating, particularly as regards governance risks (G-4). We consider that the company has a higher tolerance to leverage and a weak liquidity. Elior is moderately exposed to environmental risks (E-3) and social risks (S-3).

Exhibit 7

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Elior's environmental issuer profile score (IPS) is moderately negative (**E-3**) given its reliance on and the sustainability of natural resources, particularly food commodities. Elior is also exposed to waste and pollution and carbon transition given that parts of its business rely on the operation of a fleet of vehicles, which will need to transition to low emission vehicles, although we also highlight that in Elior's case it is extremely low. The company is targeting a 12% reduction in carbon emissions per meal and 30% less food waste by 2025 compared with 2020.

Social

Elior's social IPS is moderately negative (**S-3**) reflecting societal trend risk related to potential changes in consumer habits following the pandemic such as more frequent remote working. Customer relations (data security, fair disclosure, and responsible distribution & production risks) are also moderately negative because of the potential for food poisoning. Other social considerations include Human Capital (labour relations, human resources, and diversity) because of the high percentage of personnel expenses in the cost structure, which makes the company vulnerable to changes in local labour laws and wage inflation.

Governance

Elior's governance issuer profile score (**G-4**) carries highly negative credit risks, stemming from a more aggressive financial policy, higher tolerance to leverage and weak liquidity. The company needed to renegotiate the covenant levels 4 times since the break out of the pandemic, to address lower cash flow generation and slow recovery in profitability. The company aims to return to a reported net leverage of between 1.5x and 2.0x over the long-term, in line with its pre-pandemic target. A significant portion of proceeds from

the disposal of Areas in 2019 were used to reduce gross debt. Elior pays a regular dividend but the context of the Covid-19 health crisis, the company honored its commitment not to pay a dividend in 2020, 2021 and 2022. The company's corporate governance practices comply with the recommendations contained in the AFEP-MEDEF Code. Elior is a listed company with around 35% of the company's share capital held by insiders of which 24.36% by Derichebourg as of 30/06/2022. Our assessment is based on Elior's standalone basis, i.e. without taking into consideration the ongoing transaction with Derichebourg, which is still subject to AGM approval and which could increase Derichebourg's stake up to 48%, if approved.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Elior's liquidity is weak because of an estimated average FCF burn of around €40 million per year in the next 12-18 months draining available cash sources, which include €64 million of cash and equivalents on the balance sheet as of fiscal 2022, a €218 million undrawn committed RCF and €100 million available under the receivable securitisation programme, in the same period. The company will also need to reimburse a total of €56 million in fiscal 2024, relating to the amortisation of the €225 million French state-guaranteed loan.

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

Structural considerations

The B2 rating on the senior notes, at the same level as the CFR, reflects their pari passu ranking with the RCF and the term loan. The 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 senior notes, the RCF and the term loan are senior to the French state-guaranteed loan, which is unsecured and unguaranteed from operating companies.

Methodology and scorecard

The principal methodology used in this rating was the Business and Consumer Service Industry methodology, published in November 2021. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The B3 scorecard-indicated outcome, based on fiscal 2022 figures, is one notch below the actual B2 CFR because of the impact of the Omicron wave and of inflation on credit metrics, not yet offset by price increases. On a forward-looking basis, the scorecard-indicated outcome is B1. The actual B2 CFR and the negative outlook reflect our expectations that the recovery in profitability and FCF will remain uncertain, despite the ongoing price increases to customers, and that the liquidity profile is currently weak.

Exhibit 8
Rating factors
Elior Group S.A.

Business and Consumer Service Industry Scorecard [1]	Current FY 9/30/2022		Moody's 12-18 Month Forward View As of 1/30/2023 [2]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$4.8	Ba	$4.9 - $5.1	Baa
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	Baa	Baa	Baa	Baa
b) Competitive Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability (10%)				
a) EBITA Margin	-1.5%	Ca	1% - 1.2%	Ca
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	16.8x	Ca	7.4x - 7.9x	Caa
b) EBITA / Interest	-1.2x	Ca	0.7x - 0.8x	Caa
c) RCF / Net Debt	0.4%	Ca	6.5% - 8.2%	Caa
Factor 5 : Financial Policy (10%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		B3		B1
b) Actual Rating Assigned				B2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view of Elior stand-alone, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
ELIOR GROUP S.A.	
Outlook	Negative
Corporate Family Rating	B2
Bkd Senior Unsecured -Dom Curr	B2/LGD3

Source: Moody's Investors Service

Appendix

Exhibit 10

Select historical and projected Moody's-adjusted financial data

Elior Group S.A.

(in EUR million)	FYE Sep-19	FYE Sep-20	FYE Sep-21	FYE Sep-22	FYE Sep-23 F	FYE Sep24 F
INCOME STATEMENT						
Revenue	4,923	3,967	3,690	4,451	4,674	5,001
EBITDA	351	13	90	91	202	231
EBITA	172	(165)	(77)	(65)	49	71
Interest Expense	80	37	46	53	68	73
BALANCE SHEET						
Cash & Cash Equivalents	83	41	80	64	35	37
Total Debt	1,272	1,347	1,463	1,533	1,588	1,612
Net Debt	1,189	1,306	1,383	1,469	1,553	1,575
CASH FLOW						
Funds from Operations (FFO)	264	47	18	6	102	154
Cash Flow From Operations (CFO)	326	59	59	(40)	72	139
Capital Expenditures	(177)	(157)	(134)	(136)	(135)	(160)
Dividends	33	50	0	0	0	0
Retained Cash Flow (RCF)	231	(3)	18	6	102	154
RCF / Debt	18.1%	-0.2%	1.2%	0.4%	6.4%	9.6%
Free Cash Flow (FCF)	116	(148)	(75)	(176)	(63)	(20)
FCF / Debt	9.1%	-11.0%	-5.1%	-11.5%	-4.0%	-1.3%
PROFITABILITY						
% Change in Sales (YoY)	0.8%	-19.4%	-7.0%	20.6%	5%	7%
EBITDA margin %	7.1%	0.3%	2.4%	2.0%	4.3%	4.6%
EBITA margin %	3.5%	-4.2%	-2.1%	-1.5%	1.0%	1.4%
INTEREST COVERAGE						
(FFO + Interest Expense) / Interest Expense	4.3x	2.3x	1.4x	1.1x	2.5x	3.1x
EBIT / Interest Expense	1.9x	-5.1x	-2.1x	-1.6x	0.5x	0.7x
EBITA / Interest Expense	2.2x	-4.5x	-1.7x	-1.2x	0.7x	1.0x
LEVERAGE						
Debt / EBITDA	3.6x	103.6x	16.3x	16.8x	7.9x	7.0x
Net Debt / EBITDA	3.4x	100.5x	15.4x	16.1x	7.7x	6.8x

FYE = Financial year-end.

Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Investors Service

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