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CREDIT OPINION

18 October 2022

Update

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RATINGS

Elior Group S.A.

Domicile	Paris, France
Long Term Rating	B2 , Possible Downgrade
Type	LT Corporate Family Ratings
Outlook	Rating(s) Under Review

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 downgrade to B2, on review for further downgrade

Summary

On 13 October 2022, we downgraded Elior Group S.A.'s (Elior) corporate family rating (CFR) to B2, from B1, with the rating on review for further downgrade, to reflect our expectation that the increasing inflation will have a significant negative impact on the company's operating performance, which will weaken its liquidity, in addition to the deterioration already experienced in H1 2022 (ending March 2022). The review for further downgrade will focus on disclosure of fiscal 2022 (ended September 2022) results, guidance on fiscal 2023 and expectations on how the operating performance will develop, including the success of contract renegotiations. The review also reflects the need to timely address any potential waiver request or shortfall in cash. We expect management to promptly address, if necessary, a waiver request, as already done in the past.

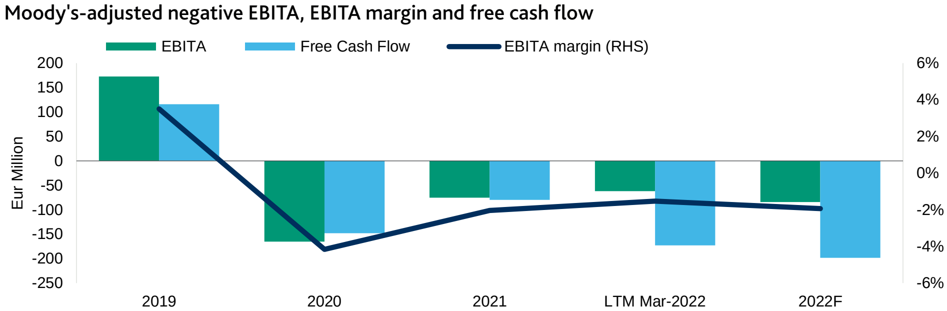
We currently forecast Moody's-adjusted EBITA margin to remain negative also in fiscal 2022 (compared with our previous expectation at 1.6%), as well as Moody's-adjusted free cash flow (FCF), with the speed of recovery likely to remain uncertain thereafter. Similarly, we expect Moody's-adjusted debt/EBITDA to remain above 7x in the next 12-18 months, well above our previous forecasts.

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

Exhibit 1

Free cash flow to remain significantly negative through fiscal 2022

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

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 61% of group revenue in March 2022

» Broad customer base with multiyear contracts and high retention rates

Credit challenges

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

» Profitability to remain under pressure over the next 12 months, causing FCF to stay negative (breakeven at best)

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

Rating outlook

The rating is on review for further downgrade, reflecting our expectation that the company's operating performance will come under increased pressure because of inflation, which will weaken the company's liquidity. Disclosure of fiscal 2022 results and guidance on fiscal 2023 will help us understand how the company's operating performance and liquidity will develop, including the success of contract renegotiations. The review also reflects the need to timely address any potential waiver request or shortfall in cash. We expect management to promptly address, if necessary, a waiver request, as already done in the past.

Factors that could lead to an upgrade

Although unlikely at present, the rating could be upgraded if Elior successfully manages the ongoing 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 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 increase toward 2% in the next 12-18 months, which would be a level that would begin to support positive FCF. A downgrade could also materialize if Moody's adjusted FCF/debt fails to increase to the low-single-digit percentages toward 5%. In addition, a downgrade could occur if management fails to promptly address any potential waiver request or shortfall in cash in a timely manner. The rating could also be downgraded if liquidity deteriorates further in the next 12 months or Moody's adjusted debt/EBITDA remains above 7x.

Key indicators

Exhibit 2

Elior Group S.A.[1][2][3]

in EUR millions	FYESep-2019	FYESep-2020	FYESep-2021	LTMMar-2022	2022-proj.
Revenue	€4,923.0	€3,967.0	€3,690.0	€4,060.0	€4,383.0
EBITA Margin %	3.5%	-4.2%	-2.0%	-1.5%	-1.9%
Debt / EBITDA [4]	3.6x	11.6x/103.6x	15.9x	14.7x	20.0x
EBITA / Interest Expense	2.2x	-4.5x	-1.6x	-1.3x	-1.7x
RCF / Net Debt	19.4%	-0.2%	1.4%	0.9%	-1.2%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year ending in September. [2]Periods are financial year-end unless indicated. LTM = Last 12 months. [3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. [4] Pre- and post-restructuring costs in FY2020.
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 (45% of revenue in March 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 30 June 2022, Derichebourg held 24.36% share in Elior, Emesa 5.42% and Fonds Stratégique de Participations (5.25%), while the remaining 64.97% was in free float.

Detailed credit considerations

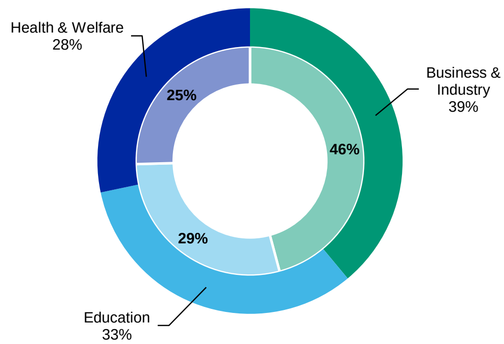
Leading market position and broad customer base continue to support Elior's business profile

Elior is the third-largest contract catering company in Europe (fourth-largest worldwide) based on revenue, after Compass Group PLC (A3 stable) 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 companies. 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.

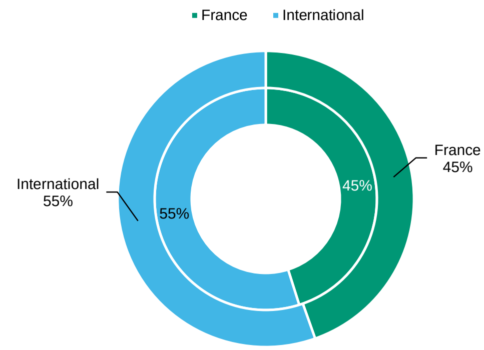
Elior has a diversified customer base with low customer concentration across various end markets (see Exhibit 3), supporting its portfolio diversification. The five largest clients accounted for less than 8% of total revenue in fiscal 2021. The company has maintained retention rates slightly above 91% since March 2020. France is still the company's largest market (45% of revenue as of March 2022), as Exhibit 4 shows.

Exhibit 3
Elior serves a diverse end markets
Revenue by customer segment



Numbers for the 12 months that ended March 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 geographic region



Numbers for the 12 months that ended March 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 the company, particularly in the context of continuously increasing inflation because there will be some 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. We understand the company successfully renegotiated 47% of outstanding contracts as of July 2022.

This delayed pass-through will weaken Elior's operating performance over the next 12-18 months and will add to the deterioration already experienced in H1 2022, when the company reported negative EBITA because of the impact of the Omicron wave, higher inflation and exceptional, non-recurring items such as the loss on the Preferred Meals business (which Elior has now voluntarily exited since September 2022). These factors had already weakened the company's liquidity in H1 2022 and led to a cash burn of €60 million, adding to the cash burn experienced in the previous fiscal years because of the pandemic-induced crisis. Management expects the company's reported EBITA to be near breakeven in fiscal 2022, excluding estimated losses of €35 million at the Preferred Meals business.

We expect the pressure on profitability to impair FCF generation and weaken liquidity over the next 12-18 months

We forecast the pressure on profitability to impair FCF generation: in our estimates, the company's FCF generation after IFRS16 repayment will be negative at more than €100 million in the next 12-18 months, breakeven at best.

As a result, we expect Elior to most likely need to draw down on its revolving credit facility (RCF) or raise additional financing to bolster its liquidity. In our forecasts, the company will be very close to breaching its covenants over the next 12-18 months, therefore a waiver may be needed. We expect management to promptly address, if necessary, a waiver request, as it did in the past.

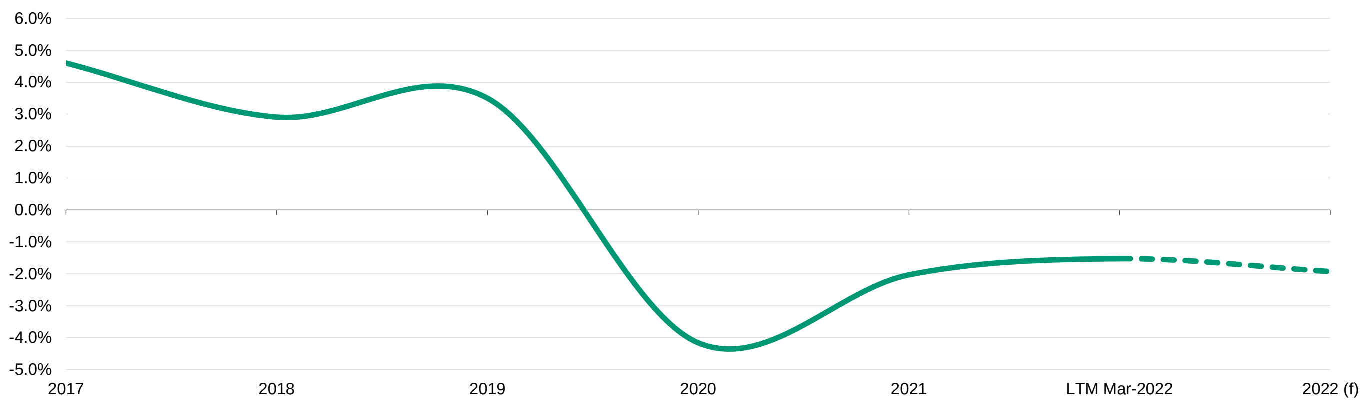
Recovery in credit metrics will be further delayed

We previously expected Elior's Moody's-adjusted EBITA margin to improve to 1.6% in fiscal 2022 and, subsequently, to revert toward pre-pandemic levels in fiscal 2023. As a result, we previously forecast Moody's-adjusted FCF to remain negative in fiscal 2022 but to turn positive thereafter and Moody's-adjusted debt/EBITDA to decline below 5x by fiscal 2023.

However, the persistent inflationary environment has significantly changed the picture. We now expect Elior's Moody's-adjusted EBITA margin to remain negative also in fiscal 2022 (see Exhibit 5), as well as Moody's-adjusted FCF/debt (potentially also in fiscal 2023) and Moody's-adjusted EBITA/interest expenses (thereafter improving gradually). Similarly, we expect Moody's-adjusted debt/EBITDA to remain above 7x in the next 12- 18 months.

In our view, recovery prospects and the related timing remain uncertain, at present. Therefore, the disclosure of fiscal 2022 results and guidance on fiscal 2023 will help us understand how the company's operating performance will develop, including the success of contract renegotiations.

Exhibit 5
Moody's-adjusted EBITA margin will remain negative in fiscal 2022



Margins in fiscal 2017-18 exclude Areas. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Company reports

ESG considerations

Elior Group S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 6
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Elior's ESG credit impact score is moderately negative (CIS-3). This reflects our assessment that ESG attributes are overall considered to have a moderate credit impact on the company's credit rating. Elior is moderately exposed to environmental risks (E-3), social risks (S-3), and governance risks (G-3).

Exhibit 7
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-3
Moderately Negative	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental

E-3. 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

S-3. 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

G-3. Elior's governance issuer profile score (G-3) is moderately negative, reflecting a financial policy that is moderately skewed towards shareholders. The company's corporate governance practices comply with the recommendations contained in the AFEP-MEDEF Code. Although Elior is listed, around 35% of the company's share capital is held by insiders, and there have been recent changes in top management including the CEO. 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 and in 2021.

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

We view Elior's liquidity as weak, given the company will most likely generate negative FCF in the next 12-18 months. As of the end of March 2022, cash and equivalents on the balance sheet were €38 million, and Elior had €350 million available under the committed RCF and €81 million available under the current receivable securitization program. The company does not have any short-term debt maturing: the first debt maturity will take place in October 2023 (fiscal 2024), when the €225 million French state-guaranteed loan will begin amortizing (€28 million repayment).

The semiannual net leverage maintenance covenant remains suspended till March 2023, when the test ratio is set at 7.5x. We expect the covenant capacity to be tight and management to promptly address, if necessary, a waiver request, as it did in the past.

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 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 the figures for the 12 months that ended 31 March 2022, is one notch below the actual B2 CFR because of the impact the Omicron wave and inflation on credit metrics. On a forward-looking basis, the scorecard-indicated outcome is B1. The actual B2 CFR and the rating on review for downgrade reflect our expectation that the recovery in profitability and FCF will remain uncertain, and the company's liquidity profile will remain weak.

Exhibit 8

Rating factors

Elior Group S.A.

Business and Consumer Service Industry Scorecard [1]	Current LTM 31/3/2022		Moody's 12-18 Month Forward View As of 7/10/2022 [2]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$4.7	Ba	$5.6	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	0% -1.8%	Ca
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	14.7x	Ca	7.0x - 12.0x	Caa
b) EBITA / Interest	-1.3x	Ca	0.0x - 1.4x	B
c) RCF / Net Debt	0.9%	Ca	5.0% - 10.0%	B
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, 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	Rating(s) Under Review
Corporate Family Rating	B2[1]
Bkd Senior Unsecured -Dom Curr	B2/LGD3[1]

[1] Placed under review for possible downgrade on 13 October 2022.
Source: Moody's Investors Service

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