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Research Update:

Elior Group S.A. Upgraded To 'B+' From 'B' On Refinancing And Continued Deleveraging; Outlook Stable

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Rating Action Overview

- Elior plans to issue a five-year €500 million senior unsecured notes and use part of a new 4.5-year €430 million senior unsecured revolving credit facility (RCF) to repay the outstanding €550 million senior unsecured notes maturing in July 2026, and €180 million of drawings under the existing €350 million RCF.
- We expect continuous improvement in Elior's performance will lead to S&P Global Ratings-adjusted leverage below 5.5x by fiscal year-end 2025 (Sept. 30, 2025) and funds from operations (FFO) to debt remaining above 10%.
- We therefore raised our long-term issuer credit rating on Elior Group S.A., as well as the issue rating on its senior unsecured debt, to 'B+' from 'B', with the recovery rating on the senior unsecured debt unchanged at '3', indicating our expectation of about 55% recovery in the event of default.
- The stable outlook reflects our expectation that continued improved operational performance from the successful realization of synergies with Derichebourg Multiservices (DMS), price increases, and cost reduction measures will lead to improved profitability for the group and support adjusted leverage improving to about 5.0x by fiscal year-end 2025 and FFO to debt around 13.5%.

Rating Action Rationale

The new issuance and RCF will address its upcoming debt maturities. The proceeds--including €152 million of drawings under the new RCF--alongside €91 million of cash on balance sheet will be used to:

- Repay the existing €550 million senior unsecured notes due in July 2026;
- Repay €180 million of drawings under the existing senior unsecured RCF; and
- Pay €13 million of transaction fees.

In addition, Elior has already upsized and extended the maturity of its securitization facility. The new initial maturity is September 2027 and it has a limit of €800 million. This compares with the €360 million previously available under the securitization facility and €100 million available under the DMS factoring line. With €560 million drawn at fiscal year-end 2024 versus €392 million one year earlier, Elior has already increased utilization. The cash collected has notably been used to repay in advance the €100 million term loan maturing in 2026.

We continue to forecast an improvement in operational performance in fiscal 2025 and fiscal 2026. We expect Elior's revenue will increase by 5% to €6.4 billion in fiscal 2025 and by 4.5% in fiscal 2026, driven by price increases and higher volumes, thanks to strong commercial activity with new contracts won, notably thanks to the combined catering and multiservice offering. We anticipate a 60-basis points improvement in S&P Global Ratings-adjusted EBITDA margins to 5.4% by fiscal year-end 2025 and to 6.0% by fiscal year-end 2026, thanks to a further impact stemming from cost-saving measures previously taken, a greater amount of synergies with DMS, and exceptional costs declining to €23 million in fiscal 2025 and €10 million in fiscal 2026 from €30 million in fiscal 2024.

We expect free operating cash flow (FOCF) generation to remain strong in coming years. In fiscal 2025, we forecast FOCF of about €100 million, supported by working capital inflows (before changes in securitization) of about €13 million, thanks to improved receivables collection, and consistently low capital expenditure (capex) of €140 million, corresponding to 2.2% of revenue. In fiscal 2026, we anticipate an improvement to about €150 million, driven by higher EBITDA and limited working capital outflows of about €10 million, combined with capex of 2% of revenue (about €130 million).

The improvement in operational performance will support strong deleveraging in fiscal 2025 and fiscal 2026. We forecast S&P Global Ratings-adjusted leverage will decline to 4.9x by fiscal year-end 2025 and 4.0x by fiscal year-end 2026, from 5.8x in fiscal 2024, driven by higher EBITDA and positive cash flow generation. Until fiscal 2027, Elior will continue to annually amortize €56 million of the currently €169 million outstanding French state-guaranteed loan (PGE) and will also progressively reimburse the €152 million of drawings under the new €430 million RCF facility. The reduction in gross debt will lower cash interest paid and support an increase in FFO to debt to 13.5% in fiscal 2025 and 18% in fiscal 2026, from 10.7% in fiscal 2024.

Outlook

The stable outlook reflects our expectation that continued improved operational performance from the successful realization of synergies with DMS, price increases, and cost reduction measures will lead to improved profitability for the group and support adjusted leverage improving to about 5x by fiscal year-end 2025 and FFO to debt around 13.5%.

Downside scenario

We could lower the rating if adjusted leverage stayed above 5.5x or FFO to debt fell below 10% on a sustained basis. This could result from underperformance due to higher-than-expected food cost inflation which would be passed on to the client with delays, or difficulties in delivering on the business improvement plan.

We could also take a negative rating action if the proposed refinancing of 2025 and 2026 debt maturities is not completed as expected.

Upside scenario

We could raise the rating if Elior continues to increase profitability, and if we further understood the company would likely post metrics that support our forecast ratios, including leverage sustained below 4.5x and FFO to debt above 16% by fiscal year-end 2026 and thereafter. We would also expect the financial policy to continue to support these levels.

Company Description

Founded in 1991, France-based Elior is a leading global operator in contract catering and multiservices. It offers services targeted at three key client markets: corporate entities and government agencies (business and industry), education establishments, and health care, social, and leisure facilities.

The group employs about 133,000 people, feeds 3.1 million people in 20,200 restaurants every day, and offers facility management services as well. Elior generated €6.05 billion in revenue and €293 million in S&P Global Ratings adjusted EBITDA in fiscal 2024. Elior's largest geographic exposure is to France, from where it derived 52% of fiscal 2024 revenue; followed by Europe, mainly the U.K., Italy, and Spain (26%); and the rest of the world, mainly the U.S. (22%).

It is listed on the Euronext Paris stock exchange and its largest shareholder is French recycler Derichebourg, which owns 48.2% of its share capital.

Our Base-Case Scenario

Assumptions

- Total real GDP growth of 1.0% in 2025 and 1.2% in 2026 in France; 1.5% in 2025 and 1.6% in 2026 in the U.K.; 0.9% in 2025 and 1.1% in 2026 in Italy; 2.5% in 2025 and 2.0% in 2026 in Spain; and 2.0% in 2025 and 2.0% 2026 in the U.S.
- In 2025, CPI growth will remain low at 1.9% in France, 2.0% in Spain, 2.6% in the U.K., 1.6% in Italy, and 2.3% in the U.S. In 2026, CPI growth estimated at 1.8% in France, 2.0% in Spain, 2.2% in the U.K., 1.7% in Italy, and 2.6% in the U.S.
- A 5% revenue increase in fiscal 2025 driven by strong organic growth thanks to positive commercial dynamics (notably thanks to the realization of revenue synergies with DMS), contract price increases in both catering and other segments (majorly to offset inflation), improving retention rate and contract renegotiations. In fiscal 2026, we expect 4.5% revenue growth supported continued growth momentum from previous years.
- An adjusted EBITDA margin of 5.4% in fiscal 2025, up from 4.9% in fiscal 2024, thanks to prices increases, elimination of unprofitable contracts, lower cost inflation, the implementation of cost-cutting measures, and synergies with DMS. In fiscal 2026, we expect margins will further increase to 6%, spurred by further contribution from measures taken previously, along with operational efficiencies and process optimization, optimization of staff costs, procurement initiatives, and higher contribution from synergies realized with DMS.
- €10 million-€15 million of working capital inflows in fiscal 2025 thanks to improved collection of receivables. €5 million-€10 million working capital outflows in fiscal 2026 due to revenue growth. These figures exclude the higher utilization of the securitization program.

- Capex of €140 million in fiscal 2025 and €132 million in fiscal 2026, corresponding to 2%-2.5% of revenue to support growth.
- No dividend payments before fiscal 2028 in our base case.
- Around €10 million acquisition spending in fiscal 2025 for minor bolt-ons to support the growth strategy, notably in Asia where Elior seeks to expand its footprint. No acquisition spending forecast.

Key metrics

Elior Group S.A.--Forecast summary

Period ending	Sep-30-2021	Sep-30-2022	Sep-30-2023	Sep-30-2024	Sep-30-2025	Sep-30-2026	Sep-30-2027	Sep-30-2028
(Mil. EUR)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	3,690	4,451	5,223	6,053	6,373	6,660	7,057	7,464
Gross profit	564	658	794	1,033	1,120	1,212	1,321	1,420
EBITDA (reported)	91	68	171	304	352	410	471	521
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(6)	(11)	(4)	(11)	(11)	(11)	(11)	(11)
EBITDA	85	57	167	293	341	399	460	510
Less: Cash interest paid	(33)	(49)	(73)	(99)	(92)	(82)	(77)	(74)
Less: Cash taxes paid	(6)	(14)	(9)	(18)	(27)	(31)	(38)	(43)
Plus/(less): Other	11	9	7	7	6	6	6	6
Funds from operations (FFO)	57	3	92	183	228	292	351	399
EBIT	(99)	(117)	(4)	97	142	190	244	287
Interest expense	45	51	83	110	94	85	80	77
Cash flow from operations (CFO)	57	(40)	(64)	214	242	283	346	392
Capital expenditure (capex)	69	68	83	104	140	132	140	146
Free operating cash flow (FOCF)	(12)	(108)	(147)	110	102	151	206	246
Dividends	--	--	--	--	--	--	--	39
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	(12)	(108)	(147)	110	102	151	206	207
Debt (reported)	927	1,071	1,209	1,211	977	904	781	712
Plus: Lease liabilities debt	246	199	222	194	199	204	209	214
Plus: Pension and other postretirement debt	79	48	61	61	61	61	61	61
Less: Accessible cash and liquid Investments	(80)	(64)	(45)	(142)	(44)	(45)	(45)	(95)
Plus/(less): Other	203	214	294	381	490	490	490	490
Debt	1,375	1,468	1,741	1,705	1,683	1,613	1,496	1,383
Equity	1,056	731	846	776	818	902	1,032	1,156
FOCF (adjusted for lease capex)	(89)	(160)	(213)	39	21	69	117	152
Interest expense (reported)	44	50	80	107	91	82	77	74
Capex (reported)	69	68	83	104	140	132	140	146

Elior Group S.A.--Forecast summary								
Cash and short-term investments (reported)	80	64	45	142	44	45	45	95
Adjusted ratios								
Debt/EBITDA (x)	16.2	25.8	10.4	5.8	4.9	4.0	3.3	2.7
FFO/debt (%)	4.1	0.2	5.3	10.7	13.6	18.1	23.4	28.9
FFO cash interest coverage (x)	2.7	1.1	2.3	2.8	3.5	4.5	5.5	6.4
EBITDA interest coverage (x)	1.9	1.1	2.0	2.7	3.6	4.7	5.7	6.6
CFO/debt (%)	4.1	(2.7)	(3.7)	12.6	14.4	17.5	23.1	28.3
FOCF/debt (%)	(0.9)	(7.4)	(8.4)	6.5	6.1	9.4	13.8	17.8
DCF/debt (%)	(0.9)	(7.4)	(8.4)	6.5	6.1	9.4	13.8	15.0
Lease capex-adjusted FOCF/debt (%)	(6.5)	(10.9)	(12.2)	2.3	1.3	4.3	7.9	11.0
Annual revenue growth (%)	(7.0)	20.6	17.3	15.9	5.3	4.5	6.0	5.8
Gross margin (%)	15.3	14.8	15.2	17.1	17.6	18.2	18.7	19.0
EBITDA margin (%)	2.3	1.3	3.2	4.8	5.4	6.0	6.5	6.8
Return on capital (%)	(4.1)	(5.1)	(0.2)	3.8	5.7	7.6	9.7	11.3
Return on total assets (%)	(2.6)	(3.2)	(0.1)	2.3	3.4	4.6	5.9	6.9
EBITDA/cash interest (x)	2.6	1.2	2.3	3.0	3.7	4.8	5.9	6.9
EBIT interest coverage (x)	(2.2)	(2.3)	(0.0)	0.9	1.5	2.2	3.0	3.7
Debt/debt and equity (%)	56.6	66.8	67.3	68.7	67.3	64.1	59.2	54.5
Debt fixed-charge coverage (x)	1.9	1.1	2.0	2.7	0.8	2.5	2.3	3.5
Debt/debt and undepreciated equity (%)	56.6	66.8	67.3	68.7	67.3	64.1	59.2	54.5
All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.								

Liquidity

We assess Elior's liquidity as adequate. We expect sources of liquidity will exceed uses by at least 2x over the next 24 months after the transaction closes.

Our liquidity assessment is constrained by Elior's limited ability to absorb a high-impact and low-probability event in coming years without refinancing, given its limited business and geographic diversification.

Principal liquidity sources

We estimate that Elior's liquidity sources over the 12 months from the transaction's close will be:

- Unrestricted cash on balance sheet of about €51 million;
- €278 million available under the committed €430 million RCF; and
- Unadjusted cash FFO after lease payments of €168 million.
- Working capital inflows of €14 million, excluding any change in the use of the securitization program.

Principal liquidity uses

We estimate that the company's liquidity uses over the same period will include:

- Capex of €140 million;
- Intrayear working capital requirements of €50 million; and
- €56 million for the first amortization of the French state-guaranteed loan (PGE).

Covenants

Under the group's senior facilities agreement, Elior must comply with a net leverage covenant of 4.5x, tested every six months. We expect the group's covenant headroom for will be adequate (above 15%) over the next 24 months.

Environmental, Social, And Governance

Governance factors are a neutral consideration in our credit rating analysis of Elior, reflecting our view that current management has successfully led the group's return to organic revenue growth and improved profitability significantly, while reducing leverage materially.

Social factors are a negative consideration in our analysis. Elior's revenue has fully recovered to pre-pandemic levels as the effects of COVID-related restrictions fully faded in 2023 and demand for catering services at business and corporate clients returned. However, the sector remains sensitive to health and safety issues, in our view, and any virus variant resulting in renewed social distancing measures or increased absenteeism at corporate restaurants or school canteens could have a significant impact on the group's operating performance and credit metrics.

Issue Ratings--Recovery Analysis

Key analytical factors

- The group's proposed €500 million senior unsecured notes are rated 'B+' with a '3' recovery rating, reflecting our expectation of meaningful recovery (50%-70%, rounded estimate: 55%) in the event of a default. We will withdraw our 'B+' issue rating on the existing €550 million senior unsecured notes once they have been repaid.
- Recovery prospects are supported by our valuation of the company as a going concern, but constrained by the group's significant amount of prior-ranking liabilities, notably a €800 million securitization program, and a €169 million bank loan guaranteed by the French state (PGE), which is amortizing by 25% per year until March 2027. Despite being contractually subordinated, we treated this bank loan as a priority liability, given its very advantageous

terms and conditions. We assume 50% of the securitization facilities would be drawn at the time of default and consider these claims priority liabilities.

- Besides the senior unsecured notes, the group has a €430 million RCF that ranks pari passu with the notes.
- Debt incurrence will be subject to a pro forma fixed charge coverage ratio of minimum 2x.
- The documentation allows for a free debt basket which we view as issuer friendly.
- Dividends and restricted payments are constrained by the pro forma total net leverage of 3.50x.
- In our hypothetical default scenario, we assume a default in 2029, following a prolonged deterioration in economic conditions, including high inflation, which would reduce demand for Elior's services and pressure its profitability.
- We value the group as a going concern, given its strong market positions, resilient business model, moderate geographic diversification, and asset-light structure.

Simulated default assumptions

- Year of default: 2029
- Jurisdiction: France

Simplified waterfall

- Emergence EBITDA: €178 million
- Multiple: 5.5x
- Gross enterprise value at emergence: €980 million
- Net enterprise value after administrative expenses (5%): €931 million
- Priority liabilities: €411 million (covering the assumed drawing under the securitization facilities)
- Collateral value available to senior unsecured debt: €520 million
- Estimated senior unsecured debt claims: €901 million
- --Recovery expectation: 50%-70% (rounded estimate: 55%)
- Debt claims include six months of prepetition interest.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	B+/STABLE/--
Local currency issuer credit rating	B+/STABLE/--
Business risk	4 - Fair
Country risk	2 - Low Risk
Industry risk	3 - Intermediate Risk
Competitive position	4 - Fair
Financial risk	5 - Aggressive
Cash flow/leverage	5 - Aggressive
Anchor	bb-
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	b+
Group credit profile	bb+
Entity status within the group	Nonstrategic

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list		
Upgraded; Outlook Action		
	To	**From**
Elior Group S.A.		
Issuer Credit Rating	B+/Stable/--	B/Positive/--
Upgraded; Recovery Ratings Unchanged		
	To	**From**
Elior Group S.A.		
Elior Participations S.C.A		
Senior Unsecured	B+	B
Recovery Rating	3(55%)	3(55%)
Ratings Affirmed		
Elior Group S.A.		
Senior Unsecured	B+	
New Rating		
Elior Group S.A.		
Senior Unsecured		
EUR500 mil nts due 2030	B+	
Recovery Rating	3(55%)	