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INVESTORS SERVICE

CREDIT OPINION
28 April 2022

Update

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RATINGS

Sodexo SA

Domicile	France
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

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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Sodexo SA

Update of credit analysis

Summary

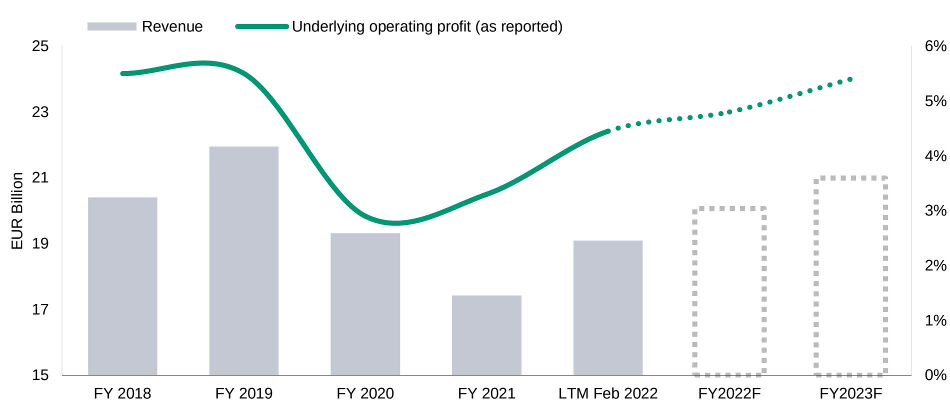
Sodexo SA's Baa1 issuer rating remains weakly positioned because of continued uncertainty over the pace of recovery in the company's earnings and credit metrics to pre-coronavirus pandemic levels. The company has to date performed broadly in line with our expectations at the time of the initial rating assignment in April 2021, but there are downside risks because of the still uncertain sanitary situation and cost inflation, which could both hinder our forecasts of a continued recovery in earnings over the next 12-18 months. Under our base case, we do not expect earnings to recover towards pre-crisis levels before the fiscal year ending 31 August 2023 (fiscal 2023) (see Exhibit 1), which would result in credit metrics that are more commensurate with the Baa1 rating, notably Moody's-adjusted debt/EBITDA of below 3.5x after taking into account excess cash and Moody's-adjusted retained cash flow/net debt of above 20%.

On the positive side, the rating reflects the company's strong business profile, underpinned by its leading positions in contract catering, facilities management and employee benefit voucher services in markets globally, as well as the resilience of these markets through past economic cycles. The rating is also supported by the company's conservative financial policy, reflecting a disciplined approach to shareholder returns and acquisitions, and very good liquidity and prudent cash management in the Benefits and Rewards Services (BRS) activity.

Exhibit 1

We do not expect revenue and margins to recover to pre-crisis levels before fiscal 2023

Revenue and underlying operating profit margin



FY2022-23 are Moody's forecasts.
Source: Moody's Investors Service

Credit strengths

» Number two worldwide market positions in both contract catering and employee benefit voucher services

» Diversified global geographic footprint and end markets

» Resilient and recurring nature of demand through past economic cycles

» Conservative financial policy and very good liquidity

Credit challenges

» Operational disruptions related to lockdowns and other restrictions on people's movements, which will continue through at least fiscal 2022

» Limited visibility into the long-term impact of the pandemic on its business risk profile and performance

» Mature and competitive market for On-Site Services (OSS) relative to the wider business services universe

» Inherent regulatory risk within BRS because of reliance on fiscal incentives

Rating outlook

The stable rating outlook reflects our assumption that Sodexo will be successful in largely offsetting the negative long-term effects of the pandemic on its earnings, although the strategic recovery plan entails execution risks. It also reflects our assumption that the company's Moody's-adjusted EBITA margin will gradually recover to around 6%, which, combined with our expectation that Sodexo will maintain a conservative financial policy and very good liquidity, will restore credit metrics to levels more commensurate with a Baa1 rating by fiscal 2023.

Factors that could lead to an upgrade

Upward rating pressure could materialise if its recovery strategy is successful, enhancing the company's good geographical diversification and historical business resilience. Quantitatively, we could consider a rating upgrade if:

» Moody's-adjusted debt/EBITDA is comfortably below 3.0x on a sustained basis

» Moody's-adjusted retained cash flow/net debt is sustainably around 30% or above

» the company maintains a conservative financial policy, including strong liquidity and current assets/current liabilities in the voucher business of above 100%

Factors that could lead to a downgrade

Downward rating pressure could materialise if there is evidence of a severe shift in sector dynamics and customer behaviour, leading to revenue and earnings remaining well below pre-crisis levels, or if the company fails to successfully execute its strategic recovery plan. These outcomes would lead to a weaker business profile than currently factored into the rating and outlook. Quantitatively, we could consider a rating downgrade if:

» Moody's-adjusted debt/EBITDA is sustainably above 3.5x by fiscal 2023

» Moody's-adjusted retained cash flow/net debt is sustainably below 20%

» the company adopts a more aggressive financial policy than currently reflected in the rating, particularly with respect to shareholder returns, acquisitions and cash management in the voucher business.

Our gross leverage ratio target for the rating is based on the assumption that the company will maintain a cash balance of at least around €1.5 billion over time. We would consider additional cash above this level as excess cash if it is likely to be used as a liquidity buffer or for refinancing purposes, which creates some flexibility for a tolerance of gross leverage above 3.5x.

Key indicators

Exhibit 2

Sodexo SA

in EUR billion	FY2017	FY2018	FY2019	FY2020	FY2021	LTM Feb-2022	2022F	2023F
Revenues	20.7	20.4	22.0	19.3	17.4	19.1	20.1	21.0
EBITA Margin	6.9%	6.2%	6.1%	2.8%	3.1%	4.4%	5.5%	6.1%
Debt / EBITDA	2.5x	3.0x	2.8x	6.3x	7.3x	5.5x	4.6x	3.8x
Net Debt / EBITDA	1.5x	2.0x	1.9x	4.4x	3.7x	3.3x	2.7x	2.1x
EBITA / Interest Expense	9.1x	7.2x	7.9x	3.4x	4.5x	6.6x	8.3x	9.7x
RCF / Net Debt	35.1%	29.6%	29.6%	7.6%	20.9%	18.0%	19.7%	26.9%
FCF / Debt	8.0%	12.0%	8.6%	-5.8%	6.0%	-0.2%	-0.1%	4.7%

FY2022-23 are Moody's forecasts.
Sources: Moody's Financial Metrics™ and Moody's Investors Service

Profile

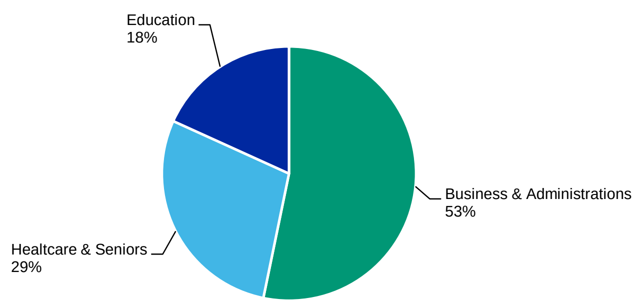
Sodexo SA is one of the world's largest providers of contract catering, facilities management and employee benefit voucher services. The company has a presence in 55 countries, with the US, France, Brazil and the UK among its largest markets.

The company has been listed on the Euronext Paris Stock Exchange since 1983. The largest shareholder is Bellon SA, the family holding company of the founder Pierre Bellon, with a stake of 42.8% and voting rights of 57.1% as of 31 August 2020.

Sodexo has two segments: OSS and Benefits and Rewards Services (BRS). BRS accounted for 28% of reported underlying operating profit compared with 4% of revenue because of higher margins of its voucher services than the more labour-intensive contract catering and facilities management services in OSS. Exhibit 3 shows that Business and Administration (B&A) is the largest subsegment within OSS at 53% of total revenue. Within B&A, Corporate Service was the largest end market with 43% of B&A revenue, followed by Energy and Resources (19%), Government and Agencies (13%), Sports and Leisure (4%), and others (21%) in fiscal 2021.

Exhibit 3

OSS is Sodexo's largest segment
Revenue by segment, fiscal 2021



Source: Company

Detailed credit considerations

One of the world's largest providers of contract catering, integrated facilities management and employee benefit voucher services

Sodexo is one of the largest providers of facilities management services globally, with strong market positions in contract catering and integrated facilities management. In contract catering, it is the second-largest operator behind Compass Group PLC (Compass, A3 stable), but ahead of Aramark Services, Inc. (Aramark, Ba3 stable). However, the market is fragmented with competition ranging from multinational companies to smaller national or regional companies. We estimate that Compass, Sodexo and Aramark have a combined share of 15%-20% of the overall contract catering market.

Within integrated facilities management, competition is limited mainly to large global companies such as ISS Global A/S (Baa3 stable), and includes providers of property-related or hard facilities management services such as Jones Lang LaSalle Incorporated (Baa1 stable) and CBRE Services, Inc. (Baa1 stable).

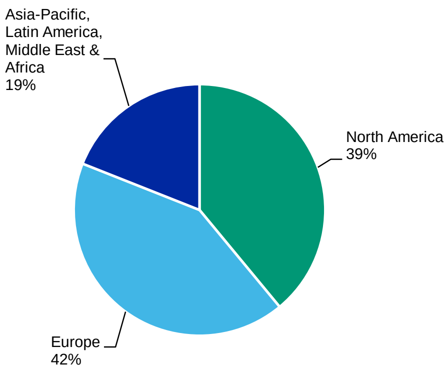
BRS is split between the Employee Benefits and Services Diversification subsegments, which account for 80% and 20% of the division's revenue, respectively. Sodexo has strong market positions within the Employee Benefits subsegment, especially in meal and food vouchers. The company's main competitors in Employee Benefits include Edenred, which had revenue of €1.6 billion in 2021, compared with €0.7 billion for BRS in fiscal 2021. Sodexo has smaller market positions in the Services Diversification subsegment, which offers a wide range of vouchers and services, including fuel and mobility, incentive and recognition (for example, corporate health and wellness), and public benefits such as education vouchers. FleetCor Technologies Operating Company LLC (Ba1 stable) is one of the leading providers of the fleet fuel payment network business in the US and other countries, as well as other corporate payment services. It generated revenue of $2.8 billion in 2021.

Regulatory risk is inherent in the Employee Benefits business because vouchers provided by employers generally benefit from government tax exemptions. Near-term regulatory risk appears limited, but visibility is limited over the medium to long term. Historically, changes in regulations have been overall broadly neutral, including both favourable and unfavourable changes. The most noteworthy adverse changes in regulation were the termination of tax exemptions for meal and food vouchers in Argentina in 2008 following a corruption scandal, and the termination in Spain of the tax exemptions on the portion of meal vouchers funded by employers (the tax exemptions for employees remained in place).

Balanced geographical footprint across Europe, North America and Latin America

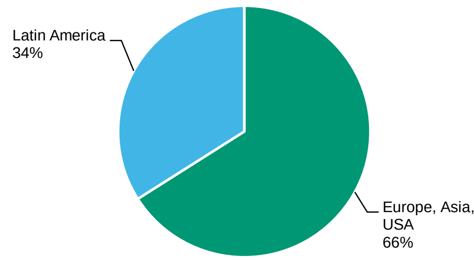
Sodexo also has a balanced revenue mix in terms of geography and end markets, reflecting its strong global market positions. Revenue in OSS is fairly balanced between North America and Europe, whereas Latin America accounted for 34% of BRS revenue in fiscal 2021 (see Exhibits 4 and 5). The high share of BRS revenue in Latin America is driven by Sodexo's strong presence in Brazil, especially in meal and food vouchers.

Exhibit 4
OSS is more weighted towards developed markets...
Revenue by region, fiscal 2021



Source: Company

Exhibit 5
...while BRS has greater exposure to emerging marketsRevenue by region, fiscal 2021



Source: Company

Continued uncertainty over the pace of recovery in earnings because of the uncertain sanitary situation and cost inflation

Sodexo's operations have been significantly affected by lockdowns and other restrictions on people's movements to contain the spread of the pandemic, particularly within OSS because of the closure of customers' premises. We expect a gradual reduction in operational disruptions over the next 12-18 months to support a recovery in earnings to the pre-crisis levels by fiscal 2023. However, there is still limited visibility into the extent of structural changes induced by the pandemic, such as more frequent remote working and online classes, which will likely continue even after mobility restrictions are eventually fully lifted. There is also the risk of further government restrictions, such as remote working requirements or school closures because of the uncertain sanitary situation. We do not expect the pandemic to impair the growth prospects of BRS, which had organic revenue growth rates of around 5% and higher historically.

The company's recovery strategy is based on several levers, including the introduction of new food models (for example, digital offerings, click and collect, commissaries and cloud kitchens, and partnerships with local boutique companies), the development of joint offerings with meal or food vouchers in BRS, and market share gains at the expense of smaller companies. We view the strategy as sound, but it entails execution risks.

Growth in BRS is supported by the higher penetration of Employee Benefit products, especially meal and food vouchers (for example, within small and medium-sized enterprises), as well as its further expansion in adjacent markets, such as fuel and mobility. Digitalisation is also creating new opportunities, particularly in terms of new payment solutions. Digital represented 89% of Sodexo's total BRS issue volumes in fiscal 2021, up from 73% in fiscal 2018.

We also expect the company to largely offset cost inflation (wages and commodity prices) over the next 12-18 months. We understand that Sodexo already implemented price increases of around 3% in the first half of fiscal 2022 with further price increases in the second half of fiscal 2022 to reach 4%-5% in the full fiscal year 2022. However, further increases in wages or commodity prices could delay the recovery in earnings because of the time lag in passing through cost inflation and the fact that it could become more difficult for the company to offset higher costs through efficiency gains. According to the company, contracts in Brazil, the UK and the US are mostly on a cost-plus basis or include good indexation clauses. For example, over 40% of contracts (based on revenue) in the US are on a cost-plus basis and 20% are retail contracts under which Sodexo has control over pricing. Pass-through mechanisms tend to be weaker in France, especially for public contracts such as schools.

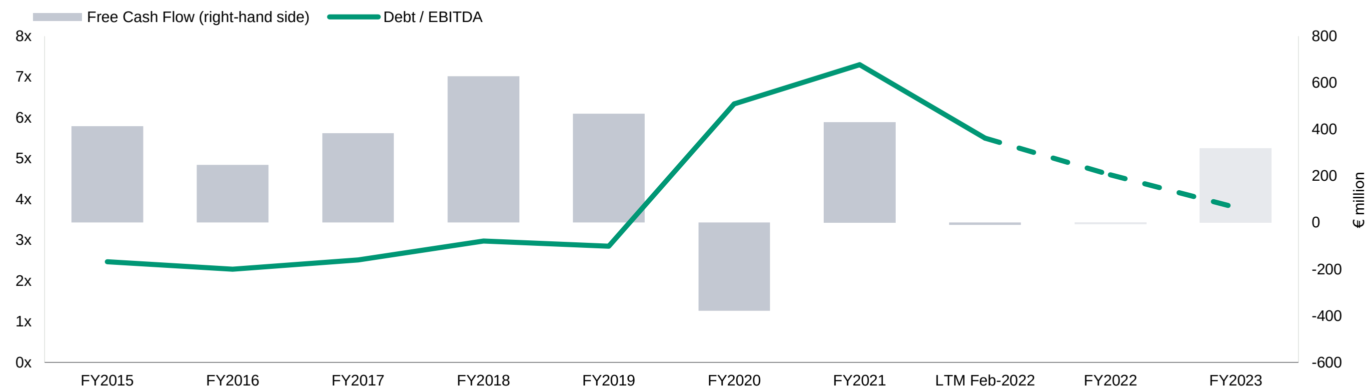
Credit metrics will remain weak for the current rating through fiscal 2023

We do not expect Sodexo's credit metrics to return to levels more commensurate with a Baa1 rating before fiscal 2023, reflecting a gradual recovery in earnings following the pandemic. This longer-term horizon reflects our view that the company will be successful in largely offsetting the long-term negative effects of the pandemic on its earnings, (although the strategic recovery plan entails execution risks), as well as its excellent liquidity and conservative financial policy.

As Exhibit 6 shows, the company's Moody's-adjusted gross debt/EBITDA increased to 7.3x in fiscal 2021 from 6.3x in fiscal 2020 because of the full-year effect of the pandemic on earnings. As discussed above, we forecast a significant recovery in earnings over the next 12-18 months towards pre-pandemic levels as the effects of social distancing and restrictions ease, leading to gross leverage of around 3.8x by fiscal 2023. This level of gross leverage will be above the 3.5x to maintain the Baa1 rating; however, our assessment of Sodexo's credit quality also takes into account its high excess cash level. According to our base case forecasts, the company will maintain unrestricted cash between €2.5 billion and €3 billion.

We expect Moody's-adjusted free cash flow (FCF) to be around breakeven in fiscal 2022, compared with around €430 million in fiscal 2021, because of around €350 million of non-recurring items expected by the company. These items include exceptional pension contributions in the UK, reimbursements of hospitality packages for the Tokyo 2020 Olympic Games, restructuring charges, refund of government support and payment of the French competition authorities' fine. In fiscal 2023, we expect a continued recovery in earnings and a lower one-off cash outflow of around €300 million.

Exhibit 6
We do not expect credit metrics to improve significantly before fiscal 2023
Moody's-adjusted gross debt/EBITDA and FCF



Source: Moody's Investors Service

Conservative financial policy offsets weak credit metrics to some extent

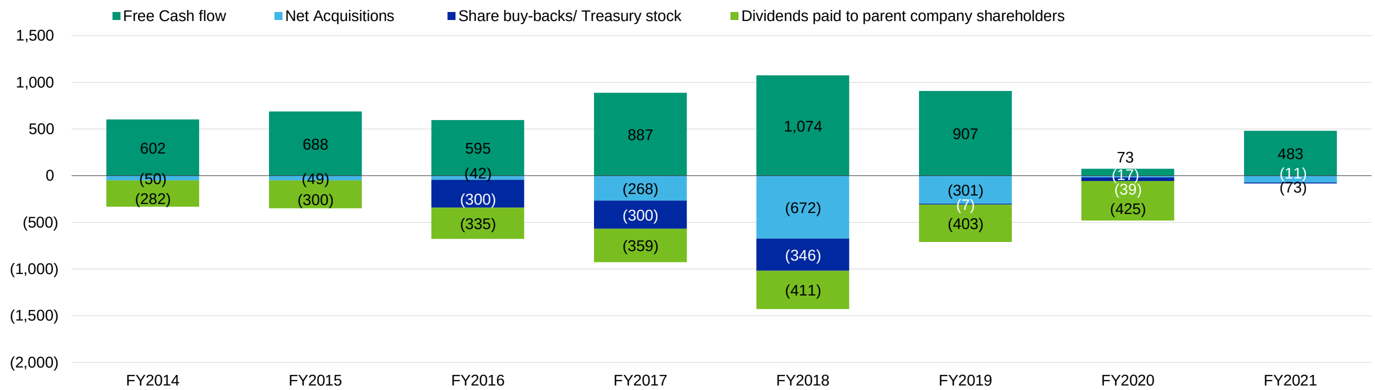
The current rating is also underpinned by the company's conservative financial policy. Sodexo's stated financial policy includes a reported net leverage target of 1x-2x and a dividend payout ratio of 50% of underlying net income. The wide target leverage range provides some flexibility within the financial policy, but reported net leverage was 1.0x or below between fiscal 2014 and fiscal 2019 and, therefore, the company has a good track record of adhering to this public target. Reported net leverage was 1.8x as of 28 February 2022.

Furthermore, we expect the company to maintain a disciplined approach to acquisitions and shareholder returns. The company did not pay a dividend in fiscal 2020, reflecting once again its conservative financial policy. Exhibit 7 shows that the allocation of FCF (as reported) has historically been balanced between acquisitions and shareholder returns.

Exhibit 7

Sodexo has maintained a disciplined approach to shareholder returns and acquisitions

FCF compared with acquisitions and shareholder returns



Figures are in EUR million

Source: Company

The company's conservative financial policy is also reflected in its excellent liquidity (see liquidity analysis) and conservative cash management within BRS. The latter is supported by the company's policy of maintaining a coverage ratio of above 100% between the current assets at BRS (trade receivables, unrestricted cash, restricted cash and financial assets) and current liabilities at BRS (vouchers payable). The activity in BRS has negative working capital because the face value of vouchers is typically collected from customers around the issue date, while the redemption by end users can take place several months after the issue date.

Environmental, social and governance considerations

The main social consideration incorporated into Sodexo's rating relate to potential changes in consumer habits following the pandemic, which could lead to the footfall in certain locations remaining below pre-crisis levels (for example, offices and universities). Other social considerations include the significance of personnel expenses in the cost structure (around half of revenue), which makes the company vulnerable to changes in local labour laws.

Governance considerations for Sodexo's rating include the company's family ownership. Members of the Bellon family control the majority of voting rights, and three family members sit on the board of directors, one of whom is also the chairwoman and CEO. The family ownership enables the company to adopt a long-term vision for the business, and the current corporate governance structure adequately protects the interests of all stakeholders. Other governance considerations include a fine of €126 million imposed on Sodexo by the French Antitrust Authority in December 2019 for anticompetitive practices in the meal vouchers market in France. The company appealed the fine and did not book any provisions, similar to the other companies (Edenred, Natixis [A1 stable] and Up) in the investigation that were also fined.

Environmental considerations include waste management, particularly related to food waste and non-organic packaging. Under its corporate responsibility road map Better Tomorrow 2025, Sodexo aims to promote healthy food consumption, reduce carbon emissions and waste, and develop local sourcing. Sodexo has committed to reduce carbon emissions by 34% between 2017 and 2025, and per the company, it is the only entity in the foodservices sector to measure its Scope 3 emissions and participate in the Science Based Targets initiative (SBTi) Net-Zero Road Test and Forest, Land and Agriculture (FLAG) working groups.

Liquidity analysis

Sodexo's liquidity is excellent. As of 28 February 2022, the company had unrestricted cash of around €2.6 billion (€3.6 billion including restricted cash and financial assets at BRS). A further liquidity buffer is provided by the unused revolving credit facilities (RCFs) and bilateral facilities of around €1.7 billion in aggregate. Both the RCFs of €589 million and $785 million mature in July 2026. Two bilateral facilities of €150 million each mature in December 2023, while the remaining bilateral facility of €150 million will mature in February 2024. There is no financial maintenance covenant following the repayment of US private placement debt in June and July 2020.

Methodology and scorecard

The principal methodology used in these ratings was our Business and Consumer Service Industry rating methodology, published in October 2016. The difference between the scorecard-indicated outcome and the actual rating assigned reflects the long-lasting impact of the pandemic on Sodexo's earnings, which will result in weak credit metrics for the current Baa1 rating through fiscal 2022 and not return to Baa1 levels until 2023. However, the rating also incorporates the company's solid business profile despite the uncertain market environment, as well as its very good liquidity and conservative financial policy.

Exhibit 8

Rating factors

Sodexo SA

Business and Consumer Service Industry Scorecard [1][2]	Current LTM 2/28/2022		Moody's 12-18 Month Forward View As of 4/20/2022 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$22.3	A	$23.1 - $24.1	A
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	A	A	A	A
b) Competitive Profile	A	A	A	A
Factor 3 : Profitability (10%)				
a) EBITA Margin	4.4%	Ca	5.5% - 6.1%	Caa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	5.5x	B	3.8x - 4.6x	Ba
b) EBITA / Interest	6.6x	Baa	8.3x - 9.7x	Baa
c) RCF / Net Debt	18.0%	Ba	19.7% - 26.9%	Ba
Factor 5 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa2
b) Actual Rating Assigned				Baa1

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 2/28/2022.
[3] 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
SODEXO SA	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
SODEXO INC.	
Outlook	Stable
Bkd Senior Unsecured	Baa1

Source: Moody's Investors Service

Appendix

Exhibit 10

Select Moody's-adjusted metrics

Sodexo SA

In EUR million	FY2018	FY2019	FY2020	FY2021	LTM Feb-2022	2022F	2023F
INCOME STATEMENT							
Sales	20,407	21,954	19,321	17,428	19,095	20,067	20,992
EBITDA	1,767	1,900	1,039	989	1,234	1,459	1,758
EBITDA Margin %	8.7%	8.7%	5.4%	5.7%	6.5%	7.3%	8.4%
EBITA	1,261	1,349	545	548	849	1,095	1,286
EBITA Margin %	6.2%	6.1%	2.8%	3.1%	4.4%	5.5%	6.1%
Interest Expense	175	172	165	122	128	132	132
BALANCE SHEET							
Cash	1,666	1,781	2,015	3,534	2,595	2,769	3,087
Total Debt	5,253	5,410	6,574	7,203	6,726	6,726	6,726
CASH FLOW							
CAPEX	(711)	(855)	(775)	(538)	(544)	570	785
Retained Cash Flow (RCF)	1,063	1,075	347	766	744	778	978
Free Cash Flow (FCF)	628	467	(379)	430	(10)	(8)	319
RCF / Net Debt	29.6%	29.6%	7.6%	20.9%	18.0%	19.7%	26.9%
FCF / Debt	12.0%	8.6%	-5.8%	6.0%	-0.1%	-0.1%	4.7%
INTEREST COVERAGE							
EBITA / Interest Expense	7.2x	7.9x	3.3x	4.5x	6.6x	8.3x	9.7x
(EBITDA - CAPEX) / Interest Exp.	6.0x	6.1x	1.6x	3.7x	5.4x	6.7x	7.4x
LEVERAGE							
Debt / EBITDA	3.0x	2.8x	6.3x	7.3x	5.5x	4.6x	3.8x
Net Debt / EBITDA	2.0x	1.9x	4.4x	3.7x	3.3x	2.7x	2.1x

FY2021-23 are Moody's forecasts.
Source: Moody's Investors Service

Exhibit 11

Moody's-adjusted debt breakdown

Sodexo SA

(in EUR Millions)	FYE Aug-17	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21	LTM Feb-22
As Reported Debt	**3,547**	**3,985**	**4,118**	**6,378**	**7,032**	**6,555**
Pensions	316	237	244	195	171	171
Operating Leases	951	1,029	1,047	0	0	0
Non-Standard Adjustments	1	2	1	1	0	0
Moody's-Adjusted Debt	**4,815**	**5,253**	**5,410**	**6,574**	**7,203**	**6,726**

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted EBITDA breakdown

Sodexo SA

(in EUR Millions)	FYE Aug-17	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21	LTM Feb-22
As Reported EBITDA	**1,498**	**1,362**	**1,483**	**1,031**	**977**	**1,323**
Pensions	-4	-1	0	-2	-10	-10
Operating Leases	317	343	349	0	0	0
Unusual	116	69	74	19	22	-79
Non-Standard Adjustments	-9	-6	-6	-9	0	0
Moody's-Adjusted EBITDA	**1,918**	**1,767**	**1,900**	**1,034**	**989**	**1,234**

Source: Moody's Financial Metrics™

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