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CREDIT OPINION
8 February 2024

Update

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RATINGS

Sodexo SA

Domicile	France
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
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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Sodexo SA

Update following Pluxee spin-off

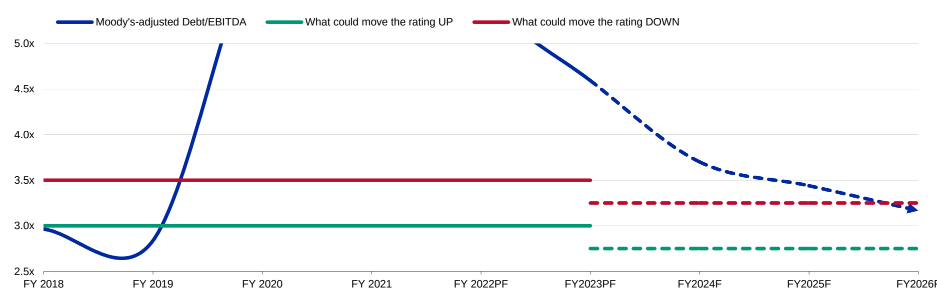
Summary

We have recently affirmed Sodexo SA's (Sodexo or the company) Baa1 rating and changed the outlook to negative following the Pluxee N.V. (Pluxee) spin-off. Pluxee is the entity that operates Sodexo's former meal voucher business. The outlook change to negative reflects our expectation that, although Sodexo will maintain a strong business profile after the spin-off, its credit metrics will remain weak for the current Baa1 rating over the next one to two years.

Notwithstanding Sodexo's reduced business diversification and profitability resulting from the deconsolidation of the highly profitable and cash-generative Pluxee business, the company's business profile will continue to be supported by its broad service offerings and its leading market share in worldwide catering and facilities management, coupled with the steady nature of demand, with moderate exposure to cycles.

Nevertheless, we expect credit metrics to remain weak for the current Baa1 rating, with Moody's-adjusted debt/EBITDA at around 3.7x in the fiscal year ending August 2024 (fiscal 2024) and around 3.4x in fiscal 2025. Despite progressively improving, such credit metrics will leave the company with limited room to maneuver to withstand potential business underperformance, in the absence of absolute gross debt reduction. The company held a relatively large cash balance of around €2 billion as of fiscal 2023, part of which could be potentially used to reduce gross debt and improve credit metrics.

Exhibit 1
We expect Sodexo's leverage to remain high for the Baa1 rating over the next two years
Moody's-adjusted debt/EBITDA



FY2018 to FY2021 figures include Pluxee, while FY2022 and FY2023 figures are pro forma for Pluxee spin-off (Pluxee is accounted as discontinued operation). FY2024-25 figures are our forecasts and refer to the current Sodexo's perimeter. We have tightened the rating upgrade and rating downgrade thresholds to reflect the reduced scale and business diversification of the company following the Pluxee spin-off.
Source: Moody's Investors Service

Credit strengths

» Number two worldwide market position in contract catering

» Diversified global geographic footprint and end markets

» Recurring nature of demand through past economic cycles

Credit challenges

» Credit metrics will remain weak for the rating category over the next one to two years

» Significant profitability improvements are constrained by the absence of the highly profitable Pluxee business and uncertain long-term impact of remote working

» The company operates in a mature and competitive market relative to the wider business services universe

Rating outlook

The negative outlook reflects our expectation that the company will be initially weakly positioned in the Baa1 category, with credit metrics that will exceed the tolerance levels for the rating over the next one to two years, without a significant gross debt reduction.

Factors that could lead to an upgrade

We have recently tightened the ratio thresholds for Sodexo to reflect the reduced scale and business diversification of the group following the Pluxee spin-off.

Upward pressure on the rating is unlikely in light of the negative outlook, but it could develop over time if the company's operating performance remains solid, with sustained growth in revenue and margins, and its financial profile improves, such that its Moody's-adjusted debt/EBITDA remains below 2.75x (previously 3.0x) on a sustained basis and its Moody's-adjusted retained cash flow (RCF)/net debt is sustainably above 30%.

Factors that could lead to a downgrade

Sodexo's rating could be downgraded if its operating performance deteriorates and its profitability significantly decreases below historical levels, leading to sustained weak credit metrics for the rating category, such as Moody's-adjusted debt/EBITDA remaining above 3.25x (previously 3.5x) or its Moody's-adjusted RCF/net debt below 25% (previously 20%), on a sustained basis.

Key indicators

Exhibit 2
Sodexo SA

in EUR billion	FY2018	FY 2019	FY 2020	FY 2021	FY 2022PF	FY 2023PF	FY2024F	FY2025F	FY2026
Revenues	20.4	22.0	19.3	17.4	20.3	22.6	24.0	25.4	26.8
EBITA Margin	6.2%	6.2%	2.9%	3.1%	4.3%	4.8%	5.0%	5.0%	5.2%
Debt / EBITDA	3.0x	2.8x	6.3x	7.3x	5.5x	4.6x	3.7x	3.4x	3.2x
Net Debt / EBITDA	2.0x	1.9x	4.4x	3.7x	3.7x	3.2x	2.4x	2.3x	2.1x
EBITA / Interest Expense	7.2x	7.9x	3.3x	4.5x	6.9x	5.6x	6.7x	7.2x	7.5x
RCF / Net Debt	29.6%	29.6%	7.6%	20.9%	13.9%	15.7%	19.9%	25.2%	26.8%
FCF / Debt	12.0%	8.6%	-5.8%	6.0%	1.3%	0.4%	2.5%	5.7%	6.4%

FY2018 to FY2021 figures include Pluxee, while FY2022 and FY2023 figures are pro forma for Pluxee spin-off (Pluxee is accounted as discontinued operation). FY2024-25 figures are our forecasts and refer to the current Sodexo's perimeter.
Source: Moody's Investors Service

Profile

Sodexo SA is one of the world's largest providers of contract catering and facilities management. The company is present in 45 countries, with the US, France, Brazil and the UK among its largest markets.

On 5 April 2023, Sodexo announced its intention to spin-off its meal voucher business, which was subsequently renamed Pluxee. On 30 January 2024, Sodexo's ordinary shareholders' meeting approved Pluxee's spin-off. The first listing of Pluxee's shares was completed on 1 February 2024.

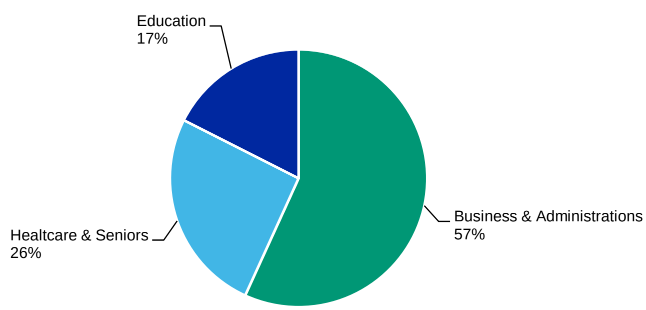
Following the spin-off, Sodexo currently operates the catering and facility management businesses. Its largest subsegment remains Business and Administration (B&A), contributing 57% of total revenue, compared with 55% before the spin-off (see Exhibit 3).

The company is listed on the Euronext Paris Stock Exchange and the largest shareholder remains Bellon SA, the family holding company of the founder Pierre Bellon, with a 42.8% stake and 57.9% voting rights as of 31 August 2023.

Exhibit 3

Business and Administrations remains Sodexo's largest segment after Pluxee spin-off

Revenue by segment, fiscal 2023



Source: Company

Detailed credit considerations

Post spin-off, Sodexo will be less diversified and its margin will be lower, but its business profile will remain strong

The spin-off of Pluxee is a material transaction for Sodexo as Pluxee generated around 27% of the group's reported operating profit in fiscal 2023 (ended August 2023) and it has a materially higher margin than the catering and facility activities. While Pluxee's revenue is modest compared with that of Sodexo's remaining business (around €1.1 billion, compared with €22.6 billion), Pluxee's growth profile is stronger given that the meal vouchers business is less mature.

Exhibit 4

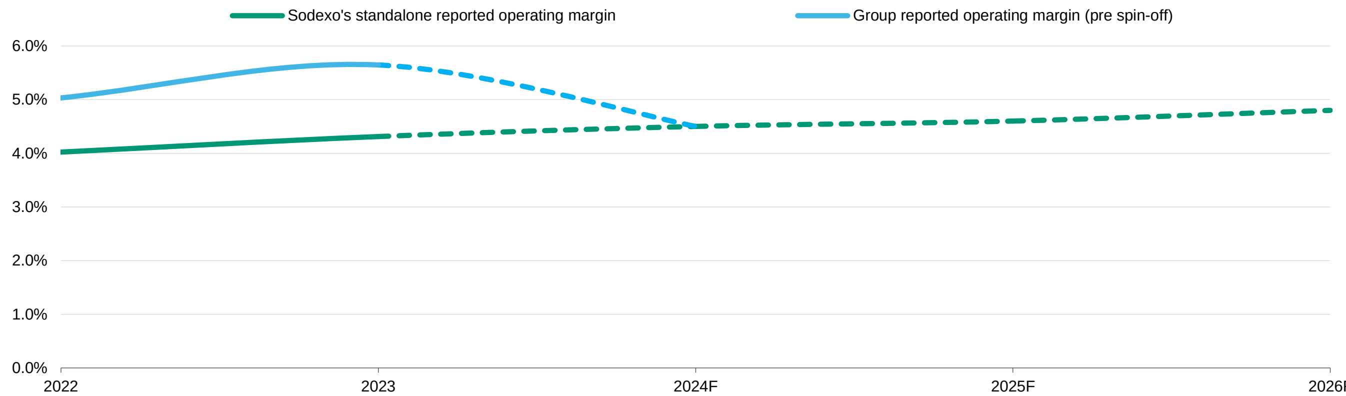
Sodexo Group's key financials pre- and post- Pluxee spin-off

FY 2023 - in EUR million	Group (pre Pluxee spin-off)	Pluxee	Sodexo (post Pluxee spin-off)
Revenue	23,727	1,099	22,637
Reported operating profit	1,335	364	976
Reported EBITDA	1,617	422	1,195
Reported EBITDA margin	7%	38%	5%
Reported capex	454	116	338
Reported EBITDA - Capex	1,163	306	857

Source: Company and Moody's Investors Service

Exhibit 5

The group's reported operating profit margin will reduce by around 100 bps post Pluxee spin-off
Reported operating margin



Source: Company and Moody's Investors Service

Following the Pluxee spin-off, Sodexo will be less diversified, and will be exposed to the execution risks associated with the separation. However, we consider that Sodexo's business profile will remain strong after the spin-off, notwithstanding its reduced business diversification and the reduced profitability resulting from the deconsolidation of the highly profitable and cash generative Pluxee business. Sodexo's business profile will continue to be supported by its broad service offerings and its leading market share in worldwide catering and facilities management, with significant barriers to entry. Similarly, Sodexo's business profile will remain supported by the steady nature of the catering and facility management business, with moderate exposure to cycles.

In terms of financial impact, Sodexo will have a higher leverage post spin-off. Sodexo's net reported debt/EBITDA increased to 2.4x (2023 pro forma for the €610 million of debt that has been pushed down to Pluxee and pre IFRS16), from 1x in fiscal 2022. Sodexo intends to progressively reduce its leverage and continues to target a reported net debt/EBITDA between 1x and 2x over the next one to two years.

One of the world's largest providers of contract catering and integrated facilities management

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 after Compass Group PLC (Compass, A2 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.

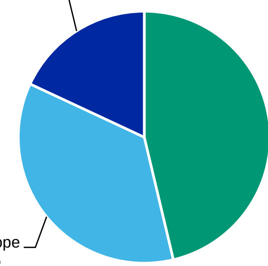
Within integrated facilities management, competition is limited mainly to large global companies such as ISS Global A/S (Baa3 stable), and includes providers of property-related or hard facilities management services such as Jones Lang LaSalle Incorporated (Baa1 stable) and CBRE Services, Inc. (Baa1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

Following the spin-off, Sodexo intends to maintain its leading position in catering while growing its business by leveraging its food expertise, complementing it with advanced food models and scaling its sustainable food offer. With regard to the facility management business, the company intends to selectively pursue growth opportunities in chosen markets, with appropriate scale.

Balanced geographic footprint across Europe, North America and Latin America

Sodexo has a balanced revenue mix in terms of geography and end markets, reflecting its strong global market positions. Revenue remains fairly balanced between North America (46% of revenue in fiscal 2023) and Europe (36% in the same period), whereas Rest of the World accounts for 18% of total (see Exhibit 4). Despite Pluxee's spin-off, which reduces geographic and business diversification, the company's balanced footprint supports its strong business profile.

Exhibit 6
Sodexo mainly operates in developed markets
Revenue by region, fiscal 2023



Source: Company

Slow profit recovery towards pre-pandemic levels

Sodexo's profitability was significantly affected by the pandemic, owing to the lockdowns and the closure of customers' premises that depressed the group-reported operating margin to 3% in fiscal 2020, compared to around 5% before the pandemic. Since then, the company has progressively increased reported operating margin, despite the continued rise in inflation. Indeed, the company has implemented subsequent price increases to offset the impact of food and wage inflation on profitability, supported by cost-plus-basis contracts and indexation clauses, particularly in the UK and the US. Additionally, Sodexo has also put in place other mitigating actions, which include menu optimization and procurement efficiencies.

In fiscal 2023, Sodexo reported an underlying operating margin of 4.3%, higher than the 4.0% registered in fiscal 2022 on a standalone basis. This translated into a Moody's-adjusted EBITA margin of 4.8%, compared with 4.3% in fiscal 2022.

As we highlighted in our December 2023 Sector in Depth report on the facility management sector, we expect Sodexo's margin to continue to recover towards pre-pandemic levels over the next two to three years, despite higher wages. Such recovery will also be supported by normalized food prices.

Without the contribution of the highly profitable and cash-generative Pluxee business, we expect management to continue to gradually increase operating margin year over year, with a target to improve its Moody's-adjusted EBITA margin to slightly above 5% over the next two to three years. However, such margin improvement entails some execution risks and will be not be an easy task, given that the company expects to increase new contracts win, which are usually margin dilutive in the first years.

Credit metrics will remain high for the Baa1 rating over the next 12-24 months

We expect Sodexo's credit metrics to remain weak for the current Baa1 rating, following the spin-off. As of fiscal 2023 end, the company reported net debt/EBITDA of 2.4x, corresponding to a Moody's-adjusted debt/EBITDA ratio of 4.6x. Its Moody's-adjusted RCF/net debt ratio was 15.7% in the same period.

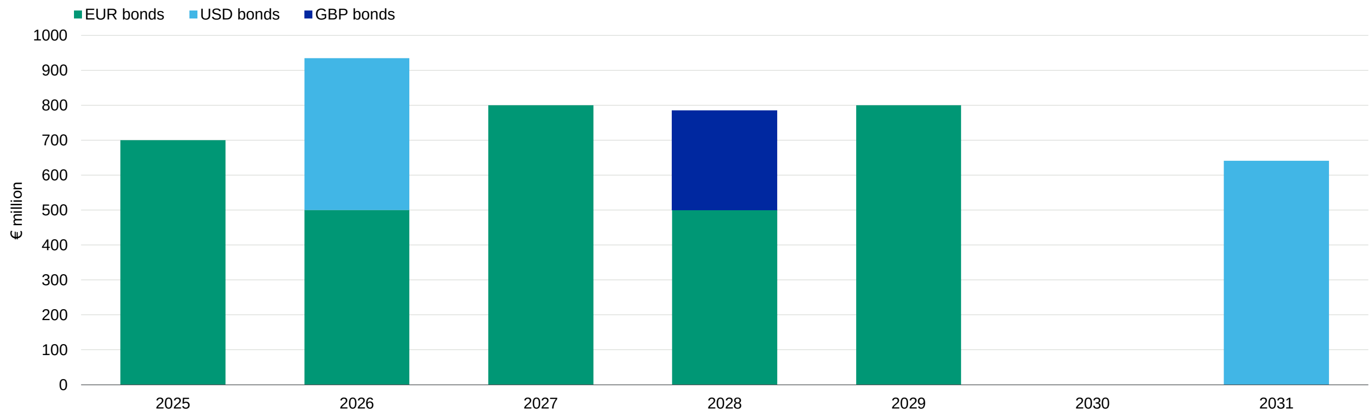
While we forecast a progressive reduction in leverage, in line with the company's medium-term target, Sodexo's key credit metrics will remain weak for the rating over the next 12-24 months, with Moody's-adjusted debt/EBITDA between 3.7x and 3.4x and Moody's-adjusted RCF/net debt at around 20%-25% in fiscal 2024 and 2025.

As a result, Sodexo will have limited room to maneuver to withstand potential business underperformance, considering the execution risks associated with the separation of Pluxee, in the absence of absolute gross debt reduction. Nevertheless, the company held a relatively large cash balance of around €2 billion as of fiscal 2023, part of which could potentially be used to reduce gross debt and improve credit metrics.

Liquidity analysis

We expect Sodexo's liquidity to remain excellent after the Pluxee spin-off. As of fiscal 2023, Sodexo had €2.0 billion of cash on its balance sheet and access to an undrawn committed revolving credit facility of €1.3 billion maturing in July 2026, and to €300 million worth of committed bilateral loans maturing in December 2025. We expect Sodexo to generate free cash flow of around €150 million in 2024 and more than €330 million in 2025, including dividends paid. These liquidity sources are sufficient to cover the debt repayments coming due in 2025, including the €700 million bond maturing in April 2025. The company already repaid the €500 million bond maturing in January 2024 and the €300 million bond maturing in May 2025.

Exhibit 7
Sodexo has a well-spread debt maturity profile

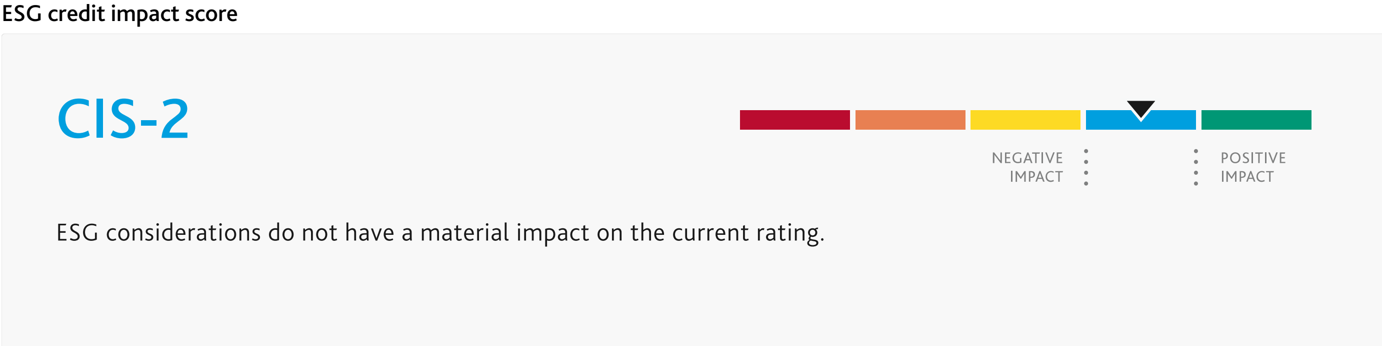


This debt maturity profile excludes the €500 million bonds due in January 2024 and the €300 million bonds due in May 2025 which have been repaid in fiscal 2024.
Source: Company and Moody's Investors Service

Environmental, social and governance considerations

Sodexo SA's ESG credit impact score is CIS-2

Exhibit 8
ESG credit impact score



Source: Moody's Investors Service

Sodexo's **CIS-2** indicates that ESG considerations are not material to the rating. The company has moderate exposures to environmental and social risks and no material exposure to governance risks.

Exhibit 9
ESG issuer profile scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2

Source: Moody's Investors Service

Environmental

E-3. Sodexo relies on natural resources, particularly food commodities, and is therefore exposed sustainability risks in its sourcing. The company is also exposed to waste and pollution and carbon transition as it relies on the operation of a fleet of internal combustion engine (ICE) vehicles, which will need to transition to alternative fuel (AF) vehicles.

Social

S-3. Sodexo is primarily exposed to risks related to societal trends, customer relations, human capital and responsible production. Human capital risks emanate from its very large workforce. At times of high employment, Sodexo could be vulnerable to wage inflation to attract talent, which in turn could impact the company's profit margins. However, the company has a good track record of passing through wage inflation to clients. Exposure to responsible production reflects supply chain risks related to food quality standards. In addition, Sodexo faces exposure to societal trends related to more frequent remote working and healthier eating habits which could hinder recovery in revenue towards pre-pandemic levels. However, none of these social risk exposures have had a material impact on Sodexo's credit profile.

Governance

G-2. Sodexo has a balanced financial strategy, supported also by its excellent liquidity profile. Following Pluxee's spin-off, the company continues to target a reported net debt/EBITDA between 1x and 2x over the medium term, compared to 2.4x registered as of August 2023. However, the company has also demonstrated a higher tolerance to operate with a higher leverage than its target for a relatively long period of time. As a result, the assessment of the company's Financial Strategy and Risk Management was changed to 2 from 1. Sodexo's ownership is concentrated on the Bellon family, which controls the majority of voting rights. One of these family members is the chairwoman and CEO. At the same time, 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.

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.

Methodology and scorecard

The principal methodology used in these ratings was our Business and Consumer Service Industry rating methodology, published in November 2021.

The Baa1 rating is one notch above the scorecard-indicated outcome on a forward-looking basis, reflecting the high initial leverage and the expectation that leverage will progressively reduce towards the company's mid-term target.

We have recently changed the Financial Policy score to Baa from A to reflect the company's tolerance to operate with higher leverage than its target.

Exhibit 10
Rating factors
Sodexo SA

Business and Consumer Service Industry Scorecard [1][2]	Current FY 08/31/2023 PF		Moody's 12-18 Month Forward View As of 1/26/2024 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$24.6	A	$26.2 - $28.5	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	4.8%	Ca	5.0%	Caa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	4.6x	B	3.4x - 3.7x	Ba
b) EBITA / Interest	5.6x	Ba	6.7x - 7.2x	Baa
c) RCF / Net Debt	15.7%	Ba	19.9% - 25.2%	Baa
Factor 5 : Financial Policy (10%)				
a) Financial Policy	A	A	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa2
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 8/31/2023. Figures are proforma for Pluxee spin-off (Pluxee is accounted as discontinued operation)
[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 11

Category	Moody's Rating
SODEXO SA	
Outlook	Negative
Issuer Rating -Dom Curr	Baa1
SODEXO INC.	
Outlook	Negative
Bkd Senior Unsecured	Baa1

Source: Moody's Investors Service

Appendix

Exhibit 12
Peers comparison

	Sodexo SA Baa1 Negative			Compass Group PLC A2 Stable			Cintas Corporation A3 Stable		
in USD millions	FYE Aug-21	FYE Aug-22PF	FYE Aug-23PF	FYE Sep-21	FYE Sep-22	FYE Sep-23	FYE May-22	FYE May-23	LTM Nov-23
Revenue	20,833	22,292	24,019	24,508	32,678	38,047	7,854	8,816	9,194
EBITDA	1,182	1,374	1,532	1,913	3,000	3,555	2,058	2,291	2,422
Total Debt	8,503	6,949	7,199	6,343	6,291	6,237	2,986	2,686	2,885
Cash & Cash Equivalents	4,172	2,287	2,198	2,481	2,823	1,029	59	91	53
EBITA Margin %	3.1%	4.3%	4.8%	5.5%	7.5%	7.9%	22.1%	22.2%	22.6%
EBITA / Interest Expense	4.5x	6.9x	5.6x	8.1x	14.7x	11.5x	18.6x	16.7x	18.7x
Debt / EBITDA	7.3x	5.5x	4.6x	3.4x	2.4x	1.8x	1.5x	1.2x	1.2x
RCF / Net Debt	20.9%	13.9%	15.7%	36.0%	44.0%	37.8%	49.5%	58.1%	54.4%

Source: Moody's Investors Service

Exhibit 13
Select Moody's-adjusted metrics
Sodexo SA

in EUR million	FY 2019	FY 2020	FY 2021	FY 2022PF	FY 2023PF	FY2024F	FY2025F	FY2026F
INCOME STATEMENT								
Sales	21,954	19,321	17,428	20,263	22,637	23,995	25,435	26,834
EBITDA	1,906	1,048	989	1,249	1,444	1,575	1,694	1,841
EBITDA Margin %	8.7%	5.4%	5.7%	6.2%	6.4%	6.6%	6.7%	6.9%
EBITA	1,355	554	548	876	1,079	1,188	1,284	1,408
EBITA Margin %	6.2%	2.9%	3.1%	4.3%	4.8%	5.0%	5.0%	5.2%
Interest Expense	172	165	122	127	193	178	177	188
BALANCE SHEET								
Cash	1,781	2,015	3,534	2,274	2,025	1,999	1,954	1,942
Total Debt	5,410	6,574	7,203	6,911	6,633	5,828	5,828	5,828
CASH FLOW								
CAPEX	(855)	(775)	(538)	(462)	(524)	(619)	(644)	(669)
Retained Cash Flow (RCF)	1,075	347	766	646	723	764	978	1,042
Free Cash Flow (FCF)	467	(379)	430	90	26	145	333	372
RCF / Net Debt	29.6%	7.6%	20.9%	13.9%	15.7%	19.9%	25.2%	26.8%
FCF / Debt	8.6%	-5.8%	6.0%	1.3%	0.4%	2.5%	5.7%	6.4%
INTEREST COVERAGE								
EBITA / Interest Expense	7.9x	3.3x	4.5x	6.9x	5.6x	6.7x	7.2x	7.5x
(EBITDA - CAPEX) / Interest Exp.	6.1x	1.7x	3.7x	6.2x	4.8x	5.4x	5.9x	6.2x
LEVERAGE								
Debt / EBITDA	2.8x	6.3x	7.3x	5.5x	4.6x	3.7x	3.4x	3.2x
Net Debt / EBITDA	1.9x	4.4x	3.7x	3.7x	3.2x	2.4x	2.3x	2.1x

FY2018 to FY2021 figures include Pluxee's operation, while FY2022 and FY2023 figures are pro forma for Pluxee spin-off (Pluxee is accounted as discontinued operation). FY2024-25 figures are our forecasts and refer to the current Sodexo's perimeter.
Source: Moody's Investors Service

Exhibit 14

Moody's-adjusted debt breakdown

Sodexo SA

(in EUR Millions)	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21	FYE Aug-22 PF	FYE Aug-23 PF
As Reported Debt	**3,985**	**4,118**	**6,378**	**7,032**	**6,695**	**6,424**
Pensions	237	244	195	171	131	129
Operating Leases	1,029	1,047	0	0	0	0
Non-Standard Adjustments	2	1	1	0	85	80
Moody's-Adjusted Debt	**5,253**	**5,410**	**6,574**	**7,203**	**6,911**	**6,633**

SY2018 to FY2021 figures include Pluxee's operation, while FY2022 and FY2023 figures are pro forma for Pluxee spin-off (Pluxee is accounted as discontinued operation).
Source: Moody's Investors Service

Exhibit 15

Moody's-adjusted EBITDA breakdown

Sodexo SA

(in EUR Millions)	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21	FYE Aug-22 PF	FYE Aug-23 PF
As Reported EBITDA	**1,362**	**1,483**	**1,031**	**977**	**1,306**	**1,393**
Pensions	-1	0	-2	-10	-6	-1
Operating Leases	343	349	0	0	0	0
Unusual	69	74	19	22	-51	52
Moody's-Adjusted EBITDA	**1,773**	**1,906**	**1,048**	**989**	**1,249**	**1,444**

FY2018 to FY2021 figures include Pluxee's operation, while FY2022 and FY2023 figures are pro forma for Pluxee spin-off (Pluxee is accounted as discontinued operation).
Source: Moody's Investors Service

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