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Research Update:

French Servicer Provider Sodexo Short-Term Rating Raised To 'A-1'; 'A-' Long-Term Rating Affirmed; Outlook Stable

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Overview

- Despite a volatile global economic environment, France-based onsite and benefit services provider Sodexo has reported organic growth of more than 2% and relatively stable operating margins in 2015.
- We are raising our assessment of Sodexo's liquidity to exceptional because of strong cash generation and the absence of significant debt maturities.
- We are raising our short-term corporate credit rating on Sodexo to 'A-1' from 'A-2'. At the same time, we are affirming our 'A-' long-term corporate credit and debt ratings on Sodexo.
- The stable outlook reflects our expectation that Sodexo will generate good cash flow and maintain low debt with conservative financial policies over the next one to two years.

Rating Action

On Feb. 1, 2016, Standard & Poor's Ratings Services raised to 'A-1' from 'A-2' its short-term corporate credit rating on France-based onsite and benefit services provider Sodexo and assigned an 'A-1' short-term issue rating to Sodexo's proposed commercial paper program. At the same time, we affirmed the 'A-' long-term corporate credit rating on the company, and the 'A-' issue-level ratings on the two outstanding bonds, which mature in 2022 and 2026. The outlook on the long-term corporate credit rating is stable.

Rationale

Sodexo's liquidity position has improved through continued strong cash generation and because it has no significant debt maturities in the next two years. We expect Sodexo's ratio of sources to uses of liquidity to increase to above 2x, and despite regular modest discretionary cash outflows, we expect the company to maintain conservative financial policies. To reflect Sodexo's strengthening liquidity position, we revised our liquidity assessment for Sodexo to exceptional from strong and subsequently raised the company's short-term corporate credit rating to 'A-1' from 'A-2'.

The affirmation of the 'A-' long-term corporate credit rating reflects our view that Sodexo's strong market positions in diversified geographies and its strategy of focusing on providing integrated services will continue to help generate good cash flows and maintain solid financial measurements over the

next one to two years, despite pressure from South American markets and currency fluctuation risks.

We expect Sodexo to continue to face difficult conditions in South America and in Europe, given the overall volatile global economic environment expected in 2016. Pressure could also arise from Sodexo's exposure to lower commodity prices. However, we anticipate that the company will continue to effectively protect its margins and generate cash through steady organic growth and will pursue efforts in cost-cutting plans and efficiency programs.

Our base case assumes:

- Organic revenue growth of 2%-3% in the next one to two years;
- Stable EBITDA margins of about 7% and minimal change in working capital and capital expenditure;
- Dividend payouts of about €360 million for the next one to two years, share repurchases of about €400 million in 2016, and around €100 million in the following years to satisfy employees' compensation programs; and
- No significant refinancing or debt maturities in the next two years.

Based on these assumptions, we arrive at the following credit measures for the next one to two years:

- Adjusted debt to EBITDA ratios of about 1.5x;
- Adjusted funds from operations (FFO) to debt of about 40%-45%; and
- Adjusted free operating cash flow to debt of about 30%.

Liquidity

We base our 'A-1' short-term rating on the company's exceptional liquidity profile. We expect the company's sources of liquidity to exceed 2.0x its uses in 2016 and 2017, and its net sources to be positive, even if EBITDA declines by more than 50%. We consider that the company's strong standing in domestic and overseas financial markets supports its liquidity.

Principal liquidity sources for 2016 include:

- Cash and cash equivalents of about €2.3 billion, excluding €440 million restricted cash tied to the vouchers' segment.
- Unused credit committed lines of about €1 billion, available until 2020.
- Cash FFO of about €840 million.

Principal liquidity uses for 2016 include:

- Seasonal working capital requirement (and potential maturities of the commercial paper program) of about €600 million.
- Capital expenditure of about €300 million.
- Dividends and share repurchases of about €750 million.

Outlook

The stable outlook reflects our view that Sodexo will continue to deliver a resilient operating performance, even though it is likely to operate in a volatile economic environment over the next 18 months. Under our base case, we

expect the company's Standard & Poor's-adjusted FFO to debt to remain above 40%, and acquisition spending and shareholder returns to be moderate.

Downside scenario

We could consider lowering the rating if the company undertook significant net debt-financed acquisitions during the fiscal year ending Aug. 31, 2016, resulting in adjusted FFO to debt falling below 30%. We would also likely lower our rating if limited business development in France or Latin America weakened operating performance, if exposure to commodity prices increased cost base instability, or if the company adopted a more-aggressive shareholder returns policy.

Upside scenario

We could consider raising the ratings if Sodexo sustainably strengthened its financial risk profile, achieving adjusted FFO to debt above 45% on a sustainable basis. If we saw the company meet its 2016 margin objectives, coupled with targeted acquisitions and consistent shareholder returns, we could also consider raising the ratings.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/A-1

Business risk: Strong

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Intermediate

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014

- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue - April 15, 2008

Ratings List

Sodexo

	To	From
Sodexo		
Sodexo Inc.		
Corporate Credit Rating	A-/Stable/A-1	A-/Stable/A-2
Senior Unsecured	A-	A-
Commercial Paper	A-1	

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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