Research Update:

ITM Entreprises Assigned 'BBB-' Rating; Outlook Negative On M&A Execution Risk

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Rating Action Overview

- ITM Entreprises (ITME) is the financing subsidiary of Société Les Mousquetaires S.A.S. (SLM), the supply cooperative of Group Les Mousquetaires (the groupement), France's third-largest grocery and do-it-yourself (DIY) retail group. The group comprises more than 4,000 independent retail stores that are outside the consolidated perimeter of SLM and are owned and operated by more than 3,000 members of the cooperative, of which 1,715 are SLM shareholders.
- Our 'BBB-' rating on ITME is derived from our perception of the credit quality of its parent company and consolidating entity, SLM. This rating is underpinned by the group's efficient business model, which has enabled it to consistently gain market share over the past few years. Additionally, we expect SLM will maintain an S&P Global Ratings-adjusted leverage of 3.5x or lower, in line with its financial policy, notably due to the good financial standing of the independents, which we think will support SLM's credit standing.
- That said, we think SLM's largely debt-funded acquisition of the 294 stores from Casino, which will be transferred to group members, presents significant execution risks since they were underinvested until now, and SLM will bear a large portion of turnaround costs. However, we acknowledge the conversion of previously acquired stores has so far been successful.
- We also assigned a 'BBB-' rating to ITME's outstanding fixed €300 million notes, which mature in July 2029.
- The negative outlook reflects the risk that SLM may not maintain an adjusted debt to EBITDA of 3.5x or lower due to high one-off costs associated with the Casino deal, amid still soft volumes.

Rating Action Rationale

Our rating on ITME is intrinsically linked to the operating performance and financial strength of SLM and its unconsolidated independent retail members. Our rating on ITME, the operating and financing holding of Group les Mousquetaires, is largely derived from our credit assessment of its parent company, SLM, which consolidates and controls ITME together with other operating subsidiaries of the Supply Cooperative, while Independent retailers are separate legal entities and

are not consolidated in the SLM's accounts. SLM has an instrumental role in the group's strategy and operations, considering it:

- Purchases and supplies goods to more than 4,000 stores operating under the group's banners, namely Intermarché, Netto, Bricomarché, Bricorama, Brico Cash, Roady, and Rapid Pare-Brise.
- Oversees supply chain logistics and provides IT, advertising, and training support to retailers.
- Acts as the group's main governance body, ensuring consistency in the merchandizing and pricing strategy for all independent retailers, which in turn own and control SLM through a collegial organization and decision-making process.

As such,SLM and the independent retailers operating under the group's banners are interdependent. SLM's aim is not to maximize profitability but to pass downstream the value it creates to the retailers it serves, after retaining sufficient earnings, covering overhead costs, and funding its investment needs, while securing a certain level of financial leverage in accordance with its financial policy. The independent retailers, in turn, have an interest in supporting SLM's ability to fulfill its mission. This is why we consider the performance and competitive standing of the independent retailers in our analysis of SLM's business profile.

Yet, our analysis of SLM's financial standing primarily focuses on the co-op's stand-alone ability to service its debt with its own cash flow. SLM and the independent retailers are separate legal entities, with separate accounts, funding, and credit standing. Therefore, when calculating SLM's adjusted credit metrics, we do not consolidate the operations of the independent retailers. This approach is further supported by the absence of cross-default, cross-acceleration, guarantees or cash pooling between SLM and the independent retailers. Lastly, SLM does not provide ongoing financial support to underperforming independent retailers.

As a supply co-op, SLM has lower operating margins than those of the independent retailers. SLM's margins are attributed to its board, a governance body that includes the independent retailers in their capacity as shareholders. As such, SLM's credit standing hinges on the financial policy and leverage target defined by its board. SLM's board allocates earnings in a way that ensures SLM's reported debt to EBITDA (leverage) is about 2.5x (i.e., excluding independent retailers), or about 3.5x on an S&P Global Ratings-adjusted basis. The board also aims to sustain funds sufficient to cover its capital expenditure (capex) plans. We understand the average leverage of the independent retailers is lower than that of SLM.

The groupement is well positioned in the French grocery market. The groupement benefits from a store footprint largely composed of moderate-sized supermarkets (hypermarkets account for only 13% of sales), located near large consumer groups predominantly focused on food. This means the groupement, unlike large hypermarkets, felt little pressure from the rise of competition from online stores in the nonfood segment. Furthermore, the independent model has an incentive structure that enables greater price competition. Store ownership gives the independent retailers control over costs. Also, the independent retailers benefit from an inherently more flexible cost structure than integrated retailers and are more agile in optimizing the cost base. Furthermore, by nature, the Groupement allows for fewer-loss-making stores than traditional retailers, because no independent retailer could continue running a store that is structurally unprofitable. . In turn, this greater control on costs enables some flexibility on prices, which are collectively decided. The attractive prices generate high traffic, allowing the group to maximize volumes while enhancing SLM's strong bargaining power with suppliers. In the context of soft volumes, the group can preserve its volumes and market position. Its strategy has been efficient in recent years, with a market share increasing to 17.4% in September 2024 from 14.5% in early February 2018. This is

despite the rise of German discounters and in contrast to integrated peers, which have at best stabilized their market shares (Carrefour) or lost significant ground to competitors (Auchan and Casino). Furthermore, SLM's vertical integration into food processing (56 production units) enhances its independence of supplies, cost control, and rapid adaptation to consumer demand thanks to a large private label offering.

With the acquisition of 294 Casino stores, SLM's leverage will remain elevated for the next couple of years. Over the past few years, SLM's leverage has been on the higher end of its 2.5x financial policy in reported terms. This corresponds to about 3.5x when adjusted by S&P Global Ratings, factoring in the acquisition of two batches of Casino stores and high inflation, which has weighed on SLM's retained margin. To fund the acquisition of the last batch of stores, SLM raised €1.1 billion in debt, composed of a €350 million term loan and a €750 million bridge to bond, the latter of which was partially refinanced in July 2024 with a €300 bond issuance. This will translate to an S&P Global Ratings-adjusted debt to EBITDA of about 3.5x over the next two years. The negative outlook reflects that this leverage leaves no headroom under the current rating.

The Casino acquisitions also carry heightened execution risk, which further supports the negative outlook. We view the Casino stores as largely underinvested. As the central body of the groupement, SLM manages most mergers and acquisitions (M&A), meaning it bears the cost, at least temporarily, of all related operations. Although we expect most of these stores to be ultimately transferred to the independents, we note that SLM will bear some integration, restructuring, and transaction-related costs, which will weigh on S&P Global Ratings-adjusted EBITDA. Furthermore, we understand proceeds from the disposal of stores to independents will not fully compensate for the €1.1 billion added to the balance sheet to fund the acquisition. In fact, we think this could potentially give rise to governance tensions since only some independent retailers will directly benefit from increased store sales. That said, all independents should benefit from higher volumes, which will translate into better buying conditions, and thus, a gross profit improvement. Maintaining leverage below 3.5x should hinge on retaining more earnings than the group has done historically, which may be prove difficult if the competitive environment remains challenging and independents seek to preserve their own profitability.

That said, we expect the groupement will uphold its commitment to low leverage at SLM, on the back of the independent retailers' stronger credit quality. We understand the independent retailers have agreed to a level of retained earnings that SLM will preserve over the next few years, which should help to preserve the group's credit metrics. Although we do not have complete visibility into the combined credit quality of the independent retailers, we assume their overall credit standing is stronger than that of SLM. We estimate the groupement's total adjusted consolidated leverage, comprising S&P Global Ratings-adjusted debt of SLM and our estimate of the independent retailers' aggregated debt, including their personal holding company debt pro forma of our adjustments, stood near 2.4x in 2023. We project it will remain broadly at that level over the coming years, indicating the groupement's financial potential to support improvements in SLM's credit quality. However, in our view, these stronger credit metrics do not structurally enhance the rating due to governance reasons and our focus on SLM's standalone creditworthiness, which includes:

- We do not have full visibility on each independent retailer's creditworthiness since we only see the portion of their debt that relates to the acquisition of the store they own.
- There are no formal audited financial statements for the groupement as a whole, which includes both independents and SLM. This may translate into additional debt or profitability

adjustments we may not be capturing, raising questions about the reliability of our leverage calculation.

- There is no cross-default or guarantees from or to SLM that could directly influence the independents' creditworthiness based on that on SLM.

Positively, we acknowledge our calculations are somewhat conservative because the lease debt we incorporate at the independent level is sizable (€2.5 billion), while most of the stores are actually owned by the independents or SLM (more than 90% of the store portfolio) through separate vehicles.

Collective governance mechanisms are a key component of the rating. As demonstrated in 2022, the collegial decision-making process of the groupement means that support from the independent retailers is not systematic, and SLM's management cannot act discretionarily to retain higher earnings if needed. The group has often exceeded its 2.5x leverage target in the past and is likely to exceed it again in 2024, (although still complying with our 3.5x leverage expectation), reaching about 2.8x as per the company's reported terms. Current budget talks involve structurally higher EBITDA over the next few years, but we assume this could change if market conditions deteriorate more than the groupement anticipates. The negative outlook also reflects our uncertainty regarding the groupement's long-term adherence to low leverage at SLM level in this complex market context, characterized by high inflation and the first signs of market recomposition following Casino's takeover offer by a consortium of financial owners.

Outlook

The negative outlook reflects the risk that SLM may not maintain S&P Global Ratings-adjusted leverage below 3.5x due to:

- A more muted EBITDA growth than what we anticipate because of an unsupportive market landscape characterized by still-soft volumes, prompting the group to prioritize independent retailers' earnings over those of SLM.
- The increase in net debt and high execution risk associated with the M&A transactions undertaken in 2023 and 2024.

Downside scenario

Specifically, we could lower the ratings if, over the coming two years, the group's adjusted EBITDA margin, incorporating one-off costs associated with the Casino transaction, does not increase at least in line with our base case. This would translate to:

- S&P Global Ratings-adjusted debt to EBITDA exceeding 3.5x and funds from operations (FFO) to debt declining to below 20%;
- Proceeds from asset disposals or other financial support measures failing to meaningfully offset the sizably negative cash flow; or
- Evidence of a less supportive and predictable financial policy than originally expected, or insufficient support from independents to enable SLM to achieve or maintain its targeted leverage thresholds.

Upside scenario

We could revise the outlook to stable if, on the back of a strong operating performance and a successful integration of the Casino store network, S&P Global Ratings-adjusted EBITDA exceeds €1.1 billion and S&P Global Ratings-adjusted debt to EBITDA remains below 3.5x. This would be alongside FFO to debt approaching 30% and cash flow improving from 2025, either thanks to supportive financial policy measures or greater operational resilience than we currently foresee.

An outlook revision to stable would also hinge on broadly stable combined credit metrics, incorporating both SLM and the independent retailers' aggregated performance, such that the improvement in SLM's credit quality is durable and not achieved at the detriment of the independent retailers.

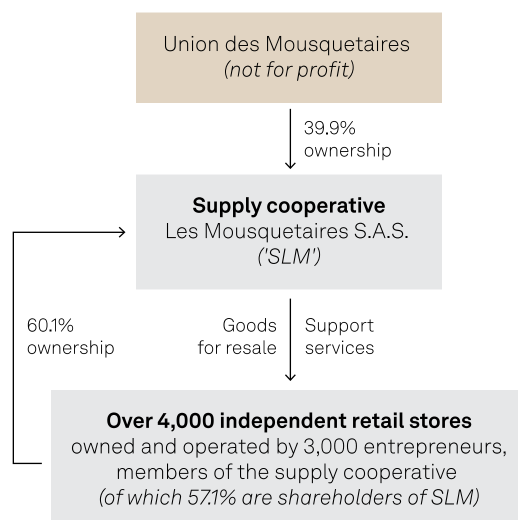
Company Description

Group Les Mousquetaires is a grocery and DIY retail group formed by the supply co-op Les Mousquetaires S.A.S. and more than 4,000 independent retail stores, which are owned and operated by more than 3,000 members of the co-op. SLM, the rated entity, does not consolidate the independent retailers in its accounts.

The group operates in the grocery segment under Intermarché and Netto; in the DIY segment under BricoMarché, BricoCash, and Bricorama; and in the car services segment under Roady and Rapid Pare-Brise. In 2023, the group generated €52.8 billion of sales (incorporating fuel sales).

SLM is majority owned (60.1%) by half of its approximately 3,000 members. The remaining 39.9% is held by Union des Mousquetaires, a not-for-profit organization representing the members who are not shareholders, granting them only one vote each in the general assembly.

Group organization



Our Base-Case Scenario

Assumptions

- France's real GDP to grow about 1.1% in 2024 and 1.2% in 2025. The EU's real GDP to grow 1% in 2024 and 1.7% in 2025. Consumer price index in France to grow 2.5% in 2024, before slowing to 1.9% in 2025.
- Lower food inflation and energy costs, combined with relatively high employment rate, should constitute a more mitigated trading environment for food retailers in Europe in 2024-2025 versus 2022-2023. That said, high interest rates, geopolitical uncertainties, and raising labor costs may still weigh on consumers' sentiment and retailers' profitability. In this context, we expect the fragmented French food retail market to remain extremely competitive on prices. We expect group revenue to expand by more than 2% in 2024 on a like-for-like basis as a result of a slight pick-up in volumes. While food inflation has normalized, volumes remain soft but are expected to pick up in the second half of 2024, on the back of a recovering purchase power of customers and Intermarché's relatively attractive price point.
- The acquisition of Casino stores will bring about €3 billion of additional sales from the SLM and thus bring overall growth to about 16% this year, before normalizing thereafter to about 2% higher.
- Gross margins are still low by historical standards, driven by a combination of higher purchasing price than before the pandemic, only progressive price increases, and changes in the product mix. However, we expect a slight pickup each year on the back of normalized pricing levels.
- S&P Global Ratings-adjusted EBITDA increases to about €1 billion for 2024 then inches back to €900 million 2025, in line with SLM's objectives of retaining a higher share of profit. That incorporates our anticipation of higher one-off costs in relation to the acquisition of the Casino store network, which we estimate all-in to be about €200 million for 2024 and another €475 million in 2025, as well as the group's recurring reorganization costs of about €120 million per year.
- A deterioration of working capital in 2023 and a normalization thereafter.
- Gross capex remains at about 2% of sales, somewhat compensated by asset disposals to independents, the pace and scale of which is relatively uncertain.
- Recurring asset disposals of about €195 million-€200 million per year. While we would normally not incorporate asset disposals in our projections, we consider they are largely concluded with related parties so are very likely to go through.
- About a €1 billion M&A outflow following the acquisition of the last batch of stores from Casino.
- Over the forecast period, and in line with company's expectations, about €430 million of proceeds related to Casino store disposals to independents. Alongside that, we expect the group to continue disposing of real estate assets to third-party investors.
- No material dividends.

Key metrics

Table 1

Les Mousquetaires--Key credit metrics*

	--Fiscal year ended Dec. 31--			
(Mil.€)	**2023a**	**2024e**	**2025e**	**2026e**
Revenue	41,143	47,905	46,267	47,173
Revenue growth (%)	9	16	(3)	2
EBITDA	857	1,003	900	1,211
EBITDA margin (%)	2.1	2.1	1.9	2.6
Funds from operations (FFO)	670	754	671	957
Gross Capital expenditure	1,145	862	787	802
Free operating cash flow (FOCF) after leases & asset disposals	(319)	409	400	263
Debt**§	2,993	3,500	3,056	2,981
Debt to EBITDA (x)	3.5	3.5	3.4	2.5
FFO to debt (%)	22.4	21.5	21.9	32.1
Groupement credit metrics*†**				
Combined EBITDA	2,851	3,230	3,180	3,698
Combined Adjusted Debt	6,936.1	7,805.5	7,471.4	7,396.2
Debt to EBITDA (x)	2.43	2.42	2.35	2.00
Independents - Standalone **‡**				
Combined Independents EBITDA	1,995	2,227	2,279	2,487
Combined Independents Debt (including Holdco Independents holco Debt)	3,943.0	4,305.4	4,415.5	4,415.5
Debt to EBITDA (x)	1.98	1.93	1.94	1.78

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. §S&P Global Ratings-adjusted debt comprises the SLM consolidated financial debt and lease debt and also debt items owed to Independents, which account for €1.1 billion in 2023; a portion of that debt feeds ITM's cash on balance sheet. †Groupement Credit metrics comprise: SLM credit metrics + Independents credit metrics adjusted to S&P Global Ratings criteria, incorporating the Holding Companies' debt of the Independents; ‡Independents -Standalone captures the standalone but adjusted credit metrics of Independents, pro forma of S&P Global Ratings adjustments. It is an estimate based on company-provided data, as no consolidated financial statements exist.

Liquidity

We view SLM's liquidity as adequate and mainly limited by the planned capex. We project liquidity sources will exceed uses by about 1.2x over the next 12 months. Our assessment is also supported by SLM's generally prudent risk management and sound relationships with its banks.

As of June 30, 2024, we estimate liquidity sources to be:

- About €400 million of accessible cash (excluding cash on-lent by the independents through the Groupement d'Intérêts économiques [GIE]);
- Undrawn committed bank lines of €1.8 billion, however, a portion of it is seen as a backup to the outstanding commercial paper (CP) program;

- Cash FFO of about €800 million; and
- About €775 million of proceeds from disposals, part of which has already been contracted.

Over the same period, we estimate uses of liquidity to be:

- Debt maturities and short-term debt instruments of about €1.7 billion, including NEU CP debt outstanding and the company's bridge loan facility;
- Seasonal working capital swings funded by the outstanding amount under the CP program;
- Committed capex of about €340 million; and
- Still about €350 million of M&A related outflow.

Covenants

We expect SLM will fully comply with the financial maintenance covenants included in its bank debt. These include a corporate net debt to EBITDA ratio of less than 2.75x, a corporate net debt to equity ratio of less than 100%, and a real estate net debt to asset value ratio of less than 50%.

Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of SLM.

SLM's direct exposure to environmental risks is slightly more material than that of the broader industry. This is largely due to its more integrated supply chain, translating into a higher proportion of scope 1 and 2 emissions compared to other large retailers. As part of its corporate strategy, SLM focuses on improving its environmental impact and strengthening its competitive position. The group's environmental ambitions include reducing plastic packaging, food waste, and its carbon footprint. With respect to the latter, SLM's target is to reduce scope 1 and 2 carbon dioxide emissions by 55% by 2030 compared with 2019. In comparison, other large publicly rated food retailers, such as Carrefour and Ahold Delhaize, have committed to achieving net zero for scope 1 and 2 emissions by 2040, while Tesco has set a 2035 target. That said, we acknowledge the effort is somewhat more significant for SLM considering the weight of production activities within the group's overall emissions. This distinguishes it from peers that are typically less integrated.

For Les Mousquetaires, a supply cooperative acting on behalf of independent entrepreneurs who are also shareholders of SLM, governance factors are a significant consideration in the credit profile. For now, we understand the number of independent retailers remains stable at about 3,000 members overall, of which 1,715 are SLM shareholders, representing about 4,000 stores. A broad consensus has agreed to appointing Mr. Thierry Cotillard as the continuing head of SLM, However, we expect the Casino acquisition may create some divergence among independent retailers since a handful of independent members will benefit from the earnings generated by the new stores, while a large portion of the integration costs will be collectivized. Therefore, a key performance indicator in our evaluation of governance effectiveness is the capacity to retain a broadly stable member base.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of November 2024, the group's capital structure comprises various instruments, including bank debt, private placement loans, and €300 million in outstanding public bonds, mostly standing at ITME and ranking pari passu and unsecured. We note, however, the group has two instruments sitting respectively at the Immolog level and IEM, which are two of its subsidiaries and thus have priority. Immolog's instrument is secured. They account for less than 15% of the overall debt outstanding. The group also counts about €1.2 billion of debt contracted with the Groupement d'Intérêts Economiques Les Mousquetaires. This debt is equally senior unsecured and ranks pari passu with the rest of the instruments but is short-term in nature. The amount on-lent by GIE largely stems from the independents' excess cash available.

ITM Entreprises is the debt issuing entity, while the consolidating entity is Société les Mousquetaires. We note there is little difference between the reporting perimeter of the companies.

Analytical conclusions

We rate ITM entreprises' unsecured debt at 'BBB-', mirroring the long-term issuer credit rating, because no significant elements of subordination risk are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating	**BBB-/Negative**
Business risk:	Satisfactory
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)

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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
ITM Entreprises	
Issuer Credit Rating	BBB-/Negative/--
Senior Unsecured	BBB-

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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