EthiFinance Ratings

ITM ENTREPRISES SASU

722064102 CORPORATE

BBB
ISSUER RATING
Long term

OUTLOOK
Stable

BBB
INSTRUMENT RATING
Senior Unsecured 300 M €

EF1
INSTRUMENT RATING
Neu CP

Initiation date	
Long term	20/01/2025
Senior Unsecured 300 M €	20/01/2025
Neu CP	28/11/2022
Rating Date	20/01/2025

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Rating action and rationale

- EthiFinance Ratings initiates the long-term rating of ITM Entreprises SAS (ITME), assigning a BBB with a Stable outlook. EthiFinance Ratings also assigns a BBB instrument rating to the existing €300m bond maturing in 2029. In addition, EthiFinance Ratings affirms the rating of the NEU CP instrument of ITME, for up to €1,250m, at EF1.
- ITME is a subsidiary of Les Mousquetaires SAS (SLM), which is the consolidating entity. Since most production assets are owned directly or indirectly by ITME, and most financial debt is located in ITME, our rating for ITME is considered to be equivalent to the rating of SLM as per our methodology. Unless specified otherwise, when we refer to 'the group' or 'the company' we are referring to SLM.
- The ratings are supported by the solid positioning of the group, being the n°3 retailer in France, and benefiting from good diversification in terms of stores' format and activities. Moreover, the group is active in a resilient sector, which is considered to be a low volatile industry through the cycle, which has a favourable impact on our assessment of SLM's credit metrics.
- In September 2024, the group finalised the acquisition of c. 284 stores from Casino, representing c. €3.0bn sales. The stores, acquired over the last 12 months, represented a €1.9bn investment for the group. Following the integration of the stores, SLM will gain additional market share, targeting a 20% market share in France by 2027. However, the acquisition has deteriorated the group's financial metrics. In particular, we expect the net adjusted leverage to stand at 3.7x at end-2024 (vs 2.8x at end-2022 prior to the acquisition). SLM has had a rather conservative financial policy over recent years despite the high investments made (mainly in logistics and digital). Consequently, we expect the group to deleverage quickly and to return to a more normal leverage level by end-2026 (below 3.0x), on the back of lower capex and asset sales.
- In addition, the ratings remain constrained by some characteristics of the industry assessment. The food retail sector has limited levels of profitability, only moderate and slowing growth, and strong competition among players. SLM's governance and shareholding structure are in line with what one could expect from a group of this size, despite limited transparency compared to a listed company and limited funding capacities from the partners.
- The foods & staples retailing industry has medium ESG risks under our methodology (sector heatmap score between 3 and 3.5). This results in a sector assessment which is not impacted by industry-related considerations. Regarding environmental factors, the sector has a low impact on climate issues, except for logistics, and on biodiversity. The industry has a medium impact on resources linked to the distribution means and on pollution with significant packaging issues. In addition, it presents a high impact via suppliers given the concentration in the sector, which can weaken bargaining power, and for consumers as the sector offers processed foods which can have negative impacts on health.
- Our assessment of the company's ESG policy is neutral (company ESG score of between 1.5 and 3.5), resulting in no adjustments based on ESG considerations. Governance considerations, despite being sound, remained impacted by the low independence of the board as it is fully composed of associates. Social and environmental ratings are constrained by some missing KPIs.

Issuer description

Founded in 1969, Les Mousquetaires (SLM) is the third-largest food retail group in France. It gathers over 3,000 independent associates (local entrepreneurs) and numbers around 150,000 employees and c. 4,000 stores in Europe, being present in Poland, Portugal, and Belgium in addition to France. The brands operated by SLM are: Intermarché & Netto (food), Bricomarché, Brico Cash, Bricorama (do-it-yourself), and Roady & Rapid Pare-Brise (mobility). SLM is the fifth-largest food processor in France with 56 industrial sites. It has its own logistics and property companies.

In 2023, the group signed an agreement for the acquisition of c. 195 stores from Casino with a first wave, concerning 61 stores, completed in October 2023. The second wave (c. 69 stores) was completed in September 2024. The third wave (c. 60 stores) has been cancelled following the agreement signed in December 2023 regarding the disposal of 288 stores to SLM and Auchan. This last wave has been completed between April and July 2024 with another c. 164 stores acquired by SLM. Overall, the group has acquired c. 284 stores (post disposal) from Casino for an amount of c. €1.9bn. This will enable it to grow its market share to 20% by 2027 (vs 16.4% in September 2023 before the beginning of the acquisition).

SLM operates an independent retail business model, with the group in charge of upstream activities (wholesale, purchasing & logistics) while downstream (the running of local stores) is not part of the consolidated scope and is operated by the associates. Our rating applies to the upstream operations.

The group reported revenues of over €40.9bn for 2023 with adjusted EBITDA of €946m and a net adjusted leverage ratio of 3.2x.

Fundamentals

Business profile

Industry risk assessment

- **A resilient market but one with limited growth prospects**

The rating is underpinned by the resilient nature of demand for food & grocery products - which correspond to basic needs - even though growth prospects, and specifically for volumes, are considered rather low.

The sector has been impacted by the period of very high inflation, which deteriorated the purchasing power of consumers and depressed volumes. In that context, consumption habits have shifted towards promotional products and private-label products. In particular, sales of private-label products have strongly increased, representing 39.1% of total value sold in 2024 (vs 37.1% one year earlier), according to Kantar data.

- **Strong competition among players with low barriers to entry and margins**

Barriers to entry are considered as rather low even though the sector requires efficient logistics & supply chain operations, which are capital-intensive. Competition is fierce among players in terms of prices and locality. Size is an important factor allowing better bargaining power vis a vis suppliers, absorption of fixed costs, and capacity to deploy large capex, all leading to good price positioning in a competitive market. As a consequence, profitability remains limited within the food retailing sector.

Company's competitive positioning

- **A solid positioning in the food retail sector in France which is expected to improve following the acquisition of Casino stores**

SLM is the third-largest food retail group in France. Its food retail activity focuses on supermarkets, with a significant rural positioning and with a physical presence on average each 17km in France. The group benefits from good price positioning, which is made possible by, among other factors, its vertical diversification in food processing. The group has been strengthening its share of the French food retail market, reaching 17.4% in September 2024 (vs c. 14.0% in early 2017). The acquisition of c. 284 stores from Casino should strongly improve its positioning in France with a physical presence each 10km by 2025 which will enable it to grow its market share (the company targets a 20% market share by 2027). In addition, SLM together with Auchan and Casino, created in September 2024 a purchasing alliance (food and non-food). It will be the first French central purchasing office (representing c. 30% of the market share).

The group clearly has a solid competitive position with a solid market share, and a good positioning characterized by low dependence on poorly performing large hypermarkets, which are characterized by a significant percentage of non-food products.

- **Good diversification**

SLM has diversified into Belgium, Poland and Portugal and, in terms of products, towards do-it-yourself (DIY) and mobility. However, French food retail & food processing are its main activities. We consider that the group has a good diversification profile, sustained by its various activities and stores' format, even if in terms of geography France remains by far its main market (c. 87% of FY23 revenues).

Governance

- **Shareholder structure controlled by its partners**

The group is ultimately owned at c. 60% by its partners. The rest being owned by Union des Mousquetaires. We consider that the group has a lean structure, with partners committed to - and rewarded for - running well their local stores, and who are involved in the management of the group. We note, however, that the governance is less transparent than the usual standard for listed companies of a similar size.

- **Management with a solid track-record and prudent financial policy**

We consider that the group's management has a good track record. In 2023, it demonstrated its capacity to pass on to consumers higher costs in the form of price increases without losing market share. Moreover, SLM's operating model, with associates in charge of running local stores, is in our view efficient in terms of cost management and rewards/incentives. As an example, in FY23, SLM did not distribute dividends in light of the high inflation environment and the deterioration of profitability.

However, the net adjusted leverage ratio has deteriorated due to the deal with Casino, and we forecast it at 3.7x at YE24. This level of indebtedness remains manageable, and we expect the group to renew with its rather conservative financial policy.

- **Neutral ESG policy**

Among its main ESG commitments, the group is focused on its food practices, and particularly on the quality and safety of products sold. The group also targets to reduce its greenhouse gas emissions by 55% by 2030 compared with 2019. Its commitments are being validated by the SBTi. Around 80% of the group's CO_2 emissions are linked to its food processing activities along with logistics, stores, and utilisation of final products. In addition, the group is targeting 32% of renewable energies in its energy mix by 2030 as well as to reduce by 40% its energy consumption by 2030 (compared to 2014). Based on latest figures available, we assess the ESG's score of SLM as 'Neutral'.

Financial profile

Results and profitability

- **Growth in revenues supported by pricing**

In FY23, revenues amounted to €40.9bn (vs €36.5bn in FY22), representing 12.0% growth year-on-year. Growth was supported by some pricing effect linked to inflation. Adjusted EBITDA reached €946m, a 25% increase versus FY22 (€746m). This represented an EBITDA margin of 2.3% in FY23 (vs 2.1% in FY22). The improvement in the EBITDA margin resulted largely from price increases to customers. With the acquisition of the Casino stores (c. 284 stores after disposal), revenues are set to grow materially over our forecast period (2024-26). In addition, the EBITDA margin should improve to a more normative level (around 2.5%).

Cash-flow and leverage

- **Deterioration of leverage on the back of the deal with Casino**

Free cash-flow net of asset sales (mainly concerning real estate disposals) and after dividends, as calculated by EthiFinance Ratings, remained negative in FY23, mainly linked to the first waves of acquisitions of Casino stores and significant capex. It will probably remain negative in FY24 given the last wave of acquisitions of the Casino stores.

At end-2023, the EthiFinance Ratings-adjusted net leverage ratio had deteriorated to 3.2x, from 2.8x at end-2022. We expect the adjusted net leverage ratio to deteriorate further by end-2024, given the additional acquisition of Casino stores (for an amount of €1.3bn in FY24). Over FY25-26, the ratio should improve on the back of good operating cash-flow, contained capex (c. €500m/year), and assets disposals.

The financial indebtedness of the group is the result of significant investments made in real estate, including the logistical centres. For its covenant calculation, the group disclosed a net corporate debt-to-EBITDA ratio (excluding the property's net debt and EBITDA) of 1.3x as of end-2023 (vs 0.7x at end-2022).

Capitalisation and debt structure

- **Well-diversified maturities despite some reliance on short-term funding**

Again, group indebtedness is concentrated in ITME, and in the property companies. ITME is the main holding company. At the statutory level, ITME has a limited real estate portfolio of c. €64m but it owns the other group subsidiaries. ITM Immo Log and IEM are the main property companies with respectively €1.4bn and €1.8bn real estate portfolios at YE23, for a total real estate portfolio of €3.3bn.

The group indebtedness encompasses (i) 8 relationship banks (syndicated facilities, amortizing loans, asset-backed facilities, representing c. 36% of the gross debt as at June-2024), (ii) private placements subscribed to by institutions (c. 15%), (iii) the NEU CP (c.13%), along with (iv) associates (c.19%). The debt with associates includes mainly short-term deposits collected from the associates and their operating companies. In July 2024, the group also issued a €300m bond, maturing in 2029, to partially refinance the Casino's stores acquisition. The group has a policy to partially hedge its debts. We took into account a part of interest income that relates to the hedging in the calculation of the effective interest coverage ratio.

The group's banking facilities are restricted by covenants, including an LTV ratio capped at 50% at the IEM perimeter (17% at end-2023), a net corporate debt-to-corporate EBITDA ratio capped at 2.75x (1.32x at end-2023), and a corporate debt-to-corporate equity ratio of up to 100% (50% at end-2023).

Liquidity

- **Good liquidity profile**

The group's funding mostly relies on (i) long-term general corporate financing from relationship banks & financial institutions, and (ii) short-term financing. The tenure of the long-term financings runs between five and ten years, relatively long maturities but still shorter than usual for real estate-based financing. As a consequence, this debt requires regular refinancing, which the group is used to. In July 2024, the group also issued a €300m bond maturing in 2029.

The short-term financings mostly comprise the NEU CP programme (€670m used at end June-2024 for a programme of up to €1,250m) and short-term debt with its associates (€1.0bn being short-term deposits at end-June 2024).

At end-June 2024, the group had €1.8bn of undrawn RCFs with c. 11% maturing in 2025, c. 10% in 2026, c. 20% in 2027 and c. 59% beyond 2028.

We consider that the group has an "adequate" liquidity position as at end-June 2024, reflecting a good level of liquidity while being impacted by the negative free-cash flow in FY24. The liquidity assessment remains somewhat impacted by the reliance on short-term financings. We also factor in our assessment the seasonal working capital variation.

Credit metrics expected evolution (CMEE)

We have assigned a Stable CMEE as we expect the group's credit metrics to be broadly unchanged in a years' time.

Instrument rating

- **BBB rating assigned to the existing €300m bond maturing in 2029, and EF1 affirmed for the existing NEU CP programme**

In order to refinance the bridge implemented to fund the Casino stores acquisition, the company issued a €300m bond maturing in July 2029. The bond, issued by ITME, is senior unsecured.

According to our instrument rating methodology, the bond being unsecured and unsubordinated, the rating is similar to the long-term corporate rating, which results in a BBB rating.

The NEU CP rating derives from our short-term corporate rating and is affirmed at EF1.

Main financial figures

Main financial figures. millions of EUR	FY21	FY22	FY23	23vs22
Turnover	33 245	36 524	40 906	12,0%
Adjusted EBITDA	919	757	946	25,0%
EBITDA Margin	2,8%	2,1%	2,3%	0,2pp
Adjusted EBIT	212	-63	15	123,0%
EBIT Margin	0,6%	-0,2%	0,0%	0,2pp
EBT	195	97	166	70,8%
Total Assets	11 880	12 740	14 056	10,3%
Equity	2 972	3 037	3 094	1,9%
Total Financial Debt	3 465	3 535	4 231	19,7%
Net Financial Debt	2 127	2 118	3 060	44,4%
Equity/TFD	85,8%	85,9%	73,1%	-12,8pp
NFD/EBITDA	2,3x	2,8x	3,2x	0,4x
Funds From Operations	512	471	665	41,2%
FFO/NFD	24,1%	22,2%	21,7%	-0,5pp
EBITDA/Interest	22,1x	26,5x	10,9x	-15,6x

Scorecard

Credit Rating	
Business Risk Profile	**BBB**
Industry risk assessment	*BBB-*
Industry's ESG	*Neutral*
Competitive Positioning	*A*
Governance	*BB+*
Financial Risk Profile	**BBB**
Cash flow and leverage	*BBB+*
Solvency	*BB+*
Company's ESG	*Neutral*
Anchor Rating	**BBB**
Modifiers	-
Rating	**BBB**

Rating sensitivity

- **Rating list:**
  - LT corporate rating: BBB
  - Bond senior unsecured (ISIN: FR001400RIT6): BBB
  - NEU CP: EF1

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑)**

An upgrade of the long-term rating to BBB+ could be triggered if the credit metrics of the group improved. Such an upgrade would require a net adjusted leverage ratio below 3.0x over a sustained period of time.

All things being equal, an upgrade of the short-term rating to EF1+ could be triggered if the credit metrics of the group improved significantly, therefore resulting in a 3-notch upgrade of the long-term rating used as a reference. Such an upgrade would require a net adjusted leverage ratio around 0.5x over a sustained period of time, which we deem improbable at present given the impacts resulting from the acquisition of the Casino stores.

- **Negative factors (↓)**

A downgrade to BBB- would result from a deterioration of SLM's financial profile. In particular, should the deleveraging of the group following the Casino stores acquisitions take more time than expected, or the asset sales are not realised, the credit metrics could deteriorate. A net adjusted leverage ratio around 3.5x on a sustainable basis would trigger a rating downgrade.

All things being equal, a deterioration of the liquidity profile to "weak" or the CMEE to "negative" would also result in a short-term rating downgrade to EF2. Additionally, a one-notch downgrade of the long-term rating would result in a downgrade of the NEU CP rating to EF2.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.