STANDARD & POOR'S RATINGS SERVICES

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Sodexo

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Major Rating Factors

Corporate Credit Rating
BBB+/Positive/A-2

Strengths:

- Leading worldwide player in food catering and facilities management.
- Diversified client base and geographic coverage.
- High earnings visibility given multiyear contracts and high renewal rates.
- Strong free cash flow generation supported by service voucher business' high operating margins, and overall limited capital outlays.

Weaknesses:

- Limited price flexibility.
- Somewhat cyclical revenues from the corporate segment, and some exposure to fluctuations in food prices.
- Reliance on customer prepayments in voucher activity.

Rationale

The ratings on France-based on-site and benefits services provider Sodexo reflect Standard & Poor's Ratings Services' view of its "intermediate" financial risk profile and "strong" business risk profile.

Sodexo has higher-than-average stability and visibility of revenues and cash flow, owing to the long average duration of its contracts and its high renewal rates. Further supporting the ratings are the robust margins generated by the company's Benefits and Rewards Services (BRS, service vouchers) business, the gradually improving margins of its core On-site Services (OSS, food and facilities management) business, and inherently low capital requirements.

These factors are tempered by limited price flexibility because of modest barriers to entry and strong competition from both large and local players. In addition, Sodexo is exposed to some revenue cyclicality in its corporate segment and to fluctuating food prices. The ratings are also constrained by our view of the company's moderate leverage. This reflects a mismatch between available cash for BRS and the vouchers' liability on balance sheet. In addition, we note that France-based major shareholder Bellon S.A. (not rated), which has, in our view, significantly lower credit quality, relies exclusively on dividends received from Sodexo to service its debt.

We view Sodexo's management and governance as "strong," as our criteria define the term, underpinned by management's consistent track record in growing the business, attention to all stakeholders' interests in the company, and successful, medium-term planning.

S&P base-case operating scenario

The lackluster 2.1% organic growth posted during the first quarter ending Nov. 30, 2012, reflected mixed macroeconomic conditions in the group's key markets. While operations in North America and Europe slowed as a result of fewer new opportunities and the loss of a major contract in healthcare, the rest of the world remained the group's growth engine because of new contracts, particularly in the mining sector. In our view, the first three months could set the tone for the remainder of fiscal year 2013, for which we anticipate low-single-digit organic growth and contributions from bolt-on acquisitions of one to two percentage points. For 2014 and beyond we consider that the group will return to at least mid-single-digit growth, supported by potentially greater economic prospects in Europe and North America. We forecast some erosion in the operating margin during the next 18 months due to non-recurring costs incurred to improve operating efficiencies. We expect the operating margin to steadily improve thereafter, supported by the high growth rate and margins for the BRS segment and management's initiatives to improve the OSS segment's profitability. Consequently, we anticipate that Sodexo's operating margin should widen toward--without necessarily reaching--the company's target of 6.3% by fiscal 2015, which we consider to be ambitious.

S&P base-case cash flow and capital-structure scenario

Despite lingering inflation concerns for food prices and strong price competition, we believe Sodexo will post unadjusted funds from operations (FFO) of about €900 million in fiscal 2013. This, together with our estimate of capital outlays of some €300 million and limited changes in working capital, should translate into free operating cash flow (FOCF) in excess of €600 million. In our view, total distribution to shareholders should grow steadily from about €270 million to be paid for fiscal 2012 and represent about 40% of FOCF on average annually. Excluding one-off items, such as the use of provisions or share repurchases, we expect our Standard & Poor's adjusted FFO-to-debt ratio for Sodexo to strengthen steadily from the level of 51.2% we calculated on Aug. 31, 2012.

Liquidity

The 'A-2' short term rating reflects Sodexo's sizable cash balances, strong FOCF generation, and large availability under its committed credit lines. We view Sodexo's liquidity profile as "strong," as defined under our criteria. We anticipate that its sources of funding should cover its needs by at least 1.5x in the 12 months following the company's 2012 fiscal results.

On Aug. 31, 2012, the company's near-term liquidity sources included:

- Net cash and cash equivalents—not including €386 million restricted cash and 20% of unrestricted cash balances related to BRS activity, and €200 million of cash that we view as tied to day-to-day operations--of close to €1.2 billion;
- Unused credit committed lines of approximately €1 billion, which will be available until July 2016 at least, given extension options; and
- FOCF for the period in excess of €600 million, by our estimates.

This compares favorably with the company's potential liquidity uses of about €0.6 billion over the next 12 months to August 2013, composed of:

- Short-term debt totaling €151 million, including a €15 million overdraft. There is €653 million worth of debt coming due in the subsequent 12 months, and a sizable, €880 million bond matures in 2015;
- Dividend payments in the region of €270 million; and
- Bolt-on acquisitions of some €200 million.

While there are no covenants attached to its syndicated facilities, Sodexo's two U.S. private placements have standard maintenance covenant packages, including net assets and net leverage, which leave the company with substantial headroom.

Outlook

The positive outlook reflects our view that Sodexo will continue to deliver robust operating performance, despite the current uncertain economic climate. We also factor into the outlook our anticipation that the company's headroom vis-à-vis our adjusted FFO-to-debt guidance of 35% for the current rating will remain substantial.

We might consider a positive rating action if Sodexo maintained its financial risk profile at the higher end of our "intermediate" category. This is consistent with our base-case scenario, which includes no substantial change in shareholder return policy, and debt-funded acquisitions limited to midsize targets.

We could revise the outlook to stable if the company realized larger debt-financed acquisitions, excessively used its share repurchase programs, or experienced deteriorating operating performance. That might happen in case of repeated, large contract losses or pressure on operating margins, but we do not currently anticipate it.

Business Description

France-based Sodexo is one of the largest global services providers with revenues of €18.2 billion in the 12 months ended Aug. 31, 2012. Its OSS segment includes food and facilities management to corporates, education and health institutions and public authorities. The segment covers food, reception, landscaping, air conditioning, cleaning, maintenance, and security, either individually or through comprehensive contracts. The BRS segment addresses companies' or public authorities' of all sizes offers of vouchers to their employees or citizens to pay for items such as food, gasoline, child care costs, and employee incentives. The vouchers often have tax or social-charge benefits for their users.

Chart 1

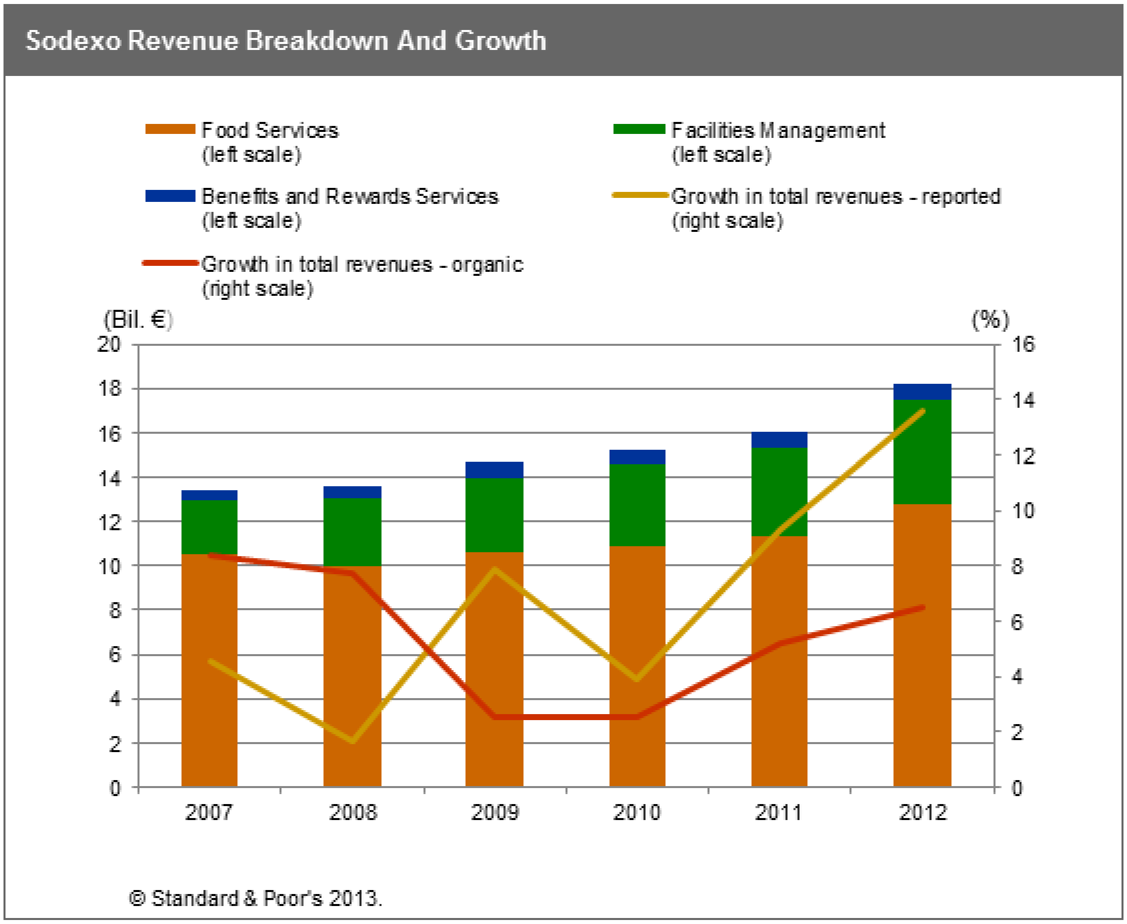

Sodexo Revenue Breakdown And Growth
Food Services
(left scale)
Facilities Management
(left scale)
Benefits and Rewards Services
(left scale)
Growth in total revenues - reported
(right scale)
Growth in total revenues - organic
(right scale)
(Bil. €)
(%)
20
18
16
14
12
10
8
6
4
2
0
16
14
12
10
8
6
4
2
0
2007
2008
2009
2010
2011
2012
© Standard & Poor's 2013.

Chart 2

Sodexo 2012 Revenue Distribution

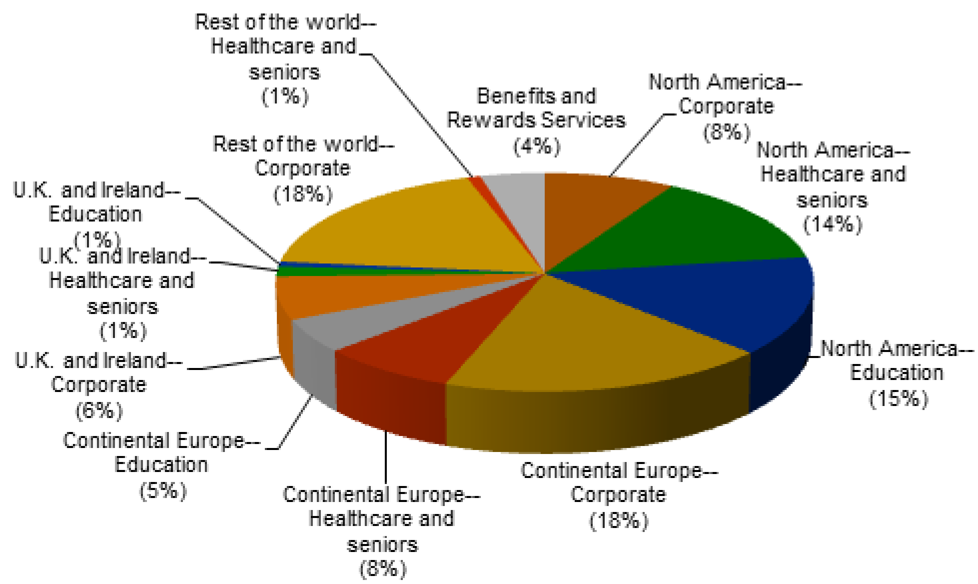
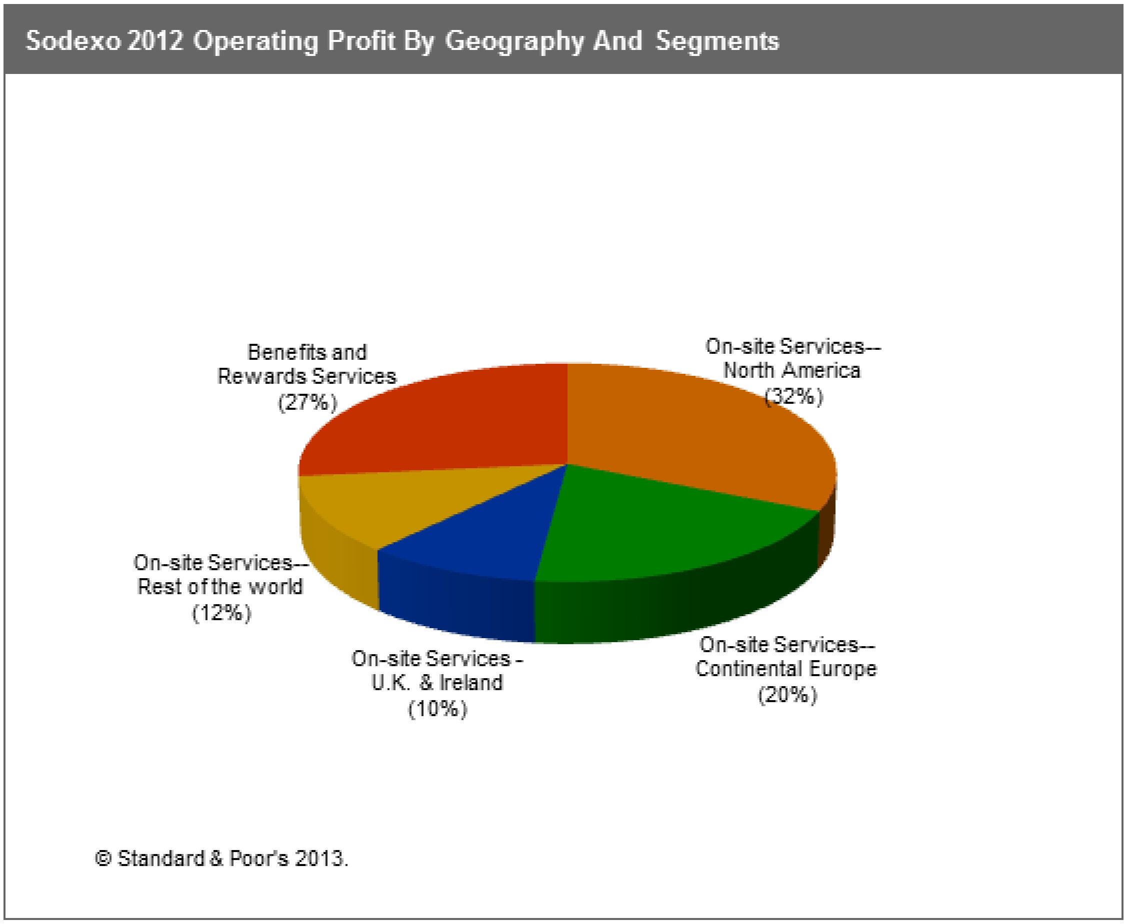


Chart 3



Business Risk Profile: Leading Positions In A Stable Industry With Good Growth Potential

The major supports for the company's "strong" business risk profile are:

- Sodexo's market leading positions among global food and facilities management service providers. With a size comparable to that of its largest competitor, UK-based Compass Group PLC, the company has a strong presence in North America and is the largest player in a number of European countries. It also has limited, but expanding, operations in the Asia-Pacific region and Latin America.
- The company's No.2 position worldwide in service vouchers after France-based Edenred S.A.. We view the industry favorably, as it is fairly stable, has high operating margins of above 30%, and offers high growth rates in excess of 10% throughout regular economic conditions, given that market sources estimate world market penetration at only about 40%.
- Good geographic diversification. In 2012, North America generated about 37% of revenue, Europe 42%, and the rest of the world 21%.
- Client base diversity. The company operates 34,000 sites through its food and facilities management business and serves 410,000 clients through its vouchers business. None of its contracts account for more than 2% of total sales.
- High contract retention rates and long-term client relationships. Although contracts generally do not have a fixed

maturity and can be terminated with three months' notice, Sodexo's average contract duration is more than nine years. The company's retention rate has stood close to 94% over the past three years.

These supports are partially offset by:

- The highly competitive and fragmented nature of the food and facilities management sector because of modest barriers to entry. This leaves limited pricing flexibility for service providers and fairly low operating margins throughout the sector of about 4%-6%. That means continuous efforts to control overheads, staff costs, and food price inflation are necessary.
- Exposure to economic cycles in the corporate services business segment, which contributed roughly a third of the company's on-site services revenue in financial 2012. This is largely due to this segment's dependence on corporate expenditures and employment levels.

Financial Risk Profile: Largely Reinvested, Strong Cash Flow Generation

The main strengths of Sodexo's "intermediate" financial risk profile are:

- Strong FOCF generation with high visibility. The stability and low capital intensity of the sector make Sodexo's business model very cash flow generative. Over the last five years, reported FOCF--before changes in working capital--amounted to about 3% of revenues, growing steadily to €0.7 billion in 2012.
- Sodexo's conservative financial policy. Debt maturities over the next 24 months are largely covered by cash, undrawn committed credit lines, and free cash flow generation. We expect the company to refinance its acquisitions to preserve a comfortable liquidity cushion.

These strengths are moderated by:

- Sodexo's somewhat weak capital-structure metrics and asset-protection measures. Sodexo's adjusted ratio of debt to debt plus equity stood at 38% on Aug. 31, 2012 and more than 40% of the company's total assets are intangible. Goodwill represents the majority of these assets in light of the company's acquisitive track record. In addition, we note that the company reported €1,707 million of cash related to its BRS activity, compared with €2,533 million worth of outstanding vouchers at year-end 2012. We consider that this mismatch between available cash for BRS and the vouchers liability could be another weakness in Sodexo's balance sheet.
- The company's potentially acquisitive strategy to complement organic growth. Its very wide market reach creates potential for bolt-on acquisitions. We therefore anticipate that Sodexo will use a portion of its financial headroom for acquisitions, to a lesser extent, implement shareholder-friendly measures.
- Major shareholder Bellon's effective control of Sodexo. Bellon is a France-based company controlled by members of the founding Bellon family, and 18.5% by Sodexo through related entity Sofinsod. Bellon held 37.7% of Sodexo's share capital and 49.6% of voting rights on Aug. 31, 2012. This number could theoretically rise to about 55%, given the company's double voting rights mechanisms. Although we view Sodexo's management and governance practices as "strong," as our criteria define the terms, we will continue to monitor certain aspects because of their potential importance to financial stakeholders.

Financial Statistics/Adjustments

Sodexo reports its financial statements under International Financial Reporting Standards. We adjust its financial debt for operating leases (€371 million), the pension deficit (€246 million) and financial guarantees (€9 million). Moreover, we take into account the company's surplus cash, which is readily available under reported cash and cash equivalents. This is calculated by excluding restricted cash of about €386 million, as disclosed in the notes to the company's financial statements, as well as an estimate (about €200 million) of cash and equivalents that is tied to daily operations or to countries where relatively unstable financial systems involve cash repatriation risks. In addition, we net assumed cash needed for working capital purposes (a fifth of unrestricted BRS cash balances).

Table 1

Reconciliation Of Sodexo Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)

	--Fiscal year ended Aug. 31, 2012--									
Sodexo reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	2,701.00	3,034.00	18,236.00	1,337.00	984.00	180.00	1,018.00	1,018.00	247.00	308.00
Standard & Poor's adjustments										
Operating leases	370.53	--	--	27.57	27.57	27.57	101.93	101.93	--	55.30
Postretirement benefit obligations	246.02	--	--	(26.00)	(26.00)	--	0.64	0.64	--	--
Surplus cash and near cash investments	(1,209.80)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	19.00	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	36.00	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(56.00)	--	--
Minority interests	--	35.00	--	--	--	--	--	--	--	--
Debt - Guarantees	9.00	--	--	--	--	--	--	--	--	--
FFO - Other	--	--	--	--	--	--	19.00	19.00	--	--
Total adjustments	(584.26)	35.00	0.00	20.57	37.57	27.57	121.57	65.57	0.00	55.30
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	2,116.74	3,069.00	18,236.00	1,357.57	1,021.57	207.57	1,139.57	1,083.57	247.00	363.30

Table 2

Sodexo -- Peer Comparison

Industry Sector: Business Services

	Sodexo	Compass Group PLC	ISS A/S	Edenred S.A.
Rating as of Feb. 22, 2013	BBB+/Positive/A-2	A/Stable/--	BB-/Positive/--	BBB+/Stable/A-2
	--Average of past three fiscal years--			
(Mil. €)				
Revenues	16,504.3	18,767.8	9,886.9	966.3
EBITDA	1,180.5	1,656.7	707.2	373.0
Net income from cont. oper.	461.7	774.1	(121.5)	68.3
Funds from operations (FFO)	929.2	1,370.6	445.5	232.9
Capital expenditures	370.8	578.3	309.1	47.2
Free operating cash flow	696.0	860.2	112.2	286.0
Discretionary cash flow	465.7	457.0	112.2	188.0
Cash and short-term investments	692.3	383.2	273.9	290.2
Debt	1,994.9	2,191.2	4,967.1	438.6
Equity	2,791.0	3,893.6	311.1	(1,080.0)
Adjusted ratios				
EBITDA margin (%)	7.2	8.8	7.2	38.6
EBITDA interest coverage (x)	6.4	13.1	2.2	5.6
EBIT interest coverage (x)	5.0	10.4	1.2	5.1
Return on capital (%)	19.2	22.5	6.6	(63.7)
FFO/debt (%)	46.6	62.5	9.0	53.1
Free operating cash flow/debt (%)	34.9	39.3	2.3	65.2
Debt/EBITDA (x)	1.7	1.3	7.0	1.2
Total debt/debt plus equity (%)	41.7	36.0	94.1	(68.4)

Table 3

Sodexo -- Financial Summary

Industry Sector: Business Services

	--Fiscal year ended Aug. 31--				
	2012	**2011**	**2010**	**2009**	**2008**
(Mil. €)					
Revenues	18,236.0	16,047.0	15,230.0	14,681.0	13,611.0
EBITDA	1,357.6	1,139.6	1,044.5	997.6	926.8
Net income from continuing operations	525.0	451.0	409.0	393.0	376.0
Funds from operations (FFO)	1,083.6	861.7	842.2	760.8	747.8
Capital expenditures	363.3	356.5	392.6	286.7	287.8
Free operating cash flow	776.3	605.3	706.6	378.1	617.0
Discretionary cash flow	529.3	376.3	491.6	181.1	438.0
Cash and short-term investments	464.2	832.2	780.6	763.4	679.8
Debt	2,116.7	1,811.9	2,056.2	2,143.1	1,587.7
Equity	3,069.0	2,565.0	2,739.0	2,314.7	2,198.6

Table 3

Sodexo -- Financial Summary (cont.)

Adjusted ratios					
EBITDA margin (%)	7.4	7.1	6.9	6.8	6.8
EBITDA interest coverage (x)	6.5	6.5	6.1	4.8	6.0
EBIT interest coverage (x)	4.9	5.2	4.9	4.1	4.9
Return on capital (%)	20.7	19.3	17.7	20.4	20.4
FFO/debt (%)	51.2	47.6	41.0	35.5	47.1
Free operating cash flow/debt (%)	36.7	33.4	34.4	17.6	38.9
Debt/EBITDA (x)	1.6	1.6	2.0	2.1	1.7
Debt/debt and equity (%)	40.8	41.4	42.9	48.1	41.9

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Key Credit Factors: Global Criteria For Rating Companies In The Service Sectors, Nov. 12, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

Ratings Detail (As Of February 22, 2013)		
Sodexo		
Corporate Credit Rating		BBB+/Positive/A-2
Corporate Credit Ratings History		
18-Feb-2013	*Foreign Currency*	BBB+/Positive/A-2
06-Dec-2004		BBB+/Stable/A-2
28-Nov-2002		BBB+/Negative/A-2
18-Feb-2013	*Local Currency*	BBB+/Positive/A-2
06-Dec-2004		BBB+/Stable/A-2
28-Nov-2002		BBB+/Negative/A-2
Business Risk Profile		Strong
Financial Risk Profile		Intermediate
Debt Maturities		
On Aug. 31, 2012: 2012-2013: €151 mil. 2013-2014: €653 mil. 2014-2015: €888 mil. 2015-2016: €233 mil. 2016-2017: €241 mil. Thereafter: €535 mil.		
Related Entities		
Sodexo Inc.		
Issuer Credit Rating		BBB+/Positive/A-2
Senior Unsecured		BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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