FOCUS

22nd June 2016

Business Services

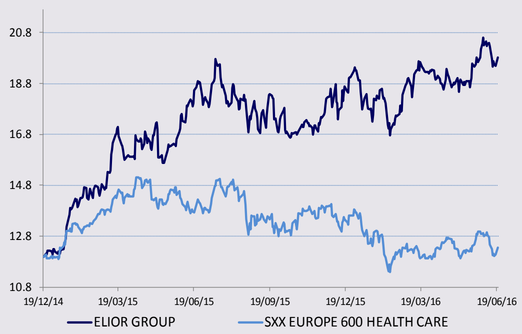
ELIOR

On track with 2020 Ambitions

Fair Value EUR23 (price EUR20.10) **BUY-Top Picks**

Bloomberg	ELIO FP
Reuters	ELIO.PA
12-month High / Low (EUR)	20.6 / 16.7
Market capitalisation (EURm)	3,463
Enterprise Value (BG estimates EURm)	5,051
Avg. 6m daily volume ('000 shares)	219.5
Free Float	63.1%
3y EPS CAGR	26.9%
Gearing (09/15)	98%
Dividend yield (09/16e)	1.98%

YE September	09/15	09/16e	09/17e	09/18e
Revenue (EURm)	5,674	6,071	6,447	6,809
EBIT (EURm)	315.10	358.15	405.11	445.72
Basic EPS (EUR)	0.65	1.00	1.31	1.49
Diluted EPS (EUR)	0.80	1.13	1.44	1.62
EV/Sales	0.87x	0.83x	0.78x	0.73x
EV/EBITDA	10.4x	9.7x	8.7x	7.8x
EV/EBIT	15.6x	14.1x	12.5x	11.1x
P/E	25.3x	17.8x	13.9x	12.4x
ROCE	6.4	6.8	7.4	7.9



Following H1 2015-16 results and recent developments, management is clearly stepping up the roll-out of its 2020 Ambitions plan. Although we are making no changes to our forecasts since our model takes into account future acquisitions, this move makes us increasingly confident in management's short and medium-term guidance. Based on a DCF valuation using a leverage beta, we are confirming our FV of EUR23. Note that our SOTP yields a valuation of EUR24 per share.

- **Confident in management's guidance**: During H1 2015-16 ending 31st March, management accelerated the implementation of its plan focused on operating costs (contract review, purchasing and procurement) and new growth initiatives based on digital solutions (in-house solutions and with start-ups recently presented during the Seeds & Chips fair in Milan), as well as new marketing. Finally, M&A was clearly ramped-up over the first nine months with around EUR400m in total revenue acquired o/w EUR350m in the US.

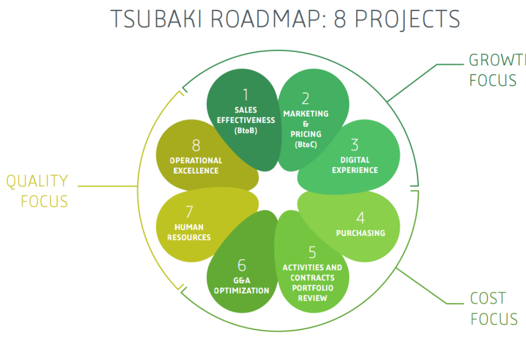
- **Debt which was largely restructured:** Early last May, the group undertook the early redemption of all the outstanding high yield 6.5% May 2020 Senior Secured Notes for a total amount of EUR186m. Simultaneously, the group raised the same amount from investors via a seven-year private placement at a variable rate Euribor 3m plus 250bps. In all, taking into account recent M&A, we estimate net debt at the end of 2015-16 at around EUR1.6bn up EUR150m vs. last year with an average cost of 2.8% (vs. 3.3%).

- **Transformation well engaged but not fully reflected in valuation:** This momentum should deliver strong results and we definitely confirm that at least the mid-range of management's 2020 targets could be reached i.e. total revenue of c. EUR7.5bn with an EBITDA margin of 9.4%, bearing in mind that the group confirmed its guidance of 9% by the end of 2016-17 vs. 8.4% at the end of 2014-15. On EPS, our forecasts point to a 3y CAGR of nearly 27% compared with the current P/E of 17x 2015-16e and 13.6x 2016-17e.

Analyst:
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

ELIOR Key Focuses

1. One Chart



2020 Ambitions and Tsubaki plan: EBITDA margin improvement of at least 20bps in 2015-16 and 40bps in 2016-17

The Tsubaki deployment (presented in September 2015 but already implemented previously) was accelerated during the first part of FY 2015-16. As such, the top end of management's expectations have gained credibility and short-term guidance could be outpaced.

- During H1 2015-16 the most tangible action concerned the Tsubaki 5 portfolio review with a voluntary withdrawal from contracts or disposal activities having represented c. EUR90m in revenue (after EUR50m in H2 2014-15) i.e. a negative impact of 1.9% on organic growth mainly in Contract catering. Over the FY, management anticipates the same impact as for H1 vs. 1.5% initially anticipated. In all, the portfolio review in Contract catering should be finalised at the end of FY 2015-16 and in 2016-17 in Concessions. Management expects to improve EBITDA margin by 20-40bps via contract terminations.

- **Under Tsubaki 4**, the purchasing diagnosis was completed as was the reorganisation of the French procurement department. Under Tsubaki 4, management aims to improve EBITDA margin by 40-80bps.
- **The group's expansion via acquisitions** is gaining momentum with around EUR400m in annualised revenue added since the beginning of the year, 50% of which stemming from Preferred Meals in the US. Note that in the US, Elior generated total revenue of EUR600m in 2015 (11% of consolidated revenue) and management's target is to reach EUR1.5bn by the end of 2020.

Having reported H1 revenue growth of 3.5% with organic growth of 1.5% taking into account the 1.9% negative effect of voluntary contract exits (vs. 1.5% initially anticipated) with an EBITDA margin up 20bps to 7.4%, management confirmed its full year objectives with: 1) organic growth of "more than 3%" excluding the impact of voluntary contract exits which is expected to be less than 200bps vs. 150bps previously announced, 2) EBITDA margin of over 8.6% i.e. at least a 20bps improvement taking into account some penalties from contract cancellations or the negative impact of acquisitions on margin. The full benefits, especially from contract exits, is expected in 2016-17 and management has confirmed its target for a 40bps EBITDA margin improvement to reach 9%.

2. Three words

Develop, Innovate, Accelerate

The Elior Group model relies on the one core business of catering, and three main activities: contract catering, concession catering and support services. These three activities are organised into three main commercial brands: Elior, Areas, and Elior Services.

On 11th March, the AGM ratified the change in name and adoption of the new corporate motto, "Time savoured", in keeping with the company's 2016-2020 strategic plan.

This change underscores the Elior Group's aim to become “the caterer of choice” through a strategy of differentiation, based on an innovative marketing and digital approach focused on the customer experience.

Digital is set to play an increasingly important role in the overall customer experience and in the future will affect all aspects of running a business, from issues such as purchasing and resources management through to combating food waste.

In order to step up the group's digitalisation, management has drawn up an investment programme that targets food tech start-ups, whose work will add to and complement the innovations that the group has already developed in-house. Last May, during the Seeds & Chips fair in Milan, the only global fair in Europe dedicated to **FoodTech**, Elior presented five start-ups it has been backing (Dataiku, FoodMeUp, Optimiam, Swaf and Wynd).

- Finally, differentiation is also a major strategy driver to strengthen development and attract new consumers. The partnership signed with Alain Ducasse should be a tremendous asset in forthcoming calls for tender.

3. Three Figures

2x-2.5x-0.4x

These multiples define the targets that the group has set for the use of cash as part of its 2020 Ambitions plan. Free cash flow takes into account: 1) capex of around 5% in Concession Catering, 2% in Contract Catering and around EUR50m over five years for IT, 2) non-recurring cash of EUR60m over 2016/2017 mainly for non-core business exits, 3) some improvement in working capital and cash income tax (optimisation notably linked to the buyout of the minority stake in Areas) and 4) interest expenses which should be significantly reduced bearing in mind that the group recently completed the early redemption of its 6.5% May 2020 high yield bonds for a total amount of EUR186m. The early redemption was fully refinanced with a seven-year private placement at a variable Euribor rate plus a margin of 250bps. In summary, FCF should represent between 45% and 50% of EBITDA

- **2x WACC at least: management's required return on M&A.** In its plan, spending on acquisitions should reach one billion by the end of 2020. Our WACC stands at 8% using a leverage beta of 1.3x. In our "base" scenario, we have taken into account total spending of EUR700m contributing EUR1.1bn to consolidated revenue based on a 0.6x EV/Revenue acquisition price. Note that **Preferred Meals** generated total revenue of USD225m in 2015 and was bought for around USD110m representing 0.5x EV/Revenue and 7x EV/EBITDA.
- **2.5x: management's expectation for net debt/EBITDA.** The group's financial leverage is high with net debt at EUR1.452bn on 30th September 2014-15 representing net debt/EBITDA of 3.04x. In our "base" scenario taking into account acquisitions for a total amount of EUR700m contributing EUR1.1bn to consolidated revenue, net debt/EBITDA 2019-20 should be slightly over 1.8x with net debt of c. EUR1.3bn.
- **0.4x adjusted net result: the minimum return to shareholder.** After approval at the Annual General Shareholders' Meeting, Elior Group aims to distribute dividends over 2015-2017 amounting to an annual total of approximately 40% of Elior Group's consolidated net income.

4. Impact on our Investment Case

Following the H1 results released at the end of May and our previous road-show with the management, we are reiterating our positive view and maintaining our short-term forecasts in line with the low range of Elior's guidance.

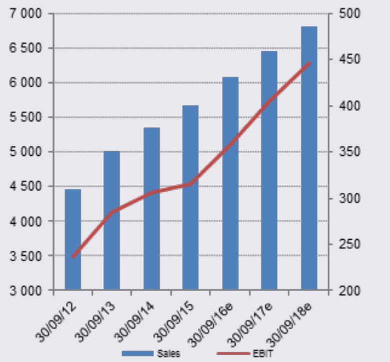
Based on a DCF, our "base case" scenario (on our estimates, 2020 total revenue reaches EUR7.498bn with EBITDA margin of 9.4% compared with management's guidance of between EUR7.0-8.0bn and 9-10% respectively) values the share at EUR23.3. In our "Blue sky" scenario primarily including a higher contribution from acquisitions (2020 total revenue of EUR8.121bn) and a higher EBITDA margin (9.7% in 2020e), our valuation reaches EUR28.7 per share.

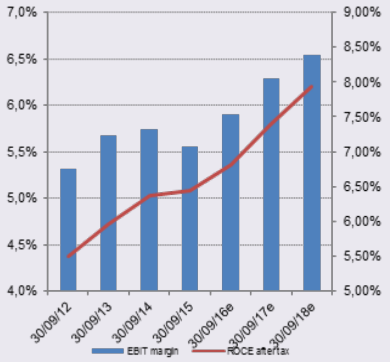
Our SOTP yields a valuation of EUR24 per share based on 2016e figures, using the average EV/EBITDA ratios of Sodexo (excluding Benefits & Rewards valued on Edenred's EV/EBITDA multiple of 10.8x) and Compass Group for Contract Catering. Concession Catering is based on the average EV/EBITDA of Autogrill (5.8x) and SSP (9.8x).

Next Catalysts

		Date
9m 2015-16	Revenue	28th July
FY 2015-16	Results	9th December

Source: Company Data; Bryan, Garnier & Co ests.





Company description

Created in 1991, Elior is the world no. 3 in Concessions Catering and the no. 4 in Contract Catering. It is the joint leader in France with Sodexho and the no. 1 in Spain and Italy. Within its two businesses, the group is present in seven markets: business, education, health, motorways, railway stations, airports and leisure. Elior is present in 13 countries with 108,000 employees. The group had 2015 sales of c.EUR5.7bn from around 18,600 restaurants and sales points, representing 4.0m customers a day.

Shareholders

BIM (Robert Zolade)	25.18
Caisse de dépôt et placement du Québec	6.55
Emesa	5.22
Flottant	63.05

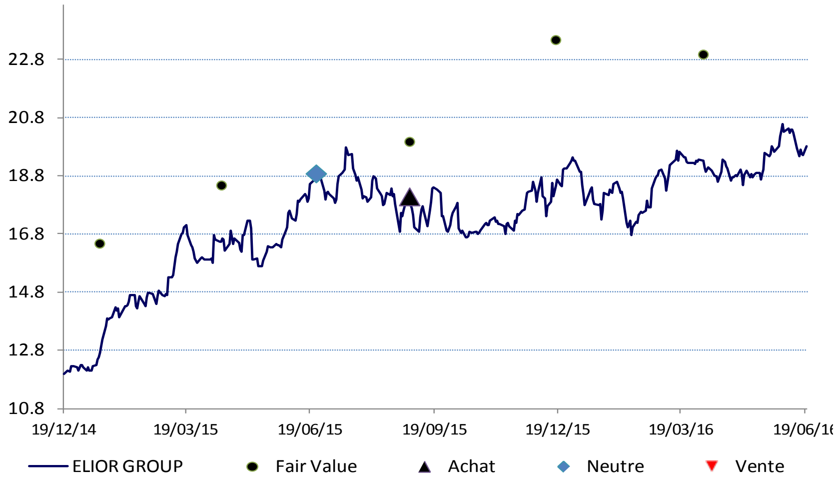
Source: Company Data; Bryan, Garnier & Co ests.

Simplified Profit & Loss Account (EURm)	30/09/13	30/09/14	30/09/15	30/09/16e	30/09/17e	30/09/18e
Revenues	5,017	5,341	5,674	6,071	6,447	6,809
Change (%)	*12.4%*	*6.5%*	*6.2%*	*7.0%*	*6.2%*	*5.6%*
Adjusted EBITDA	423	445	473	523	580	633
EBIT	285	306	315	358	405	446
Change (%)	*20.3%*	*7.5%*	*2.8%*	*13.7%*	*13.1%*	*10.0%*
Financial results	(139)	(137)	(107)	(61.0)	(49.9)	(46.2)
Pre-Tax profits	41.2	97.8	175	264	322	367
Exceptionals	(106)	(73.5)	(35.5)	(35.0)	(35.0)	(35.0)
Tax	(38.9)	(41.2)	(68.3)	(92.5)	(96.7)	(110)
Profits from associates	1.5	2.3	1.9	2.0	2.2	2.3
Minority interests	(6.4)	8.8	(1.0)	0.0	0.0	0.0
Net profit	8.7	47.8	107	172	226	257
Restated net profit	78.9	96.3	131	195	249	280
Change (%)	*69.3%*	*22.0%*	*35.6%*	*49.2%*	*27.7%*	*12.5%*
Cash Flow Statement (EURm)						
Operating cash flows	424	447	475	525	582	635
Change in working capital	(29.4)	34.8	32.7	16.1	15.2	14.7
Capex, net	(176)	(182)	(178)	(173)	(182)	(192)
Financial investments, net	(231)	7.9	(108)	(250)	(156)	(97.9)
Dividends	(3.2)	(0.50)	(41.3)	(42.9)	(68.7)	(90.3)
Other	(15.1)	308	181	75.1	190	270
Net debt	2,184	1,390	1,453	1,588	1,585	1,492
Free Cash flow	108	178	189	198	222	246
Balance Sheet (EURm)						
Tangible fixed assets	529	530	559	769	933	1,036
Intangibles assets	2,555	2,620	2,670	2,670	2,670	2,670
Cash & equivalents	210	220	210	142	185	147
current assets	1,065	1,067	1,080	1,155	1,227	1,296
Other assets	239	257	243	286	287	288
Total assets	4,598	4,695	4,762	5,022	5,302	5,436
L & ST Debt	2,403	1,616	1,675	1,742	1,783	1,651
Others liabilities	2,196	3,079	3,087	3,280	3,519	3,784
Shareholders' funds	659	1,327	1,486	1,570	1,703	1,866
Total Liabilities	3,940	3,368	3,276	3,452	3,599	3,570
Capital employed	3,154	3,177	3,225	3,467	3,616	3,704
Ratios						
Operating margin	5.68	5.74	5.55	5.90	6.28	6.55
Tax rate	(26.36)	(24.05)	(39.14)	(35.00)	(30.00)	(30.00)
Net margin	1.57	1.80	2.30	3.21	3.86	4.11
ROE (after tax)	0.35	4.27	7.15	10.94	13.25	13.76
ROCE (after tax)	5.96	6.37	6.45	6.82	7.39	7.94
Gearing	331	105	97.79	101	93.08	79.95
Pay out ratio	NM	52.63	49.02	40.00	40.00	40.00
Number of shares, diluted	112	164	164	172	172	172
Data per Share (EUR)						
EPS	0.08	0.38	0.65	1.00	1.31	1.49
Restated EPS	0.70	0.59	0.80	1.13	1.44	1.62
% change	*64.5%*	*-16.8%*	*35.6%*	*42.2%*	*27.7%*	*12.5%*
EPS bef. GDW	NM	NM	NM	NM	NM	NM
BVPS	5.88	8.08	9.05	9.11	9.88	10.83
Operating cash flows	3.79	2.72	2.89	3.05	3.38	3.69
FCF	0.97	1.08	1.15	1.15	1.29	1.43
Net dividend	0.0	0.20	0.32	0.40	0.52	0.60

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

ELIOR



Ratings		
Date	**Ratings**	**Price**
31/08/15	BUY	EUR17.74
23/06/15	NEUTRAL	EUR18.6
22/07/14	BUY	EUR14.1

Target Price	
Date	**Target price**
04/04/16	EUR23
17/12/15	EUR23.5
31/08/15	EUR20
14/04/15	EUR18.5
14/01/15	EUR16.5
12/12/14	EUR16.3
22/07/14	EUR18

Please see the section headed "Important information" on the back page of this report.

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Stock rating

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL — Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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BUY ratings 56,5%   NEUTRAL ratings 34%   SELL ratings 9,5%

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BRYAN, GARNIER & CO

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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