Research Update:

Pluxee N.V. Assigned 'BBB+' Rating; Outlook Stable

February 21, 2024

Rating Action Overview

- Pluxee N.V.'s creditworthiness is supported by its leading position in the employee benefits market, high digitalization, good diversification across customer base and regions, and good cash generation.
- The company operates in a large and underserved market and is well positioned to benefit from existing trends, although it is also exposed to potential regulatory changes.
- Pluxee has a net cash position thanks to its strong unrestricted cash balance, but the rating is constrained by the potential for debt-funded acquisitions.
- We assigned our 'BBB+' long-term issuer credit rating to Pluxee.
- The stable outlook is underpinned by our forecast of sound organic growth, moderate margin improvement, and solid free operating cash flow (FOCF). It also hinges on our expectation that, when factoring in the company's mergers and acquisitions (M&A) strategy and leverage tolerance, its adjusted leverage will not increase materially above 1.5x and its funds from operations (FFO) to debt will stay above 50%.

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Rating Action Rationale

Pluxee holds strong market positions in the employee benefits business. It is the second-largest player in the employee benefits market after Edenred SE (A-/Stable/A-2), which is double its size at the worldwide level in terms of revenue and volumes. Pluxee holds a No. 1 position in more than half of its 31 markets, with a market share of about 25% globally in business volume. Of its total fiscal 2023 (year ended Aug. 31) revenue, 83% comes from the mainly regulated employee benefits business, strongly weighted towards meal and food vouchers for employees, but also gift and holiday vouchers, as well as mobility passes. The company further provides services for public benefit programs and employee engagement, and reward and recognition initiatives, which together totaled 17% of revenue in fiscal 2023. Pluxee operates in a large and underserved market, and is well positioned to benefit from factors such as talent shortages that drive the need for HR leaders to offer benefits to their employees and promote wellbeing in the workplace. We forecast 10%-11% organic growth, underpinned by new clients as the company's high digitalization rate allows it to target the largely untapped small and midsize enterprise market, cross-selling initiatives, and the face value increase of vouchers.

Pluxee has good diversification across its customer base and regions. Given its large customer base of more than 500,000 clients serving about 36 million end users, Pluxee has low customer concentration. Its top 20 clients represent less than 3% of revenue. The company also benefits from geographic diversification, with 44% of revenue generated in Continental Europe, 38% in Latin America, and 18% in the rest of the world, including Asia-Pacific, the U.K., and the U.S. In addition, the revenue mix is supported by two streams from clients in terms of issuance volumes, and from merchants in terms of reimbursement volumes. There is limited credit risk given the upfront payment of issuance volumes, resulting in strong cash balance on the company's balance sheet.

Pluxee's high fixed cost base has constrained margins when compared with peers. While the company has a scalable platform, it has a relatively high fixed cost base. It has increased its recurring EBITDA margins to 34.5% in fiscal 2023, equaling S&P Global Ratings-adjusted EBITDA margins of 33.8%. This is lower than other payment processing peers in the market, including Edenred, which generates S&P Global Ratings-adjusted margin of more than 40%, Wex exceeding 45%, and Fleetcor about 55%. We expect Pluxee will continue increasing volumes through both organic and inorganic sources, which in turn will support margin expansion, but we do not expect the company will reach margins in line with peers in the next few months.

Pluxee's operations are exposed to regulatory risk and are sensitive to currency volatility, declines in interest rates, and increased unemployment. The company has seen both positive and negative regulatory impacts with, for example, an increase in the daily allowance thresholds of vouchers in many regions owing to inflation, but also a negative impact from a change in tax rules in the Czech Republic, providing similar tax benefits to employers offering a cash allowance rather than meal allowance. Brazil is also considering a law that would allow employees to move their meal credit between providers, with the intention of opening the market to new competitors. Pluxee has transitioned through specific regional challenges, so we do not expect a material impact from these risks. The recent increase in interest rates has boosted the financial revenue the company earns on the float, contributing close to €100 million revenue in fiscal 2023. While we forecast a decrease in interest rates, the increase in float volume will offset this.

Strong unrestricted cash balance will support a minimal financial risk profile. The company generated strong cash during fiscal 2023, with FOCF of €443 million, supported by positive working capital dynamics when the business expands and the positive €191 million impact from a change in Brazilian regulation. Capital expenditure (capex) is somewhat higher than that of most business services peers at about 10%, largely towards IT and data. At year-end 2023, Pluxee had a net cash position of about €900 million, supported by €2.2 billion of unrestricted cash on the balance sheet. We forecast the company will continue generating sound FOCF of about €260 million in fiscal 2024 and €340 million in fiscal 2025.

Pluxee may undertake more strategic acquisitions. Acquisitions have been a core growth factor previous, with management undertaking several to add services or bolster market share such as Wedoogift in 2021. We understand acquisitions remain a key focus for Pluxee. The possibility of further debt-funded acquisitions and resulting increased integration risk could weaken credit metrics. As such, we apply a negative financial policy modifier to incorporate this uncertainty in terms of modeling credit metrics within our rating.

Pluxee's liquidity assessment is exceptional, but the bridge facility is short-term. In connection with the spin-off, the company has entered a €2.15 billion financing package, including a €1.5 billion bridge loan and €650 million revolving credit facility. To repay the intercompany loan to Sodexo, Pluxee has drawn €1.1 billion on its bridge facility. The bridge loan has an initial termination date of October 2024, which may be extended twice at the company's option for six months at a time. Our base-case scenario incorporates the bridge's refinancing on the bond market within the next few months.

Outlook

The stable outlook reflects our forecast of sound organic growth, moderate margin improvement, and solid FOCF. It also hinges on our expectation that, when factoring in the company's M&A strategy and leverage tolerance, its adjusted leverage will not increase materially above 1.5x and its FFO to debt will stay above 50%.

Downside scenario

We could lower the ratings if Pluxee's adjusted debt to EBITDA trended towards 2.0x or FFO to debt fell and stayed below 50%. We think this could happen if the company:

- Were to execute higher-than-expected debt-funded M&A or experience nonrecurring items from the integration of these acquisitions;
- Faced foreign-exchange volatility and did not mitigate it, or if revenue fell steadily; or
- Saw significantly weaker cash flow metrics due to a marked reduction in the cash float or a shorter reimbursement time.

Upside scenario

We could consider raising the rating if we were to see continued diversification from the vouchers business and a strong track record of increasing scale and profitability compared with some industry-leading peers, while Pluxee integrated acquisitions. In addition, a track record of financial policy commitment consistent with our minimal financial risk profile while undertaking M&A could result in an upgrade. This would imply sustaining leverage below 1.5x and FFO to debt above 60%. We would expect continued solid liquidity, with no material drop in the cash float.

Company Description

Pluxee is one of the leading players in the prepaid employee benefits market. It generated about €1.1 billion of revenue and €355 million of S&P Global Ratings-adjusted EBITDA in fiscal 2023. The company is present in 31 countries and generated 44% of its revenue in Continental Europe, 38% in Latin America, and 18% in the rest of the world in fiscal 2023. It offers specific-purpose payment products for meal and food benefits and lifestyle benefits (such as gifts, mobility, or health and wellbeing), all accounting for 83% of its revenue in fiscal 2023. It also offers products and services on employee engagement, reward and recognition, and public benefits. It services more than 36 million end-customers by connecting more than 500,000 corporate clients with 1.7 million merchants.

Its shares have traded on Euronext Paris since its spin-off from Sodexo in February 2024.

Our Base-Case Scenario

Assumptions

- Eurozone GDP growth of 0.8% in 2024 and 1.5% in 2025. In Brazil, we expect GDP growth of 1.5% in 2024 and 1.9% in 2025.
- Consumer price index inflation of 2.9% in the eurozone in 2024 before falling to 2.0% in 2025, and a stable rate of 3.6%-3.7% in Brazil in that time.
- Organic growth supported by an increase in issue volumes and the face value of vouchers. We also expect a solid contribution from financial revenue, underpinned by high, albeit falling, interest rates. We factor in further bolt-on M&A to support total growth of about 12% in fiscal 2024 and 16% in fiscal 2025.
- A moderate decrease in S&P Global Ratings-adjusted EBITDA margin in fiscal 2024, to 32.3% from 33.8% in fiscal 2023, because Pluxee will incur higher overhead costs as a stand-alone company than when it was part of Sodexo. We forecast an EBITDA margin expansion of about 150 basis points in fiscal 2024 as the company increases scale. Our adjusted EBITDA incorporates costs relating to nonrecurring expense and capitalized costs, which we total at about €30 million.
- The continued investment in digitalization, with capex remaining at about 10% of revenue.
- Working capital dynamics are cash positive because business revenue continues to increase.
- In line with Pluxee's dividend policy, cash dividends of about 25% of the prior year's net income.
- A phased effect from M&A, representing a total purchase price of about €200 million in fiscal 2024 and €500 million in fiscal 2025.

Key metrics

Pluxee N.V.--Key metrics*

	--Fiscal year ended Aug. 31--			
Mil. €	**2023a**	**2024f**	**2025f**	**2026f**
Revenue	1,052	1,183	1,371	1,611
Revenue growth (%)	21.6	12.4	15.9	17.5
EBITDA	356	382	464	564
EBITDA margin (%)	33.8	32.3	33.8	35.0
Funds from operations (FFO)	258	261	275	330
Capital expenditure	106	106	123	145
Free operating cash flow (FOCF)	443	260	339	400
Dividends	143	0	42	58
Discretionary cash flow (DCF)	300	260	297	342

Pluxee N.V.--Key metrics* (cont.)

	--Fiscal year ended Aug. 31--			
Mil. €	2023a	2024f	2025f	2026f
Debt	0	0	0	185
Debt to EBITDA (x)	0.0	0.0	0.0	0.3
FFO to debt (%)	N/A	N/A	N/A	177.9
FOCF to debt (%)	N/A	N/A	N/A	215.7
DCF to debt (%)	N/A	N/A	N/A	184.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view Pluxee's liquidity as exceptional and expect that sources will exceed use 2x and net sources would remain positive even if EBITDA declined more than 50%.

As of Aug. 31, 2023, the company's principal sources of liquidity include:

- Unrestricted cash and cash equivalents of about €2.2 billion, excluding cash we deem not readily available.
- Undrawn committed facilities of €650 million.
- Cash FFO of €300 million-€400 million per year.
- A working capital inflow of €130 million-€160 million per year.

Principal liquidity uses as of that date include:

- Capex of €130 million-€160 million per year.
- Intrayear working capital variations of about €200 million.
- Dividend payments totaling €40 million-€60 million per year.
- €1.1 billion drawn on the €1.5 billion bridge loan maturing in October 2024 (with two extension options of six months), which we expect will be refinanced in the next few months.

Environmental, Social, And Governance

ESG factors have a neutral influence overall on our credit rating analysis of Pluxee. The company is exposed to potential data and security breaches, which could lead to operational disruption, reputational damage, fines, and regulatory scrutiny. Our neutral assessment reflects exposures that are typical for the sector, as well as Pluxee's track record of avoiding material incidents.

Although the CEO has run the business since 2017, the newly formed wider management team and board have yet to build a track record of running Pluxee as an independent company. The controlling shareholder, the Bellon family, did not display a track record of creditor-unfriendly actions when the company was part of the Sodexo group. In 2019, the French competition authority fined the main market players, including Pluxee, for anti-competitive practices. These sanctions were upheld on appeal in 2023 and Pluxee paid a €127 million fine, although it continues to contest it.

Rating Above The Sovereign

Pluxee has material exposure to Brazil (BB/Stable/B), where it generates about one-quarter of its revenue and a higher percentage of EBITDA. The company passes our stress tests on its operations in this region, given its geographical diversity, very strong liquidity, and operations in the business services industry, which we do not consider highly sensitive to country risks.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Stable/--
Business risk:	Satisfactory
Country risk	Moderately High
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Minimal
Cash flow/leverage	Minimal
Anchor	a-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Exceptional (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb+
Rating above the sovereign	BBB+

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, 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: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
Pluxee N.V.	
Issuer Credit Rating	BBB+/Stable/--