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Ratings

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# Auchan Holding

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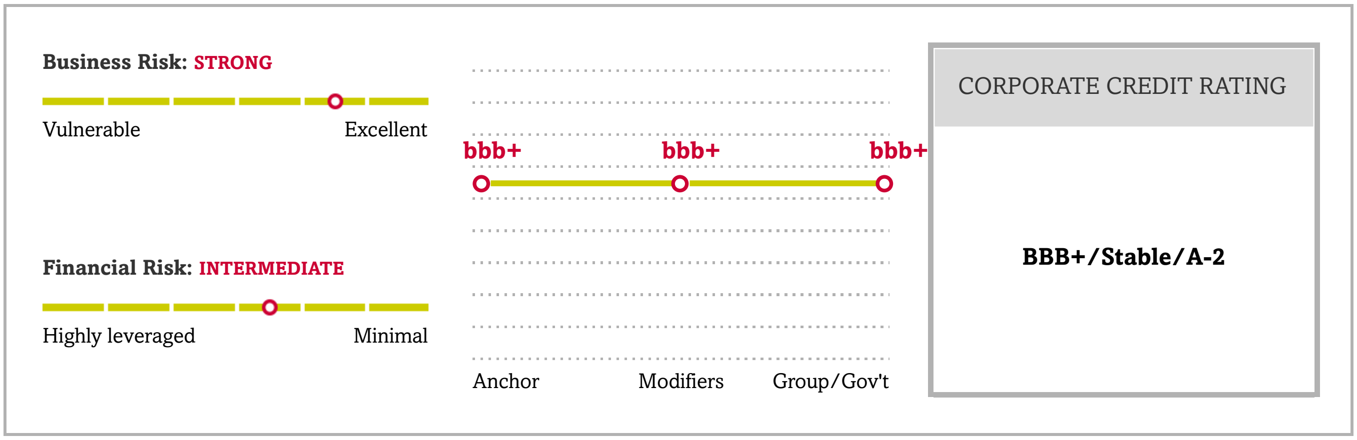
# Auchan Holding




## Rationale

| Business Risk: Strong | Financial Risk : Intermediate |
| --- | --- |
| • Leading market share in the Eastern European market, complemented by No. 2 and No. 3 market positions in China and Russia, respectively.<br>• Some geographic diversification, with about one-third of Auchan's retail sales and profits generated outside Europe.<br>• Resilient and well-positioned property management portfolio with a market value of €7.9 billion.<br>• Reliance on hypermarket store format while consumer preference is shifting to convenience stores in mature economies. | • Supportive financial policy.<br>• Capital-intensive business model that constraints free operating cash flow (FOCF) generation.<br>• Capital expenditure (capex) program that weighs on FOCF.<br>• Substantial real estate ownership, providing financial flexibility. |

**Outlook : Stable**

The stable outlook on France-based international retailer Auchan Holding (Auchan) factors in our assumption that moderately positive operating trends, combined with a prudent financial policy, will enable Auchan to maintain credit ratios commensurate with a 'BBB+' rating, namely, an S&P Global Ratings-adjusted funds from operations (FFO)-to-debt ratio of more than 30% and an adjusted debt-to-EBITDA ratio of well below 3x. In our base-case scenario, we assume that the French operations will grow moderately and that the Western European operations will continue to recover.

### Downside scenario

Although unlikely at this stage, we could downgrade Auchan if deteriorating operating performance weakened credit ratios below the levels we regard as commensurate with the current rating. We would also consider a negative rating action if the group's financial policy became more aggressive, possibly with large debt-financed acquisitions or materially increased cash shareholder remuneration.

Downward rating pressure might also arise if Auchan's leadership position weakens in Asia and Eastern Europe, notably in China and Russia, together with sharp slippage in its key Western European markets, with profitability becoming subpar compared with its peers, for a prolonged period. Such a scenario, which we do not envisage at present, could prompt us to lower our assessment of the group's business risk.

### Upside scenario

We might consider upgrading Auchan if the group built a good track record of like-for-like growth and rising profitability in all its markets, notably in its home market of France, and also in Italy and China, while maintaining robust credit ratios. This would prompt us to revise upward our anchor, or baseline assessment, for Auchan to 'a-' from 'bbb+'.

Rating upside appears limited for now, considering the highly competitive market conditions in France and other Western European markets. Furthermore, we do not see meaningful upside from the financial risk profile without substantial improvement in the group's discretionary cash flow generation, which is heavily constrained by high capex.

## Our Base-Case Scenario

| Assumptions | Key Metrics |
|---|---|
| | |

**Assumptions**

- Subdued economic recovery in the eurozone (European Economic and Monetary Union), with real GDP growth of about 1.3% in France, 2.6% in Spain, and 1.1% in Italy in 2016, and limited improvement thereafter.
- Reported revenue growth of 0%-1% in 2016 and 2017, based on growth in China and a return to growth in France.
- An increase in capex over the next two years.

**Key Metrics**

| | 2015a | 2016f | 2017f |
|---|---|---|---|
| EBITDA margin* (%) | 6.0 | 6.0 | 6.0 |
| Debt/EBITDA* (x) | 2.1 | 2.3 | 2.5 |
| FFO/debt* (%) | 38.9 | 32.5 | 29.7 |

*36.4% consolidation of the Chinese subsidiary.

a--Actual. f--Forecast. FFO--Funds from operations.

## Company Description

With about €53.7 billion in reported revenues in 2015, France-based Auchan is the 11th largest food retailer in the world. It operates hypermarkets and convenience stores in 16 countries. It is the fourth largest retailer in France and has sizable operations in both Eastern Europe and Western European countries, with a notable presence in Russia, Ukraine, and China.

Auchan also operates China's largest food retailer through a 36.4% owned joint venture called Sun Art.

Auchan owns and operates shopping centers through its real estate subsidiary, Immochan, in 12 countries, and also has a captive finance subsidiary, Oney Banque Accord, that serves more than eight million customers in 11 countries.

The Mulliez family holds about 90% of Auchan through Association Familiale Mulliez, while the rest is owned by eligible employees.

## Business Risk: Strong

Our assessment of Auchan's business risk profile reflects our belief that Auchan has strong market positions that compare well with other large retailers that operate internationally--namely Carrefour S.A. and Tesco PLC, which we also assess as having strong business risk profiles. Our assessment takes account of competitive pressures in the French food retail sector and Auchan's high dependence on the highly competitive hypermarket store format.

Auchan's business risk profile also reflects the group's resilient and well-positioned property management portfolio through its 97% controlled subsidiary Immochan. The assets in this portfolio have a market value of €7.9 billion.

Auchan's recent purchasing renegotiations and efforts with various suppliers in France, Spain, and Italy, have resulted in significant purchasing benefits. We attribute a 20 basis point year-on-year improvement in adjusted EBITDA margin to gains from purchasing partnerships and tight cost control across retail operations. These gains are offset by continuing effects of the weak Italian economy on private consumption, and strong price-focused competition in France and Spain.

Auchan's reported 2015 revenues fell by 2.7% in France and 4.1% in Western Europe excluding France. We believe that the highly competitive pricing environment, along with a consumer preference for convenience stores, did not help hypermarket operators that in the past have thrived on being able to offer customers lower prices.

We believe that the hypermarket format faces challenges due to the need to maintain competitive pricing. We also see structural shifts in the retail space in favor of convenience stores, which are gaining more popularity in urban and suburban markets. We therefore believe that Auchan's profitability will remain under pressure, at least during 2016. This is also due to the very weak macroeconomic conditions in Western Europe, coupled with likely continued competitive pressures on hypermarket stores in the French food retail sector.

The repositioning of the hypermarkets in France is likely to remain a challenge and constraint on the group's financials. Although we expect some recovery and improved profitability in France on the back of modest price repositioning, in our view, this is unlikely to be strong enough to offset negative trading pressures, which we expect will continue throughout 2016 and 2017.

## Our Base-Case Operating Scenario

We forecast minimal organic growth over the coming years and moderate EBITDA margin improvement. Key elements of our base-case scenario include:

- Moderate growth in France and Western Europe, aided by improving economic conditions.
- Continued competitive pressures both from traditional brick-and-mortar retailers as well as e-commerce players.
- Strong organic growth in China, offset by difficult market conditions, slowing GDP growth, and declining like-for-like sales.
- An improvement in margins through purchasing partnerships with Systeme U in France, Sisa in Italy, and Metro Group internationally.
- Stable margins at Immochan, which contributes about 15% of group EBITDA.

### Peer comparison

**Table 1**

**Auchan Holding -- Peer Comparison (100% Consolidation of Chinese Subsidiary)**

| | Auchan Holding | Carrefour S.A. | Casino Guichard - Perrachon & Cie S.A. | Tesco PLC |
|---|---|---|---|---|
| (Mil. €) | --Fiscal year ended Dec. 31, 2015-- | | | --Fiscal year ended Feb. 29, 2016-- |
| Revenues | 53,794.0 | 77,527.0 | 46,592.2 | 68,569.5 |
| EBITDA | 3,362.0 | 4,167.0 | 2,912.8 | 4,551.9 |
| Funds from operations (FFO) | 2,692.0 | 3,269.5 | 1,849.8 | 3,094.9 |
| Net income from cont. oper. | 518.0 | 977.0 | (47.0) | 288.5 |
| Cash flow from operations | 2,741.0 | 3,157.5 | 3,521.0 | 3,762.9 |
| Capital expenditures | 2,054.0 | 2,378.0 | 1,488.0 | 1,279.6 |
| Free operating cash flow | 687.0 | 779.5 | 2,033.0 | 2,483.3 |
| Discretionary cash flow | 489.0 | 358.5 | 1,535.0 | 2,483.3 |
| Cash and short-term investments | 2,671.0 | 2,815.0 | 4,588.0 | 7,681.7 |

**Table 1**

## Auchan Holding -- Peer Comparison (100% Consolidation of Chinese Subsidiary) (cont.)

| | Auchan Holding | Carrefour S.A. | Casino Guichard - Perrachon & Cie S.A. | Tesco PLC |
|---|---|---|---|---|
| **(Mil. €)** | **--Fiscal year ended Dec. 31, 2015--** | | | **--Fiscal year ended Feb. 29, 2016--** |
| Debt | 7,304.9 | 9,076.7 | 12,081.9 | 21,429.2 |
| Equity | 12,116.0 | 9,913.0 | 11,323.0 | 8,003.5 |
| **Adjusted ratios** | | | | |
| EBITDA margin (%) | 6.2 | 5.4 | 6.3 | 6.5 |
| Return on capital (%) | 6.7 | 9.7 | 5.3 | 4.4 |
| EBITDA interest coverage (x) | 9.4 | 7.0 | 2.7 | 2.7 |
| FFO cash interest coverage (x) | 17.0 | 10.7 | 4.4 | 8.5 |
| Debt/EBITDA (x) | 2.2 | 2.2 | 4.1 | 4.8 |
| FFO/debt (%) | 36.9 | 36.0 | 15.3 | 14.3 |
| Cash flow from operations/debt (%) | 37.5 | 34.8 | 29.1 | 17.4 |
| Free operating cash flow/debt (%) | 9.4 | 8.6 | 16.8 | 11.4 |
| Discretionary cash flow/debt (%) | 6.7 | 3.9 | 12.7 | 11.4 |

**Table 2**

## Auchan Holding -- Peer Comparison (36.4% Consolidation of Chinese Subsidiary)

| | Auchan Holding | Carrefour S.A. | Casino Guichard - Perrachon & Cie S.A. | Tesco PLC |
|---|---|---|---|---|
| **(Mil. €)** | **--Fiscal year ended Dec. 31, 2015--** | | | **--Fiscal year ended Feb. 29, 2016--** |
| Revenues | 45,131.6 | 77,527.0 | 46,592.2 | 68,569.5 |
| EBITDA | 2,694.0 | 4,167.0 | 2,912.8 | 4,551.9 |
| Funds from operations (FFO) | 2,165.6 | 3,269.5 | 1,849.8 | 3,094.9 |
| Net income from cont. oper. | 518.0 | 977.0 | (47.0) | 288.5 |
| Cash flow from operations | 2,086.6 | 3,157.5 | 3,521.0 | 3,762.9 |
| Capital expenditures | 1,615.6 | 2,378.0 | 1,488.0 | 1,279.6 |
| Free operating cash flow | 471.0 | 779.5 | 2,033.0 | 2,483.3 |
| Discretionary cash flow | 382.9 | 358.5 | 1,535.0 | 2,483.3 |
| Cash and short-term investments | 2,079.6 | 2,815.0 | 4,588.0 | 7,681.7 |
| Debt | 5,572.8 | 9,076.7 | 12,081.9 | 21,429.2 |
| Equity | 10,252.1 | 9,913.0 | 11,323.0 | 8,003.5 |
| **Adjusted ratios** | | | | |
| EBITDA margin (%) | 6.0 | 5.4 | 6.3 | 6.5 |
| Return on capital (%) | 5.8 | 9.7 | 5.3 | 4.4 |
| EBITDA interest coverage (x) | 8.4 | 7.0 | 2.7 | 2.7 |
| FFO cash int. cov. (X) | 14.0 | 10.7 | 4.4 | 8.5 |
| Debt/EBITDA (x) | 2.1 | 2.2 | 4.1 | 4.8 |
| FFO/debt (%) | 38.9 | 36.0 | 15.3 | 14.3 |

**Table 2**

**Auchan Holding -- Peer Comparison (36.4% Consolidation of Chinese Subsidiary) (cont.)**

| | Auchan Holding | Carrefour S.A. | Casino Guichard - Perrachon & Cie S.A. | Tesco PLC |
|---|---|---|---|---|
| (Mil. €) | --Fiscal year ended Dec. 31, 2015-- | | | --Fiscal year ended Feb. 29, 2016-- |
| Cash flow from operations/debt (%) | 37.4 | 34.8 | 29.1 | 17.4 |
| Free operating cash flow/debt (%) | 8.5 | 8.6 | 16.8 | 11.4 |
| Discretionary cash flow/debt (%) | 6.9 | 3.9 | 12.7 | 11.4 |

## Financial Risk: Intermediate

Our assessment of Auchan's financial risk profile is characterized by adjusted debt to EBITDA of 2x-3x and FFO to debt of 30%- 45%.

Our base case assumes that Auchan's EBITDA margin will stabilize at 2015 levels in 2016 and gradually improve in the next 24 months because of margin benefits achieved through the purchasing agreements that the group has signed in France, Italy, and Spain. Auchan also signed a purchasing agreement with German diversified retailer Metro AG, which covers the international operations of both groups.

However, we anticipate that it could prove difficult for Auchan to restore its previous margin levels in Western Europe during the next 24 months. We expect consumers to remain price-focused and unlikely to substantially increase their food purchases, while economic and employment prospects in France and Italy remain relatively weak over the next 12-24 months. We have also revised down our macroeconomic forecast on various Western European countries, to real GDP growth of 1.7% in 2016 and 1.8% in 2017.

Weaker profitability has a limited impact on the group's credit metrics in 2015 if we proportionally consolidate the Chinese operations at 36.4%. Auchan's real estate subsidiary, Immochan, sold 22 assets in France in 2015, and divested a 50% stake in one of its Portuguese properties. As a result, Auchan's adjusted debt-to-EBITDA and FFO-to-debt ratios remained broadly in the intermediate category, at 2.0x and 40%, respectively, in 2015 (2.3x and 33.7% in 2014).

We continue to analyze Auchan's financial risk profile on a proportional basis to better reflect our view of its limited access to cash originating from China, even though the group changed its reporting under International Financial Reporting Standards in 2014 to include 100% of its Chinese operations.

In our analysis, we do not consider 100% of revenues, EBITDA, and debt from Auchan's Chinese joint venture Sun Art. We only include 36.4%, down from 51% in our previous analysis, as we believe that the group currently owns 36.4% of the Chinese subsidiary, even though it has full control and majority voting rights. In our analysis, we do not include the put liability that Auchan's partner in the joint venture, Ruentex, can exercise from January 2016 as we believe that Ruentex is unlikely to exercise it in the current environment.

Our view stems from the belief that Sun Art holds a No. 2 market position in China. Sun Art's performance is well above the market average and the joint venture has recently launched e-commerce operations. Therefore, in our opinion, Ruentex would not have a strong economic incentive to exercise the put option and therefore we have not included this in our analysis.

However, in the future, if we were to see it as likely that the put option could be exercised, we would consolidate the put and 51% of the Chinese business in Auchan's figures. In the case of the put option being exercised, we understand it would be repaid in three equal tranches in three years, and that Auchan would have some flexibility to offset the cash impact through lower capex.

In this case, we believe that Auchan's financial ratios would still be well within the intermediate financial risk profile category. As an illustration, Auchan's debt-to-EBITDA ratio including 51% consolidation and the put option would be 2.3x, only 0.2x higher than currently. In addition, Auchan owns 97% of its property management portfolio, which is worth about €7.9 billion. This gives the group the flexibility to sell assets to alleviate pressure on ratios if the need arises.

In our view, Auchan's Western and Eastern European operations are critical to our assessment of the group's financial risk profile and credit quality because Auchan has much greater access to cash and cash flows generated in these regions than to those in Russia and China. Although Auchan's operations in China and Russia are very important to our analysis, we give them less weight in assessing the group's financial risk profile.

Auchan has more access to cash in the subsidiary in Russia because it fully owns it. However, we think Auchan's ability to upstream cash from Russia would depend on the amount of dividends its subsidiary could pay in any given year, along with capex that the group undertakes in Russia and China.

Under our base case, we forecast that Auchan will continue to report credit ratios commensurate with the current rating and that we will continue to assess its business risk at the lower end of the strong category--that is, adjusted FFO to debt greater than 30% and adjusted debt to EBITDA lower than 3x.

Auchan's relatively weak FOCF and discretionary cash flow-to-debt ratios continue to constrain its financial risk profile as the group pursues the remodeling of its stores in Western Europe and expands its network in China and Russia.

In our approach to rating Auchan, we combine our views of its strong business risk profile and intermediate financial risk profile to derive an anchor of either 'a-' or 'bbb+'. We apply the lower anchor of 'bbb+' to Auchan to account for the positioning of our business risk assessment at the low end of the strong category.

## Our Base-Case Cash Flow And Capital Structure Scenario

- A subdued economic recovery in the eurozone, with real GDP growth of about 1.3% in France, 2.6% in Spain, and 1.1% in Italy in 2016, and limited improvement thereafter.
- Reported revenue growth of 0%-1% in 2016 and 2017, based on growth in China and a return to growth in France.
- An increase in capex over the next two years.

## Financial summary

**Table 3**

**Auchan Holding -- Financial Summary (100% Consolidation of Chinese Subsidiary)**

**Industry Sector: Retail**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. €)** | **2015** | **2014** | **2013** | **2012** | **2011** |
| Revenues | 53,794.0 | 53,010.0 | 47,636.0 | 46,931.0 | 44,373.0 |
| EBITDA | 3,362.0 | 3,177.0 | 3,103.5 | 3,021.5 | 3,007.5 |
| Funds from operations (FFO) | 2,692.0 | 2,523.8 | 2,441.0 | 2,354.1 | 2,274.2 |
| Net income from continuing operations | 518.0 | 574.0 | 767.0 | 656.0 | 810.0 |
| Cash flow from operations | 2,741.0 | 2,765.8 | 2,214.3 | 2,190.1 | 1,851.2 |
| Capital expenditures | 2,054.0 | 2,034.0 | 1,831.0 | 1,754.0 | 1,572.0 |
| Free operating cash flow | 687.0 | 731.8 | 383.3 | 436.1 | 279.2 |
| Discretionary cash flow | 489.0 | 357.8 | 157.3 | 216.1 | 61.2 |
| Cash and short-term investments | 2,671.0 | 2,673.0 | 2,028.0 | 2,561.0 | 2,649.0 |
| Debt | 7,304.9 | 7,676.2 | 6,240.3 | 8,379.4 | 7,332.2 |
| Equity | 12,116.0 | 11,230.0 | 9,909.0 | 9,820.0 | 9,286.0 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 6.2 | 6.0 | 6.5 | 6.4 | 6.8 |
| Return on capital (%) | 6.7 | 7.0 | 7.1 | 7.9 | 9.6 |
| EBITDA interest coverage (x) | 9.4 | 8.3 | 10.9 | 11.0 | 10.9 |
| FFO cash int. cov. (x) | 17.0 | 13.6 | 12.8 | 12.9 | 13.4 |
| Debt/EBITDA (x) | 2.2 | 2.4 | 2.0 | 2.8 | 2.4 |
| FFO/debt (%) | 36.9 | 32.9 | 39.1 | 28.1 | 31.0 |
| Cash flow from operations/debt (%) | 37.5 | 36.0 | 35.5 | 26.1 | 25.2 |
| Free operating cash flow/debt (%) | 9.4 | 9.5 | 6.1 | 5.2 | 3.8 |
| Discretionary cash flow/debt (%) | 6.7 | 4.7 | 2.5 | 2.6 | 0.8 |

**Table 4**

**Auchan Holding -- Financial Summary (36.4% Consolidation of Chinese Subsidiary)**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. €)** | **2015** | **2014** | **2013** | **2012** | **2011** |
| Revenues | 45,131.6 | 45,174.7 | 47,636.0 | 46,931.0 | 44,373.0 |
| EBITDA | 2,694.0 | 2,626.3 | 3,103.5 | 3,021.5 | 3,007.5 |
| Funds from operations (FFO) | 2,165.6 | 2,090.1 | 2,441.0 | 2,354.1 | 2,274.2 |
| Net income from continuing operations | 518.0 | 574.0 | 767.0 | 656.0 | 810.0 |
| Cash flow from operations | 2,086.6 | 2,261.5 | 2,214.3 | 2,190.1 | 1,851.2 |
| Capital expenditures | 1,615.6 | 1,564.2 | 1,831.0 | 1,754.0 | 1,572.0 |
| Free operating cash flow | 471.0 | 697.3 | 383.3 | 436.1 | 279.2 |
| Discretionary cash flow | 382.9 | 504.5 | 157.3 | 216.1 | 61.2 |
| Cash and short-term investments | 2,079.6 | 2,138.3 | 2,028.0 | 2,561.0 | 2,649.0 |
| Debt | 5,572.8 | 6,600.9 | 6,240.3 | 8,379.4 | 7,332.2 |
| Equity | 10,252.1 | 9,551.2 | 9,909.0 | 9,820.0 | 9,286.0 |

**Table 4**

**Auchan Holding -- Financial Summary (36.4% Consolidation of Chinese Subsidiary) (cont.)**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. €)** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 6.0 | 5.8 | 6.5 | 6.4 | 6.8 |
| Return on capital (%) | 5.8 | 5.5 | 7.1 | 7.9 | 9.6 |
| EBITDA interest coverage (x) | 8.4 | 6.9 | 10.9 | 11.0 | 10.9 |
| FFO cash int. cov. (x) | 14.0 | 11.7 | 12.8 | 12.9 | 13.4 |
| Debt/EBITDA (x) | 2.1 | 2.5 | 2.0 | 2.8 | 2.4 |
| FFO/debt (%) | 38.9 | 31.7 | 39.1 | 28.1 | 31.0 |
| Cash flow from operations/debt (%) | 37.4 | 34.3 | 35.5 | 26.1 | 25.2 |
| Free operating cash flow/debt (%) | 8.5 | 10.6 | 6.1 | 5.2 | 3.8 |
| Discretionary cash flow/debt (%) | 6.9 | 7.6 | 2.5 | 2.6 | 0.8 |

The deconsolidation of the Chinese subsidiary has been initiated from financial year 2014 only.

## Liquidity: Adequate

We view Auchan's liquidity as adequate and calculate that liquidity sources will likely exceed liquidity needs by more than 1.7x over the next 12 months. Our assessment takes into account the potential exercise of the put option relating to Sun Art. The amounts below reflect reported accounts that consolidate 100% of Sun Art, despite Auchan owning only 36.4% of the economic interest. However, we consider that our assessment broadly reflects actual cash flow circulation, as we estimate that operations in China and Russia--where the group has limited access to cash and cash flows--do not generate meaningful amounts of FOCF.

### Principal Liquidity Sources

We anticipate that Auchan will have the following principal liquidity sources over the next 12 months:

- €2.7 billion of surplus cash, excluding €300 million-€400 million we consider to be tied to operations;
- €2.8 billion of undrawn credit lines expiring in more than 12 months;
- €1.9 billion of reported FFO forecast over the next 12 months; and
- €0.4 billion of ad hoc debt issuance to meet put option payments for the first year.

### Principal Liquidity Uses

We anticipate that Auchan will have the following principal liquidity uses over the next 12 months:

- €1.3 billion of debt maturities, excluding the debt related to banking activities;
- €1.2 billion of working capital seasonality;
- Close to 4% of sales to capex, mainly owing to expansion in emerging markets;
- €0.2 billion of dividends; and
- €0.2 billion of acquisitions.

### Debt maturities

- 2016: €1,956 million
- 2017: €640 million

- Thereafter: €4,436 million

## Ratings Score Snapshot

### Corporate Credit Rating

BBB+/Stable/A-2

### Business risk: Strong

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Strong

### Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

### Anchor: bbb+

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

## Reconciliation

**Table 5**

**Reconciliation Of Auchan Holding Reported Amounts With S&P Global Ratings' Adjusted Amounts (100% Consolidation of Chinese Subsidiary)**

| | --Fiscal year ended Dec. 31, 2015-- | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Auchan Holding reported amounts** | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenues** | **EBITDA** | **Operating income** | **Interest expense** | **EBITDA** | **Cash flow from operations** |
| Reported | 7,084 | 9,699 | 54,232 | 2,716 | 1,109 | 108 | 2,716 | 2,186 |
| **S&P Global Ratings' adjustments** | | | | | | | | |
| Interest expense (reported) | -- | -- | -- | -- | -- | -- | (108) | -- |
| Interest income (reported) | -- | -- | -- | -- | -- | -- | 60 | -- |
| Current tax expense (reported) | -- | -- | -- | -- | -- | -- | (388) | -- |
| Operating leases | 3,584.3 | -- | -- | 720.0 | 245.5 | 245.5 | 474.5 | 474.5 |

**Table 5**

**Reconciliation Of Auchan Holding Reported Amounts With S&P Global Ratings' Adjusted Amounts (100% Consolidation of Chinese Subsidiary) (cont.)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Postretirement benefit obligations/deferred compensation | 152.0 | -- | -- | -- | -- | 4.0 | (2.5) | (2.5) |
| Surplus cash | (2,270.4) | -- | -- | -- | -- | -- | -- | -- |
| Share-based compensation expense | -- | -- | -- | (1) | -- | -- | (1) | -- |
| Dividends received from equity investments | -- | -- | -- | 7 | -- | -- | 7 | -- |
| Captive finance operations | (2,249.0) | (431.0) | (438.0) | (60.0) | (52.0) | -- | (46.0) | 76.0 |
| Non-operating income (expense) | -- | -- | -- | -- | 51 | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | -- | 7 |
| Non-controlling Interest/Minority interest | -- | 2,848 | -- | -- | -- | -- | -- | -- |
| Debt - Derivatives | (242) | -- | -- | -- | -- | -- | -- | -- |
| Debt - Put options on minority stakes | 1,246 | -- | -- | -- | -- | -- | -- | -- |
| EBITDA - Gain/(Loss) on disposals of PP&E | -- | -- | -- | (20) | (20) | -- | (20) | -- |
| Total adjustments | 220.9 | 2,417.0 | (438.0) | 646.0 | 224.5 | 249.5 | (24.0) | 555.0 |
| **S&P Global Ratings' adjusted amounts** | | | | | | | | |
| | **Debt** | **Equity** | **Revenues** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from operations** | **Cash flow from operations** |
| Adjusted | 7,304.9 | 12,116.0 | 53,794.0 | 3,362.0 | 1,333.5 | 357.5 | 2,692.0 | 2,741.0 |

PP&E--Property, plant, and equipment.

**Table 6**

**Reconciliation Of Auchan Holding Reported Amounts With S&P Global Ratings' Adjusted Amounts (36.4% Consolidation of Chinese Subsidiary)**

| | --Fiscal year ended Dec. 31, 2015-- | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Auchan Holding reported amounts** | | | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenues** | **EBITDA** | **Operating income** | **Interest expense** | **EBITDA** | **Cash flow from operations** | **Dividends paid** | **Capex** |
| Reported | 7,084 | 9,699 | 54,232 | 2,716 | 1,109 | 108 | 2,716 | 2,186 | 198 | 2,054 |
| **S&P Global Ratings' adjustments** | | | | | | | | | | |
| Interest expense (reported) | -- | -- | -- | -- | -- | -- | (108) | -- | -- | -- |
| Interest income (reported) | -- | -- | -- | -- | -- | -- | 60.0 | -- | -- | -- |
| Current tax expense (reported) | -- | -- | -- | -- | -- | -- | (388) | -- | -- | -- |
| Operating leases | 2,597.3 | -- | -- | 620.1 | 211.0 | 211.0 | 409.1 | 409.1 | -- | -- |

**Table 6**

| Reconciliation Of Auchan Holding Reported Amounts With S&P Global Ratings' Adjusted Amounts (36.4% Consolidation of Chinese Subsidiary) (cont.) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Postretirement benefit obligations/deferred compensation | 152.0 | -- | -- | -- | -- | 4.0 | (2.5) | (2.5) | -- | -- |
| Surplus cash | (1,767.7) | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Share-based compensation expense | -- | -- | -- | (1.0) | -- | -- | (1.0) | -- | -- | -- |
| Dividends received from equity investments | -- | -- | -- | 7.0 | -- | -- | 7.0 | -- | -- | -- |
| Captive finance operations | (2,249.0) | (431.0) | (438.0) | (60.0) | (52.0) | -- | (46.0) | 76.0 | -- | -- |
| Deconsolidation / consolidation | (67.7) | (1,863.9) | (8,662.4) | (568.1) | (327.3) | (1.8) | (461.1) | (589.0) | (109.9) | (438.4) |
| Non-operating income (expense) | -- | -- | -- | -- | 51.0 | -- | -- | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | -- | 7.0 | -- | -- |
| Non-controlling interest/minority interest | -- | 2,848.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| Debt - Derivatives | (242.0) | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Debt - Put options on minority stakes | 66.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| EBITDA - Gain/(Loss) on disposals of PP&E | -- | -- | -- | (20.0) | (20.0) | -- | (20.0) | -- | -- | -- |
| Total adjustments | (1,511.2) | 553.1 | (9,100.4) | (22.0) | (137.3) | 213.2 | (550.4) | (99.4) | (109.9) | (438.4) |
| **S&P Global Ratings' adjusted amounts** | | | | | | | | | | |
| | **Debt** | **Equity** | **Revenues** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from operations** | **Cash flow from operations** | **Dividends paid** | **Capex** |
| Adjusted | 5,572.8 | 10,252.1 | 45,131.6 | 2,694.0 | 971.7 | 321.2 | 2,165.6 | 2,086.6 | 88.1 | 1,615.6 |

Capex--Capital expenditure.

## Related Criteria And Research

### Related Criteria

- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Industrials: Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

## Business And Financial Risk Matrix

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | Modest | **Intermediate** | Significant | Aggressive | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| **Strong** | aa/aa- | a+/a | **a-/bbb+** | bbb | bb+ | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

## Ratings Detail (As Of November 30, 2016)

| | |
|---|---|
| **Auchan Holding** | |
| Corporate Credit Rating | BBB+/Stable/A-2 |
| Commercial Paper | A-2 |
| Senior Unsecured | BBB+ |
| **Corporate Credit Ratings History** | |
| 28-Apr-2016 | BBB+/Stable/A-2 |
| 30-Apr-2015 | A-/Negative/A-2 |
| 02-Apr-2014 | A-/Stable/A-2 |
| 04-Dec-2012 | A/Negative/A-1 |
| **Related Entities** | |
| **Auchan Coordination Services S.A.** | |
| Issuer Credit Rating | --/--/A-2 |
| **Oney Bank** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Certificate Of Deposit | |
| *Local Currency* | A-2 |
| Senior Unsecured | BBB+ |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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