EULER HERMES Rating

Issuer Rating (Summary)

Helvetia Environnement Groupe SA		25 June 2020	BB-
		Issuer rating	
		Outlook	watch negative
Sector	Waste collection, sorting and waste-to-materials & energy	2019 Revenue	CHF 117m
		2019 Employees	500

BUSINESS RISK: moderate
FINANCIAL RISK: increased / slightly increased
→ ANCHOR RATING: BB- → Modification 1: Operational Risks → STANDALONE RATING: BB- → Modification 2: External Factors → Issuer Rating: BB-

BUSINESS RISK — moderate

- Moderate cyclicality of the Swiss waste market
- Leading position in a regional market with continuous growth in the long-term supported by structural changes
- Diversified customer portfolio in terms of industry
- High barriers to entry due to regulation and required capital investment
- Highly fragmented market

OPERATIONAL RISKS — ± 0

- Operational risk profile consistent with the anchor rating; no modification required

FINANCIAL RISK — increased / slightly increased

- Constrained key credit ratios due to growing asset base coupled with lagging operational performance
- Capital structure impacted by growth in external funds
- Generally stable operating cash flows ensured by a wide client base and mid-term contracts
- Adequate financial flexibility

EXTERNAL FACTORS — ± 0

- Assessment of intra-group or public-sector relations causes no modification

Key financial ratios	2016 [1]	2017 [1]	2018 [1]	2019[1]
EBITDA-Margin (%)	18.6	15.8	12.3	12.7
ROCE (%)	6.3	3.0	-1.2	-1.5
Equity ratio (%)	11.3	29.3	30.4	24.4
Debt to equity ratio (%)	84.7	52.0	58.8	68.7
Total liabilities / EBITDA	5.9	7.0	8.5	9.3
Net financial liabilities / EBITDA	4.2	3.2	5.3	6.6
EBIT interest coverage	1.1	0.6	-0.3	-0.3
EBITDA interest coverage	3.4	3.3	2.3	2.2

[1] actual ratios based on HEG's annual statements (adjusted on the basis of EHR's analytical principles)

EULER HERMES Rating

Rating Rationale

Euler Hermes Rating confirms the BB- issuer rating for Helvetia Environnement Groupe SA (HEG). The underlying factors are a combination of a moderate business risk profile and an increased to slightly increased financial risk profile with no further modifications. Due to the prevailing COVID-19 situation, with an expected impact on the operational performance, the rating outlook remains watch negative.

Moderate business risk due to an established market position and positive prospects in a competitive environment but currently impacted by COVID-19

We assess HEG's **business risk profile** as **moderate**. HEG's business risk profile is underpinned by a leading market position within the highly fragmented and moderately cyclical Swiss waste management market along with good market prospects. HEG's business profile is supported by a diversified client base in terms of industry in Western Switzerland. In comparison with other European peers, HEG's geographic diversification remains weak. To further improve its market position and to take advantage of synergies, HEG pursues an external growth strategy by seizing consolidation opportunities within the Swiss waste management market. HEG's major acquisition of the peer competitor SRS in 2017 made HEG a leading group for waste management and environmental services in Switzerland. Considering this position and its extended client portfolio, geographic scope and infrastructure network we think that HEG is well prepared to benefit from market growth prospects. HEG's position is further strengthened by the high barriers to entry of the Swiss waste market due to significant capital and regulatory requirements. With view to the main segments of waste services for municipalities and private businesses, we see an overall moderate exposure to economic cycles and generally stable market conditions with growing waste volumes and a growing demand for recycling services and outsourcing of facility management. Even if the COVID-19 situation has led to a significant turnover drop, we consider such an event as extraordinary in the assessment of the market cyclicality. Structural growth drivers are the increasing environmental regulations and awareness, demographic change and improvement of social conditions. Nevertheless, we identified some remaining key risks with regard to the liberalised and highly competitive market, which typically results in moderate to high pricing pressure. Further risks could also arise from adverse amendments to the regulatory framework that would require high capital investments.

Increased to slightly increased financial risks due to constrained key credit ratios

We assess HEG's **financial risk profile** as **increased to slightly increased**. Unlike the group's internal projections, our expectations regarding the operating performance during HEG's current period of external growth remain rather cautious. We anticipate risks with respect to prevailing integration risks, increased external funding, growing financing costs and the significant proportion of acquired goodwill. Because of a significantly grown asset base, funded by continuous growth in external funding, on the one hand, and a lagging improvement in operational performance on the other hand, profitability continuously decreased to currently unsatisfying levels. Also, deleveraging potential and interest coverage came down from adequate to rather weak levels by 2019, and are expected to remain weak in the short-term also caused by the prevailing COVID-19 situation which ultimately led us to put the current rating notation on watch with a negative outlook. Nevertheless, we are of the opinion that the capability of generating fairly stable operating cash flows might help Helvetia to bear increased debt levels through longer periods, provided that interest rates remain low. With view to the liquidity position as of April 2020, repeated access to shareholder funds, a proposed no-dividend policy and access to unutilised and/or new funding facilities we assess HEG's overall financial flexibility as still adequate.

Assessment on operational risk and external influence requires no modification

In our opinion, Helvetia's structures, processes and systems for controlling its operations and handling its operational risk are in consistence with the current anchor rating. A rating modification is not required. The further assessment of external factors which might have an impact on Helvetia's standalone rating, such as intra-group or public-sector relations, does also not trigger a rating modification according to our methodology.

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

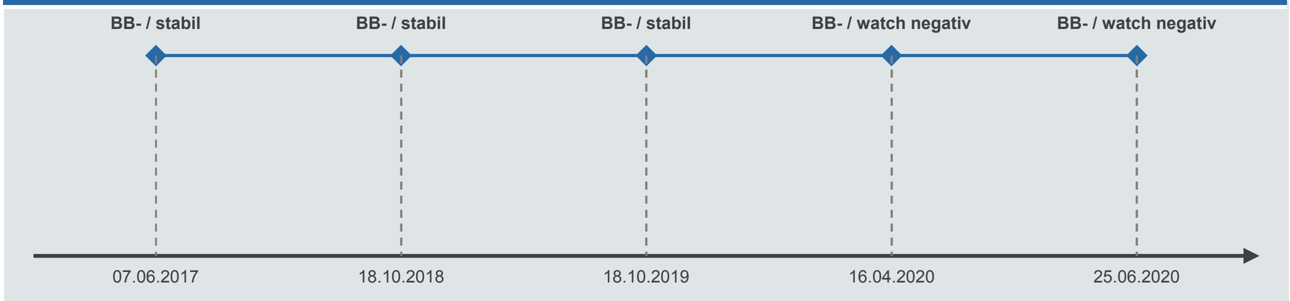
- Significant improvement of profitability, capitalization, leverage profile and coverage
- A better diversification profile
- Major increase of internally generated cash flows

Factors that could lead to a Downgrade

- Further deterioration of the business conditions and of the competitive position
- Weakening of the financial profile
- Tightening of the liquidity situation

Rating History

Helvetia Environnement Groupe SA



Company

Helvetia operates in the waste collection, sorting and waste-to-energy sector mostly in the French-speaking part of Switzerland

Helvetia Environnement Groupe SA (HEG) historically operates in the waste collection, waste sorting, waste-to-materials and waste-to-energy sector in the French-speaking part of Switzerland, Romandie. With the acquisition of Swiss Recycling Services SA (SRS) in February 2017, HEG became the market leader in Switzerland. SRS is operating in the north of Romandie and used to belong to French Veolia Environnement group in the past. In 2018 HEG acquired a stake in the family-owned, Roche-based, recycling firm Constantin SA, which shall enable HEG to expand its capacities and increase the treated waste volume. HEG was founded in 2000 and is based in Geneva with a current workforce of around 500 employees including SRS.

HEG is a generalist waste management company

HEG operates as a generalist waste manager and relies – in contrast to specialist and local waste management companies – highly on a large infrastructure network and a regional geographic scope. HEG's infrastructure includes sorting and recycling centres, waste collection and disposal facilities as well as sites for the conversion of waste-to-energy. HEG's direct clients are municipalities, companies and international organisations. Today, HEG has a market share of around 10% in the Swiss waste management market for private providers. SRS is fully integrated into HEG and operates in coexistence to three additional business units: Transvoirie SA, Sogetri and Leman Bio Energie. Transvoirie is the group's main segment in terms of turnover, with waste collection services for municipalities and companies, as well as from third party recycling points. It includes ancillary services such as maintenance, cleaning, consulting or the sale and installation of containers and disposal points. The second main business segment (Sogetri), deals with the operation of sorting centres and the conversion of waste-to-materials, covering the sorting, treatment and recycling of collected household waste, construction waste, industrial and organic waste. The third business segment deals with the conversion of waste-to-energy and is operated by the subsidiary Leman BioEnergie, which is mainly engaged in the conversion and sale of biodiesel from used cooking oils.

Major shareholders include the founder family, the management and two private equity funds

HEG is a privately owned Swiss company which was founded in 2000 by the Chavaz family, still holding participating shares of 26.6%, with strong connections within the Swiss waste management market. HEG is managed by CEO Mr. Vincent Chapel and COO Mr. Jean-Pierre Tétaz, who have joined the company in 2010 and who together hold another 26.6% of the share capital through an MBO. The remaining shares are held by two institutional investors backed by pension funds, namely UBS Clean Energy Infrastructure (26.6%) and Reichmuth Infrastruktur Schweiz (20.2%). By today, HEG is a combination of 13 successive acquisitions since 2000, with SRS remaining the largest. HEG has a board of directors in a supervisory role. It is composed of 9 members, including 2 members for each shareholder and an independent member, a former CEO of Suez Environnement. The second management organ is the executive board, which includes the executive directors.

Appendix 1: Execution

Analysts

- Michel Graire, analyst and project manager
- Matthias Peetz, senior analyst

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Rating committee

- Holger Ludewig, director
- Dörte Mählmann, director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

  [x] Solicited Rating
  [ ] Unsolicited Rating
    [ ] No participation of the rated entity or related third party
    [ ] With participation of the rated entity or related third party
      [ ] Access to internal documents
      [ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Financial statements 2017, 2018, 2019
  - Interim Reporting plus COVID-19 adjusted budget 2020
  - Liquidity status Q1/2020
  - Interviews with management
  - Organisation legal structure
  - Shareholder loan agreements

Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016 (https://www.ehrg.de/seiten/Methodology_Issuer%20Rating_20171114.pdf)
- Basic principles for Assigning Credit Ratings and Other Services as of July 2020 (https://www.ehrg.de/seiten/Principles_200701.pdf)
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020 (https://www.ehrg.de/seiten/ESG_2020.pdf)

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of EHR, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) **MINUS (–)**	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services (https://www.ehrg.de/seiten/Principles_200701.pdf)

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

Cash flow return on investment (Cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total assets

Capital structure

Indebtedness

Equity-to-total assets ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total assets

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Deleveraging potential

Total liabilities / EBITDA
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expenses

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

Helvetia Environnement Groupe SA (client and rated entity) engaged Euler Hermes Rating GmbH to assign periodic credit ratings on 12 April 2017. This particular rating report has been formally created due to a transition of rating methodologies which becomes effective as of 01 July 2020.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 25 June 2020. This rating report was given to the client on 01 July 2020, thereby concluding the rating process.

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Hamburg, 01 July 2020

