

Bulletin:

# French Identity Solutions And Smart Card Provider Idemia Can Withstand COVID-19 Shock In 2020

April 29, 2020

PARIS (S&P Global Ratings) April 29, 2020--Idemia France SAS (B-/Negative/--) has updated its guidance for the impact of the COVID-19 pandemic on its operations in 2020, including a sales decline and first-half EBITDA at €35 million-€40 million below last year's level, with an expected recovery later this year. The company now expects to post about break-even free operating cash flow (after leases) in 2020, rather than positive €39 million, with most of the sales gap being absorbed by a combination of cost-reduction measures and cuts in capital expenditure.

The company's downward revision of its guidance does not affect our rating at this stage, despite uncertainties in the current environment. This is owing to Idemia's:

- Solid cash position of about €305 million as of March 31, 2020 (including €150 million of precautionary drawings from its €300 million revolving credit facility, leaving €95 million available).
- Expectation that it can meet its first-half cash budget (around €60 million cash use, corresponding to normal seasonality), thanks to reduction of costs and capital expenditure to contain the impact of lower sales on profitability and cash flow.
- EBITDA cash interest coverage of more than 3.0x (including our adjustments) in 2020 and no materially negative reported free operating cash flow after leases this year, before a likely rebound in 2021.
- Solid first-quarter order backlog valued at €2.35 billion (up 8% versus first-quarter 2019), although order intake has slowed.
- Expected strong sales throughout the second quarter, including large confirmed deals--such as for the EU biometrics visa system, airport border control in North America, passports in Asia-Pacific, driving license registration in the Middle East and Africa (MEA), and biometric identification in MEA and Asia--even though there might be some delays.
- Steady working capital requirements and payment collections, which we don't expect will weaken at this stage, since Idemia's customers are well capitalized and include governments, public security services, financial institutions, and telecommunications carriers.
- Resilience, since demand for Idemia's solutions, including public security services and digital payments and connectivity, remains healthy and the market is showing increasing interest in digital ID technologies (authentication). ID document issuance and enrolment services are the most affected by the economic slowdown resulting from the COVID-19 pandemic.

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For more on our rating rationale and outlook see "Idemia France SAS Outlook Revised to Negative On Negative Cash Flows And High Leverage; 'B-' Rating Affirmed," published July 10, 2019, on RatingsDirect.

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