

Bulletin:

# Idemia France SAS' Proposed €350 Million Dividend Has Minimal Credit Implications

December 4, 2023

This report does not constitute a rating action.

PARIS (S&P Global Ratings) Dec. 4, 2023-- S&P Global Ratings today said it considers Idemia France SAS' (B/Stable/--) future €350 million dividend, mainly funded with a €250 million term-loan B (TLB) add-on, to have no immediate effect on the company's credit metrics.

Idemia is upsizing its existing €1,500 million TLB by €250 million. This, coupled with €100 million in excess cash currently standing on the company's balance sheet, is geared toward raising funds for a one-time €350 million shareholder distribution.

The resulting incremental debt increase will have a very limited effect on Idemia's credit metrics. We now expect Idemia's year-end 2023 leverage to stand at 4.8x, only 0.4x above our previous expectation in June 2023 post the amend-and-extend transaction, and well below our downside trigger at 6.5x. The additional interest expense from the TLB add-on, for which the terms and interest margin (at 4.75%) are in line with the outstanding €1.5 billion TLB, will reduce free-operating cash flow (FOCF) by about €12 million in 2024. We now forecast Idemia to generate reported FOCF after leases of €100 million-€120 million in 2024, leading to an adjusted FOCF-to-debt ratio of 5%-6%, which is marginally below our previous estimate of 7%-8%.

Our updated 2023-2024 projections incorporate the company's strong performance over the first nine months of 2023, both in enterprise and government solutions. In enterprise solutions, Idemia continues to benefit from strong demand for personalized cards and an improved product mix despite banks adjusting downward their card inventories in third-quarter 2023. This can be attributed to the migration toward higher-margin technologies, notably eSIM and dual bank cards.

In government solutions, Idemia continues to benefit from strong demand for its biometric travel document technologies, the rollout of digital identity products in the U.S. and Europe, new law enforcement contracts, and a favourable geographical mix toward more profitable markets.

## Idemia France SAS--Key metrics

Mil. €	2021a	2022a	2023f	2024f
Revenue	2,220	2,649	2,800-2,850	2,900-3,000
Annual revenue growth (%)	2.0	19.4	5.0-6.0	2.0-3.0
S&P Global Ratings-adjusted EBITDA margin (%)	13.9	18.6	~20	~20

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**Bulletin: Idemia France SAS' Proposed €350 Million Dividend Has Minimal Credit Implications****Idemia France SAS--Key metrics (cont.)**

Mil. €	2021a	2022a	2023f	2024f
Nonrecurring costs	(33)	(29)	(30)	(15)
S&P Global Ratings-adjusted debt to EBITDA (x)	7.3	4.6	4.8	4.6
Reported FOCF after lease payments	79	166	110-130	100-120
S&P Global Ratings-adjusted FOCF to debt (%)	4.0	8.7	6.0-7.0	5.0-6.0

Data year ending Dec. 31. a--Actual. f--Forecast. FOCF--Free operating cash flow.

**Issue Ratings--Recovery Analysis****Key analytical factors**

- The issue rating on Idemia's senior secured debt is 'B' and the recovery rating is '3', with a rounded recovery estimate of 60%. The recovery prospects are supported by limited prior-ranking liabilities but constrained by the significant amount of senior secured debt, including the TLB and the revolving credit facility (RCF).
- We view the security and guarantee package as comprehensive. The documentation contains a minimum guarantor coverage test corresponding to 80% of EBITDA and 80% of gross assets.
- We view the documentation for the senior secured debt as issuer-friendly in terms of credit protection. There is no maintenance covenant on the senior secured debt, but there is a springing covenant on the RCF stipulating maximum consolidated senior secured net leverage of 7.8x. The covenant is tested when more than 40% of the RCF is drawn.
- Restrictions on additional indebtedness are subject to incurrence-based covenants stipulating maximum consolidated senior secured net leverage of 4.0x and fixed-charge coverage of 2.0x. The documentation has several other issuer-friendly features, including sizable debt baskets and restricted payment carve-outs.
- Our hypothetical default scenario assumes depressed operating underperformance resulting from a deterioration in the smart card market, weaker revenue growth in the identity and security solutions segments, and the potential loss of customers due to increasing competition from better-capitalized competitors.
- We value Idemia as a going concern, given its established market position in identity and security solutions, diversified customer base, resilient business model, opportunities for growth, and the high barriers to enter the industry.

**Simulated default assumptions**

- Year of default: 2026
- Minimum capital expenditure (percentage of the next two years' average sales): 4% (excluding capitalized R&D costs)
- Cyclicity adjustment factor: +10% (standard sector assumption)
- Operational adjustment factor: -5%

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- Emergence EBITDA after recovery adjustments: About €298 million
- Implied enterprise value multiple: 6.0x
- Jurisdiction: France

### **Simplified waterfall**

- Gross enterprise value at default: About €1.8 billion
- Administrative costs: 5%
- Net value available to debtors: €1.7 billion
- Secured debt claims [1]: About €2.7 billion
- Recovery expectation [2]: 60% (recovery rating: 3)

[1] All debt amounts include six months of prepetition interest. We assume that 85% of the RCF is drawn on the path to default.

[2] Rounded down to the nearest 5%.

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