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Research Update:

French Retail Group ELO Outlook Revised To Negative On Tight Rating Headroom; 'BB-' Ratings Affirmed

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Rating Action Overview

- ELO, owner of Auchan Retail and New Immo Holding (NIH), reported EBITDA of €316 million in the first half of 2025 (a decline of 5.8% year-on-year) or about €239 million (decline of 21% year-on-year) on an S&P Global Ratings-adjusted basis, net of one-off costs. We now project S&P Global Ratings-adjusted debt to EBITDA (excluding the Russian operations) will be about 5.3x at year-end 2025.
- ELO launched a consent solicitation to bondholders for the substitution of the issuer in favor of NIH for ELO's €2.9 billion senior unsecured notes due between 2027 and 2029, with the objective of strengthening NIH's direct access to the market and facilitate debt refinancing.
- We see the liquidity as less than adequate, given the structural cash-burn, upcoming debt maturities, our expectation of covenant breach and no access to the revolving credit facility (RCF) at year end, however we understand the group is in the process of raising more secured debt, putting in place new RCFs and revising covenants, as part of the separation of capital structures of NIH and Auchan Retail.
- We expect ELO's EBITDA will gradually improve in the second half of this year and over 2026-2027 as management progresses with its transformation plan and confirmed its full-year guidance, but execution risks remain elevated given the deteriorated performance and highly competitive environment.
- We therefore revised our outlook to negative from stable and affirmed our 'BB-' long-term issuer credit rating on ELO.
- The negative outlook reflects the short-term pressure on the liquidity and the weak performance and structural negative free operating cash flow (FOCF) generation pressuring the group's financial flexibility and creditworthiness.

Rating Action Rationale

Weak performance in the first half (H1) of the year, still high one-offs, and execution risks have led us to revise downward our base case for ELO. In the first six months of 2025, ELO reported sales of €15.8 billion, about 3.4% higher than in H1 2024. Growth was driven by the integration of Casino stores, which pushed up Auchan Retail's sales by 4.2% to €15.5 billion, despite a like-for-like contraction of 1.6%. Like-for-like for H1 2025 was negative in the group's three biggest geographies due to subdued consumer demand and continued investment in prices, falling by 3.1% in France, by 1.4% in Spain, and by 3.0% in Poland. ELO's reported EBITDA declined by 5.6% to €316 million, compared with €339 million in H1 2024, €545 million in H1 2023, and €619 million in H1 2022. Positively, Auchan Retail's reported EBITDA was up to 8.4% to €172 million, mostly driven by improvements in Romania, Spain, and Portugal, and benefiting from a good recovery in the second quarter. ELO's consolidated EBITDA suffered from the 15.0% contraction of NIH's EBITDA, due to the significant disposals completed in the H2 2024 (like-for-like EBITDA evolution was -1.4%). The reported EBITDA of Auchan Retail in France remained at negative €147 million, compared to negative €130 million in the first half of last year.

ELO incurred about €85 million of one-off restructuring and integration costs that we net from our S&P Global Ratings-adjusted EBITDA, after about €320 million of one-offs in 2024. This means that our adjusted EBITDA in first-half 2025 was about €230 million, 21% lower than in first-half 2024. We have now updated our base case and we conservatively expect €150 million total one-off costs for the full-year 2025 (down from €100 million previously). This, together with a slightly downward revision of NIH's EBITDA, will keep our adjusted debt to EBITDA (excluding the Russian operations) elevated, at about 5.3x in 2025, compared with our previous forecast of 4.7x. While we project the group's transformation plan will reduce leverage to 4.5x-5.0x in 2026, we think execution risks remain elevated, given the challenging market conditions for retail in France and ELO's deteriorated profitability and competitive position.

Management is confident that Auchan Retail's performance in France will recover in the next six-to-12 months. Despite the weak first half of the year, management confirmed its full-year guidance of €1.0 billion reported EBITDA for Auchan Retail in 2025 (and rising toward €1.6 billion by 2028). This corresponds to consolidated reported EBITDA of about €1.3 billion for the group for 2025. Management expects a strong improvement in the second half of the year based on the seasonality of the business and the group's various strategic initiatives. Over the past 18 months, ELO has launched a comprehensive transformation plan to improve the long-term profitability and attractiveness of its French retail operations, after years of continual deterioration in market share, sales, and profitability. This includes leveraging on the new 10-year purchasing alliance with Intermarché, investing in prices and in the attractiveness of its hypermarkets by reducing surface area and reshaping the offering, developing the franchise model, and focusing on operating efficiency. In France, this translated into 2,389 job cuts since the beginning of the year, with €100 million of expected annual savings, exit from 24 loss-making stores, and the rationalization of IT and support functions. The company is also closing 15 stores and slashing 600 jobs in its Alcampo network in Spain. Management also points to the 22% revenue improvement at Casino's acquired stores, following a substantial cut in selling prices coming from their integration into the Auchan network, even if their EBITDA remains negative.

ELO is separating the capital structures of NIH and Auchan Retail to address its debt maturities and fix its liquidity profile, which is key to maintaining the current rating. The group intends to strengthen the autonomy of its two core businesses--retail and real estate--with each business ultimately becoming responsible for the financing of their operations and thus no longer reliant on intragroup funding. To this purpose, last week, ELO launched a consent solicitation to bondholders for the substitution of issuer in favor of NIH for ELO's €2.9 billion senior unsecured notes due between 2027 and 2029. The substitution is expected to be completed in September 2025, with the objective of strengthening NIH's direct access to the market and facilitate debt refinancing. NIH is also expected to place a new €350 million RCF and new secured lending by the end of the year. At the same time, the group intends to increase the direct financing of Auchan Retail, setting up a new RCF and banking facilities. We understand these would include new covenants with adequate headroom, replacing the one at ELO. The €1.0 billion senior unsecured notes due January 2026 will remain at ELO and are expected to be reimbursed at maturity from cash currently held. The group's ability to regain access to capital markets and strengthen its liquidity profile--both at NIH and at Auchan Retail--is key to maintaining the current ratings. If the group or its subsidiaries are unable to raise additional external financing and appropriately sized committed RCF over the next six months, this would severely affect our ratings.

The proposed debt push-down is credit neutral as we continue to consider NIH as a core subsidiary of ELO, while we cap our recovery rating on the senior unsecured debt at '3'. Our ratings on ELO are based on consolidated metrics, which do not depend on the location of the debt within the structure. We understand that, following the transaction, the group intends to formally cut some of the financial links between ELO and NIH, including cash pooling, the intra-group loans, and the RCF. However, ELO will maintain 100% control of NIH, which implies that it will have the ultimate power to direct its strategy and cash flows. According to our Group Rating Methodology, this implies that, despite the proposed changes, the two entities remain deeply interconnected, from an operational and a financial point of view. As such, we expect NIH will continue to directly and indirectly support ELO and Auchan Retail, participating in the reshaping of its hypermarkets, eventually acquiring its real estate assets, or providing financial resources in others way, if needed. We note that last year, NIH sold about €700 million of assets, with net cash inflow of about €438 million, to cover Auchan Retail's cash burn. Our current rating on ELO is supported by NIH's €6.6 billion of assets and more stable EBITDA. Our ratings on ELO would be pressured if the group loses control over NIH's assets and cash flow. We also do not expect immediate implications on the recovery and issue ratings on ELO's and NIH's senior unsecured notes, as the recovery rating it currently capped at '3' due to the unsecured nature of the rated debt, in line with our criteria. That said, we will monitor future issuances of secured debt and the creation of eventual unbalances among the recovery prospects of creditors of ELO, NIH, and Auchan Retail.

ELO's financial flexibility continues to deteriorate, as the increase in fixed charges hampers its cash flow generation. Lower EBITDA and higher fixed charges are eroding the group's financial flexibility, as indicated by the EBITDAR coverage ratio, which fell to 1.3x in 2024, from 2.5x in 2023, and 3.5x in 2022. We expect it will remain at about 1.5x in 2025, before a progressive improvement to 1.6x-1.7x in 2026-2027. This level is very weak for our current rating on ELO; despite the group's ownership of a sizable portion of its store footprint, it is constrained by the significant increase in lease payments, which we project will reach about €540 million in 2025, adding to about €280 million of interest on financial debts. Both leases and interests may further increase in the future, as the group refinances older debt at higher rates, and executes sale-and-lease-back transactions to support its liquidity profile. This implies that over the next two years, the group will depend on its EBITDA base expanding significantly to be able to generate at least neutral FOCF after leases. Throughout the 2025-2028 period, ELO's outflows will amount to at least €1.8 billion per year. These include about €1.0 billion of capital expenditure (capex) per year, about

€550 million of annual lease payments, approximately €280 million of annual interest expenses on financial debt, and about €100 of annual cash taxes. Given our EBITDA projections, this implies continual cash burn over our forecast horizon, which the group expects to cover with disposals and eventual support from shareholders, while the transformation plan progressively increases its EBITDA base.

So far, the group has kept net debt and liquidity under control through continual asset disposals. Over the past 12 months, ELO has raised about €1.1 billion from asset disposals (mostly from NIH). These inflows allowed it to reduce its reported net financial debt by about €200 million, to €4.2 billion, despite the heavy cash burn of retail operations. The group still has a strong asset base, including NIH's €6.6 billion portfolio and Auchan Retail's ownership of a considerable portion of its stores, which management estimated to be worth more than €5.5 billion. We expect the group will execute additional disposals in 2025-2027 to finance its transformation plan and sustain its liquidity. We also think that ELO's shareholders could inject additional equity if needed, following the €300 million injected in 2024 and €100 million on 2023. We view positively ELO's proactiveness and track-record in monetizing assets to protect its leverage metrics in the short term. However, disposals also drive a reduction in EBITDA (as demonstrated by NIH during H1 2025), or an increase in lease payments and liabilities, with a mixed effect on long-term creditworthiness.

Outlook

The negative outlook reflects the short-term pressure on the liquidity and the weak performance and structural negative FOCF generation pressuring the group's financial flexibility and creditworthiness.

Downside scenario

We could lower the ratings by one or more notches if, over the next three-to-six months, ELO does not fix its liquidity profile, by putting in place new RCFs, revising the current covenant, and raising more debt or capital to improve its cash position--given the negative FOCF and upcoming debt maturities.

We could also lower the ratings if, over the next six-12 months, ELO continues to underperform our base case--due to lack of performance recovery in retail operations or higher-than-expected costs from the transformation plan--or does not materially improve its financial flexibility and cash flow profile. Specifically, we could lower the rating if:

- We see no tangible signs of recovery in the performance of the French retail operations from their 2024 level;
- ELO is unable to execute disposals, or does not receive sufficient support from its shareholders to cover the negative FOCF after leases between 2025-2027;
- We do not expect ELO's FOCF after leases to approach break-even by 2027; or
- S&P Global Ratings-adjusted debt to EBITDA does not decline structurally below 5.5x (excluding the Russian operations).

Upside scenario

We could revise the outlook to stable over the next 12 months if Auchan Retail's profitability and cash flow generation significantly improve, such that ELO's FOCF after leases reaches break-even and S&P Global Ratings-adjusted debt to EBITDA (excluding Russia) structurally declines below 5.5x. A stable outlook would also be contingent on the group strengthening its liquidity profile, refinancing its 2027 maturities well in advance, accessing new available RCFs and renegotiating the covenants, while net debt is kept under control through disposals and eventual further support from shareholders.

Company Description

ELO is the sole owner of Auchan Retail and NIH. The group reported €32.3 billion of sales and about €1.2 billion of EBITDA in 2024. ELO also holds an unconsolidated 49.9% stake in Oney Bank, with the remaining 50.1% being owned by BPCE.

Auchan Retail operates hypermarkets and supermarkets in 12 countries. It is the fifth-largest retailer in France, which accounts for about half of the group's revenue, but it also has sizable operations in both Eastern and Western Europe, notably in Spain, Russia, Poland, Portugal, and Romania.

NIH is a real estate property owner, owning and managing a portfolio of about €6.6 billion of shopping centers in 11 countries.

The Mulliez family owns about 97% of ELO through Association Familiale Mulliez and other structures, while the remainder is owned by eligible employees.

Our Base-Case Scenario

Assumptions

- French and eurozone real GDP to increase by about 1.0% in 2025 and 1.2% in 2026. French and eurozone inflation to continue declining to 1.7%-2.0% in 2025-2026.
- Lower food inflation, combined with high employment, should constitute a mitigated trading environment for food retailers in Europe in 2025, but fierce price competition could keep Auchan's margins and market shares under pressure, given its exposure to price-sensitive hypermarkets. The track record of continual deterioration of performance over the past three years poses a significant downside risk to our forecasts.
- ELO's revenue to increase by about 2.2% in 2025, and by approximately 1.0% per year in 2026-2027, mostly driven by the full-year integration of the recent acquisitions and a limited improvement in like-for-like developments.
- Auchan Retail's gross margin to stabilize at about 23%-23.5% in 2025-2027. We expect the new purchasing alliance with Intermarché will bring benefits from this year, but we think the group will balance profitability with investment in prices to improve the attractiveness of its brand.
- We expect Auchan Retail's adjusted EBITDA margin will progressively improve to about 2.6% in 2025 and 3.3% in 2026, after the dip of 2024, which was driven by higher costs also linked to the transformation and integration plan. The improvement will be driven by lower restructuring and integration costs, which we project will fall from about €330 million in 2024 to €150 million in 2025 and €100 million per year in 2026-2027, improved performance of acquired Casino's stores, and progressive strengthening of Auchan's competitive position as the transformation plan delivers some improvements.

- NIH's S&P Global Ratings-adjusted EBITDA margin of 50%-55% in 2025-2026, broadly in line with that of 2024.
- Consolidated ELO's S&P Global Ratings-adjusted EBITDA margin to recover to 3.5% in 2025 and 4.2% in 2026.
- Working capital inflow of about €50 million in 2025, as the group keeps improving the efficiency of its inventory and receivable systems.
- Annual gross capex of about €1 billion per year, including about €200 million annual capex and investments for NIH.
- We assume €300 million of net proceeds from disposals in 2025 and €200 million per year in 2025-2026. Although we acknowledge the group intends to dispose a cumulative €1.0 billion in the next 24 months, we also think that some disposals could drive a reduction in EBITDA, or an increase in lease debt, resulting in a mixed effect on adjusted leverage.
- No dividend in 2025-2027.
- Buybacks related to employee shareholdings of up to €20 million each year.
- We assume the group will refinance upcoming debt maturities at an interest rate of about 6%-7% over 2025-2027.
- Although the group still operates in Russia, we consider ELO's adjusted leverage excluding EBITDA from Russia as a metric that better reflects the group's current creditworthiness. Given the sanctions and ongoing geopolitical tensions, we assume the group cannot rely on the cash flows generated in Russia to service its debt. Without our estimate of Russian EBITDA and Russian lease debt for 2024-2025, our calculation of adjusted debt to EBITDA increases by about 0.5x.

Key metrics

ELO--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2021a	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	31,088	33,485	32,902	32,290	32,950	33,241	33,536
EBITDA	1,809	1,703	1,446	907	1,199	1,403	1,555
Capital expenditure (capex)	814	1,127	1,081	815	977	1,016	1,023
Reported free operating cash flow (FOCF) after leases	321	(391)	(84.0)	(332.0)	(760.8)	(651.4)	(460.5)
Debt	3,803	4,126	4,605	5,388	6,045.9	6,581.5	6,942.7
Adjusted ratios							
Debt/EBITDA (x)	2.1	2.4	3.2	5.9	5.0	4.7	4.5
FFO/debt (%)	35.7	31.5	21.9	8.0	11.5	13.1	13.9
DCF/debt (%)	(7.8)	(9.1)	0.6	(1.1)	(6.1)	(3.8)	(0.7)
EBITDAR coverage		3.8	2.5	1.3	1.5	1.6	1.7
EBITDA margin (%)	5.8	5.1	4.4	2.8	3.6	4.2	4.6
EBITDA excl- Russia		1,400-1,500	1,250-1,350	~800	~1100	~1,300	~1,450

ELO--Forecast summary

Debt to EBITDA excl- Russia	2.7	3.4	6.5	5.3	4.9	4.7

Liquidity

We assess ELO's liquidity as less than adequate, based on our expectation that the group may breach its covenant by year-end, implying no access to the RCF, and face the eventual reimbursement of its bank facilities. As such, we expect its sources of liquidity will not exceed its uses by more 1.2x over the next 12 months. However, we understand the group is in the process of raising more debt, putting in place new RCFs, and revising covenants, as part of the separation of capital structures of NIH and Auchan Retail. The current rating hinges on ELO fixing its liquidity in line with the plan, while continuing to raise funds through disposals or capital injections to cover the deeply negative FOCF over 2025-2027.

Principal liquidity sources

For the 12 months started July 1, 2025:

- €978 million of cash and cash equivalents as of June 30, 2025;
- No or very limited access under the €1.7 billion undrawn credit lines, given our expectation of covenant breach by year-end 2025; and
- About €240 million of cash funds from operations forecast over the next 12 months (net of lease depreciation).

Principal liquidity uses

For the same period:

- Current financial debt maturities totaling about €1.06 billion;
- Annual capex totaling about €1 billion (including growth and maintenance);
- No significant seasonal working capital requirement, given that June is one of the lowest annual cash points because of working capital seasonality; and
- About €20 million of share repurchases as part of the employee incentive program.

Covenants

Some of ELO's credit lines bear a maintenance financial covenant of debt to EBITDA at a maximum of 3.5x, as defined in the debt documentation (which differs from S&P Global Ratings' methodology), at the end of each fiscal year. We understand the limit can be increased in case of material acquisitions. We estimate the group will breach this covenant as of year-end 2025, limiting its ability to draw the RCF at year end and facing the eventual reimbursement of its bank facilities. We understand the eventual breach would not cause a cross-acceleration of the rated senior unsecured notes. We expect the company will renegotiate the covenant and add new RCFs as part of the ongoing capital structure separation between Auchan Retail and NIH.

NIH's bond includes limitation of total indebtedness (maximum loan-to-value ratio of 50% and maximum senior secured debt ratio of 20%) and a minimum interest coverage ratio of 2.0x. A similar covenant will be applied to the senior unsecured bonds that will be pushed down from ELO to NIH. We expect NIH will maintain sufficient headroom under the covenants.

Issue Ratings--Recovery Analysis

Key analytical factors

- We rate ELO's senior unsecured bonds at 'BB-' with a recovery rating of '3', indicating our expectation of meaningful (50%-70%; rounded estimated 65%) recovery to creditors in the event of a payment default.
- As of June 30, 2025, ELO's consolidated capital structure includes €5.25 billion of debt, of which €0.3 billion is senior secured and the rest--including the rated bonds--senior unsecured. ELO also has a €1.66 billion RCF, currently undrawn, which we understand ranks at the same seniority as the rest of its senior unsecured debt. Out of ELO's consolidated debt of €5.25 billion, about €0.55 billion is issued by NIH, and the rest by ELO itself.
- As of Dec. 31, 2024, the capital structure of NIH--which is fully controlled and consolidated by ELO--includes €3.1 billion of debt, of which €0.55 billion is external debt and €2.5 billion constituted by ELO's intercompany loans. We understand the intercompany loans rank at the same seniority as NIH's senior unsecured debt, including its €300 million rated notes.
- Our default scenario assumes fierce competition in the French retail market, resulting in additional revenue decline, margin pressure, and negative FOCF, putting ELO's liquidity at risk, while pressuring real estate valuation and the ability to execute timely disposals.
- We value Auchan Retail's operations using a multiple of EBITDA at emergence, while we value NIH's real estate assets using a discrete asset valuation approach, based on the third-party appraisal of its portfolio and a discount rate to reflect the uncertainty of that value in 2029 (assumed year of default).
- We assume that NIH's real estate value is available to ELO and its creditors via the reimbursement of intercompany loans and dividends.
- Although the numerical recovery outcome is higher than 65%, we apply an unsecured debt rating cap of '3' due to the unsecured nature of the rated debt, both to ELO's and NIH's bonds. This is because, in line with our criteria, we expect the group may pledge security to raise additional debt or refinance the existing one as its credit quality deteriorates. Additionally, we assume that, on the path to default, NIH would sell its most liquid assets to provide liquidity to ELO. We understand there are not cross-default or cross-guarantee clauses between ELO and NIH, including in the intercompany loans.
- Following the proposed debt push-down, NIH will increase its external debt and eliminate the intercompany loan. As such, out of the total consolidated €5.25 billion, only about €1.0 billion will remain at ELO, together with the RCF. While this will imply structural subordination between the debt at ELO and NIH, we expect it will not change the final recovery and issue rating, given that they are all already capped at '3' because of their senior unsecured nature.

Simulated default assumptions

- Year of default: 2029
- Jurisdiction: France

Simplified waterfall

- Auchan Retail emergence EBITDA: €0.49 billion

- Multiple: 5.0x
- Gross recovery value of Auchan Retail: €2.45 billion
- Discounted value of NIH's real estate assets: €4.0 billion
- Gross recovery value of the group: €6.45 billion
- Net recovery value for waterfall after admin. expenses (5%): €6.1 billion
- Estimated NIH's external debt, including the €300 million rated bond: €0.55 billion
- --Recovery range: more than 100% (capped at 65%)
- Estimated ELO's priority and secured debt: €0.3 billion
- Remaining value for ELO's senior unsecured creditors: €5.3 billion
- Estimate ELO's senior unsecured debt at default (excluding NIH): €5.7 billion*
- --Recovery range: 90% (capped at 65%)

*All debt amounts include six months' prepetition interest. We assume that 85% of all RCFs will be drawn at the point of default.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Negative/B
Local currency issuer credit rating	BB-/Negative/B
Business risk	Fair
Country risk	Intermediate risk
Industry risk	Intermediate risk
Competitive position	Fair
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Negative
Liquidity	Less than adequate
Management and governance	Neutral
Comparable rating analysis	Positive
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2024: Consumer Products, Jan. 9, 2024
- Industry Credit Outlook 2024: Retail and Restaurants, Jan. 9, 2024

Ratings List

Ratings list		
Ratings Affirmed; Outlook Action		
	To	**From**
ELO		
Issuer Credit Rating	BB-/Negative/B	BB-/Stable/B
Ratings Affirmed		
ELO		
Commercial Paper	B	
Ratings Affirmed; Recovery Ratings Unchanged		
ELO		
Senior Unsecured	BB-	
Recovery Rating	3(65%)	