S&P Global
Ratings

Research

Research Update:

Roquette Freres S.A. Downgraded To 'BBB' On IFF's Pharma Solutions Business Purchase; Off CreditWatch; Outlook Negative

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PRIMARY CREDIT ANALYST

Nikolay Popov
Dublin
+ 353 (0)1 568 0607
nikolay.popov
@spglobal.com

SECONDARY CONTACT

Maxime F Puget
London
+44 7890 900 242
maxime.puget
@spglobal.com

Rating Action Overview

- French ingredients producer Roquette Freres S.A.'s (Roquette) acquisition of International Flavors & Fragrances Inc.'s (IFF) pharma solutions business has obtained full clearance in the U.S. and U.K., with pending approvals from other jurisdictions. These clearances bring visibility and confidence around closing at the beginning of second quarter 2025.
- We forecast pro-forma S&P Global Ratings' adjusted debt to EBITDA increasing to 3.6x-3.7x in 2025 from our estimate of below 1.0x in 2024, reducing to about 3.0x in 2026 and below 3.0x into 2027. That said, ongoing weak volume growth prospects in key end markets, combined with the company's lack of successful integration track record of such large acquisitions translate to uncertain sustained debt reduction.
- We therefore lowered our long-term issuer credit ratings on Roquette to 'BBB' from 'A-' and removed the ratings from CreditWatch with negative implications where we placed them on March 19, 2024. We also affirmed our 'A-2' short-term issuer and issue-level credit rating on the group's €300 million commercial paper program.
- The negative outlook reflects the possibility that we could downgrade Roquette to 'BBB-' if it is unable to demonstrate it is on track to sustainably reduce adjusted debt to EBITDA below 3x within two years of the transaction closing.

Rating Action Rationale

The rating action reflects the higher visibility that we now have around the closing of IFF's pharma solutions acquisition, which the company anticipates taking place at the beginning of second quarter 2025. Roquette has recently gained full clearance in the U.S. and in the U.K. Pending antitrust approvals remain by the European Commission, Brazil, Türkiye, India, and Colombia, which it expects to obtain by the beginning of second quarter 2025. Through the acquisition of IFF's pharma solutions business, Roquette is increasing its industrial footprint by adding nine manufacturing sites and seven research and development and application centers across Europe, U.S., India, and China. In 2023, IFF's pharma solutions business reported total sales of U.S.$945 million (about €874 million-equivalent based on current exchange rates) and reported adjusted EBITDA of $199 million (about €184 million-equivalent).

The rating downgrade is underpinned by the marked increase in debt leverage post-transaction closing. We expect adjusted debt to EBITDA to peak at 3.6x-3.7x in 2025 on a pro-forma basis, reducing to below 3.0x by 2027 assuming smooth integration of assets and strong positive free operating cash flow (FOCF) generation. We forecast pro-forma revenue growth in 2025 of up to 24%-26% toward €5.5 billion (from forecasted revenue of just below €4.4 billion in 2024), with S&P Global Ratings' adjusted EBITDA margin improving to 13.5%-14.0% (from expected flat margins of just below 12% in 2024) and positive FOCF of €100 million-€150 million. We factor capital expenditure (capex) increase to €360 million-€370 million (from about €250 million in 2024) linked to the enhanced asset base post-closing and ongoing decarbonization projects at Roquette's stand-alone business. Assuming the company is successful in integrating the assets into its business, and volumes in key end markets, notably in the fast-moving consumer goods industry across Europe and North America, rebound by 2026-2027, we forecast a gradual improvement in our credit metrics. Specifically, we currently forecast 3%-5% annual revenue growth over this period with continued margin expansion toward 16%-17% in 2026-2027, assuming the company is successful in achieving cost synergies from the acquisition and material cost savings from its productivity measures program launched in end 2022. Under this base-case, assuming no further acquisitions and consistent shareholder remuneration policy, we forecast adjusted debt to EBITDA trending toward 3x in 2026 and below 3x into 2027, two years from transaction closing. This metric would support a 'BBB' rating.

The negative outlook is underpinned by the volatility around our base-case in the next 12-24 months from transaction closing that could dent the group's deleveraging prospects by 2027. This notably relates to our top-line growth and margin expansion forecasts over 2025-2027 reflecting weak ongoing market dynamics in the global fast-moving consumer goods industry, notably Europe and North America. Packaged food and beverage customers across these regions are now focused on select promotional activities to stimulate demand after two years of strong price increases that weigh on consumer demand. In addition, significant commodity price decline, particularly in the key wheat and corn ingredients for Roquette, are translating into strong revenue decline in 2024 through the company's core ingredients segment where a material share of the business is highly commoditized with limited pricing power. The company's nascent pea protein division is also struggling due to weak consumer demand for plant-based food and intense competition. The large plant in Canada is operating below optimal capacity, which weighs on overall profitability. That said, the company should benefit from increased volumes going forward from the recent U.S. ban on imports of cheaper Chinese pea protein ingredients that were found guilty of dumping allegations, and the company's ongoing effort in product repositioning toward non-meat alternatives where it is seeing some consumer demand. In our view, the environment outside the pharma excipients business, which we estimate at 40%-45% of total pro-forma EBITDA post-transaction closing, is more volatile and Roquette will depend on favorable market conditions to post profitable growth that should support deleveraging prospects from the large acquisition. In addition, the company has no established track record in integrating such large acquisitions, and our outlook factors customary risks that we see related to the integration of carveouts.

Our 'BBB' rating is further underpinned by the improved business risk profile assessment. Combined with the most recent (October 2023) acquisition of Japanese hard capsules-maker Qualicaps, the acquisition of IFF's pharma solutions business will almost double the size of Roquette's pharma products business. Moreover, it expands the share of the business in the more predictable and profitable pharmaceutical industry as IFF's pharma solutions business has higher margins than Roquette's stand-alone business. It also crucially significantly expands the product portfolio in terms of functionality and release pattern perspectives, where we see the highest value addition from the transaction. Historically, Roquette has focused on excipients based on starches and mannitol/sorbitol, which are mostly used for rapid drug delivery, with absorption starting in the mouth. IFF's pharma business adds to Roquette's portfolio cellulose and alginates excipients, which are suitable for both immediate and controlled release. These enhanced capabilities, alongside the acquisition of Qualicaps that gave Roquette manufacturing capabilities for hard capsules, results in a more integrated production capability and a one-stop shop for customers. This is an important growth factor and is consistent with the trend of the past few years within the wider specialized ingredients industry.

Smooth integration of the acquired assets should lead to sustained expansion in adjusted EBITDA margins to and above 16%, which will close the gap to specialty ingredients peers in the sector and promote sustained debt reduction prospects. We understand that Roquette has already assembled a team of its own that is collaborating with IFF to ensure timely integration of the business from the first day of transaction closing. There will be a limited transition period with some transfer service agreements in place mostly related to the IT and Finance departments services that IFF will be providing for a short time, while there will also be a commercial agreement between the two companies whereby IFF will be supplying some ingredients to Roquette for some time. These agreements are already embedded in our base-case. In addition, Roquette has already been working on an internal project within its stand-alone business aiming at generating close to €300 million in annual recurring savings by 2028 from various processes, including optimized procurement and more efficient use of raw materials. We believe tangible benefits accruing from this initiative and lack of material integration costs and achievement of synergies from the integration of IFF's pharma solutions business will be critical in the business' margin evolution. More specifically they underpin our assumption of the company's margins reaching and exceeding the 16% threshold by 2027 that would close the gap with some specialty ingredients companies in the sector, while driving debt reduction prospects post-closing of debt to EBITDA to below 3x.

Debt reduction prospects also hinge on a consistent and conservative financial policy with discretionary spending restraint in the next two years from closing. At this stage, we assume Roquette will reign in on further acquisitions in the two years from closing and focus on the integration of acquired assets. We have historically seen support from the company's ownership structure, with the Roquette family having no track record of aggressive dividend, including extraordinary distribution policies. Management has also prioritized free cash flows' reinvestment in the business to drive long-term enterprise value. In our base-case, we assume ordinary dividends of €50 million-€90 million (about €90 million in 2024), comfortably covered by discretionary cash flows that should support debt reduction prospects by 2027.

Outlook

The negative outlook reflects the downside risks to Roquette's ability to reduce adjusted debt leverage below 3x two years after transaction closing.

Downside scenario

We could downgrade Roquette if it is unable to improve core credit metrics with adjusted debt to EBITDA remaining above 3x two years from transaction closing. This could happen if:

- The company experiences difficulty in successfully integrating IFF's pharma solutions acquisition and that any cost and cash flow saving measures the company contemplates deploying prove ineffective;
- We observe material competitive- or end-market pressures from subdued consumer environment affecting key customers in the fast-moving consumer goods industry; or
- We observe material acceleration of discretionary spend, such that the forecasted deleveraging trend is derailed.

Upside scenario

We could revise the outlook to stable if the company is a on clear path to reducing adjusted debt to EBITDA below 3x two years from closing of the transaction. This is contingent on the group successfully integrating IFF's pharma solutions business, while benefiting from sustained profitable revenue growth. The latter should come on the back of improving demand for Roquette's end customers' products in the fast-moving consumer good industry, notably in the key Europe and North America regions.

Company Description

Headquartered in Lille, France, Roquette is a global ingredients company, founded in 1933, and 100% owned by the Roquette family. The company derives its product offering from processing corn, wheat, potatoes, and peas. It caters to a variety of customers including pharmaceutical and nutraceutical companies, cosmetics manufacturers, food and beverage producers, animal health, and industrial (paperboard, plastic packaging, chemicals, automotive, and sports and leisure goods manufacturers). The group operates two main divisions:

- Core ingredients: produces starch and derivatives, and specialty food ingredients, including plant-based proteins.
- Roquette Pharma: produces pharmaceutical (for both prescription oral dose as well as for injectables) and nutraceutical excipients and active ingredients.

Core ingredients accounted for about 60% of total EBITDA in 2023 (over 60% in 2022), with the rest comprising pharmaceutical excipients.

The group generates most of its sales (before intragroup eliminations) from Europe (63% of sales in 2023 and 62% in 2022), followed by Asia (20% in 2023 and 2022) and Americas (mostly North America; 17% in 2023, 18% in 2022).

In fiscal year (end Dec. 31, 2023), Roquette reported total revenue of about €5 billion (compared with about €5.1 billion in 2022) and S&P Global Ratings-adjusted EBITDA of €590 million (€659 million in 2022), indicating margins of 11.8% (12.9% in 2022). Roquette's main competitors are Tate & Lyle PLC, Ingredion Inc., Cargill Inc., Archer Daniels Midland Co., and Tereos SCA.

Our Base-Case Scenario

Assumptions

- Overall revenue decline of up to 12% to about €4.4 billion in 2024, mainly due to lower prices from lower soft commodity prices, notably wheat and corn, and weak volumes in key end markets and geographies. We forecast strong revenue growth of potentially up to 24%-26% in 2025 on a pro-forma basis mainly due to the acquisition of IFF's pharma solutions business, which is set to contribute about €1 billion in top-line growth.
- We forecast 3%-5% revenue growth per year in 2026 and 2027 stemming from our expectations for potential volume growth assuming consumer confidence rebound in the key food and beverage end market and stable commodity prices, and benefits from ongoing successful transition of plant-based proteins toward non-meat alternatives and lower competition from Chinese players in the U.S. following the antidumping ban in 2024. Consolidated pharma business to grow by 5%-6% organically supported by underlying demand for medicines and continued innovation by enhanced customer base post-transaction closing.
- Broadly stable S&P Global Ratings' adjusted EBITDA margins of close to 11.8% in 2024 supported by lower operating expenses (notably energy and raw materials) offsetting price decreases. We forecast pro-forma margin improvement toward 13.5%-14.0% in 2025 reflecting consolidation of the higher-margin pharma business acquisition from IFF, further growing toward 16%-17% in 2026 and 2027, assuming the company is successful in driving synergies and sustained cost reductions from productivity initiatives launched in late 2022 at its standalone business.
- Broadly stable capex of €245 million-€250 million in 2024 and acceleration toward €360 million-€370 million in 2025 and 2026 reflecting enhanced production footprint post-transaction closing. We anticipate marked acceleration in capex in 2027 toward €600 million as the company reigns in capacity expansion projects in the 12-24 months post-closing to accelerate debt reduction process.
- Working capital inflows of €50 million-€70 million in 2024 reflecting lower raw material prices and inventory de-stocking, normalizing toward neutral to up to €50 million outflows in 2025 and thereafter.
- Dividends of about €90 million in 2024 including prepayment of planned dividends in 2025. We assume annual ordinary dividend payments of €50 million-€90 million thereafter.
- No new acquisitions beyond IFF's pharma solutions business with related moderate milestone payments in 2025 and 2026.
- Adjusted debt of €350 million-€450 million in 2024, rising toward €2.8 billion-€2.9 billion in 2025 and remaining in that range through to 2027. This includes bank debt, lease, and small net pension liabilities. We net available unrestricted cash against debt figures.

Key metrics

- Adjusted net debt to EBITDA of slightly less than 1.0x in 2024, rising toward 3.6x-3.7x in 2025, reducing toward 3.0x-3.1x in 2026 and 2.7x-2.9x in 2027;
- EBITDA interest coverage of just over 8.0x in 2024, reducing toward 5.0x in 2025 and rising back up toward 6.0x-6.5x in 2026 and close to 8.0x in 2027;
- FOCF to debt of 50%-55% in 2024, reducing to 4%-5% in 2025, increasing toward 8%-9% in 2026 and reducing again below 5% in 2027.

Liquidity

We assess the company's liquidity profile as adequate reflecting our calculation that principal liquidity sources should exceed uses by 1.2x over the next 12 months from June 30, 2024. Our assessment also reflects our calculation that sources will exceed uses even if EBITDA were to decline by 30%. In our calculation we have excluded the effect of the acquisition of IFF's pharma solutions business as it is fully funded, and we do not want to dilute the cash sources-to-uses ratio.

Principal sources:

- About €180 million of available unrestricted cash balances as of June 30, 2024;
- €400 million of long-term committed and undrawn revolving credit facilities maturing beyond the next 12 months;
- S&P Global Ratings'-adjusted cash funds from operations of €380 million-€420 million; and
- S&P Global Ratings'-forecasted moderate working capital inflows of €30 million-€50 million.

Principle uses:

- Short-term debt maturities of close to €615 million including commercial paper drawdowns used for working capital needs;
- Forecasted €40 million-€60 million of intrayear working capital needs;
- About €100 million of forecasted maintenance capex in line with adequate liquidity assessment;
- About €90 million of dividend payments;
- No contracted acquisitions beyond IFF pharma solutions.

Covenants

Under its existing U.S. private placement notes agreement, the company is subject to financial maintenance covenant linked to net debt to EBITDA not exceeding 2.75x, and equity not reducing below €950 million. The company does not need to amend the agreements due to the pending acquisition of IFF's pharma solutions business, as there is a possibility to step up the net leverage ratio to 4x for one year, and we don't forecast a breach.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Roquette because environmental risks (including climate, water, and biodiversity) are inherent to the agribusiness industry. For example, the company uses large volumes of raw materials, such as wheat, peas, potatoes, and corn, which raises problems around soil degradation, water waste, and energy consumption that are common to the industry. We also consider the group to be exposed to increasing concerns around responsible sourcing. In 2023 Roquette upgraded its ambition aiming for 60% sustainable agricultural raw material sourcing by 2030 (it achieved 38.7% in 2022 well ahead of its 20% target by 2025). It also stepped up its ambition to reduce water use and committed to using 20% less water by 2030 (from 2021 baseline).

Roquette has also set targets to reduce its environmental impact, notably for greenhouse gas emissions (scopes 1, 2, and 3) and has committed to saving one million tons by 2025, versus its 2015 baseline. In 2022, the company reported it reached this target thanks to a fuel change from coal to biomass derived from sugarcane bagasse at an Indian plant, having previously recorded a decrease of about 895,457 tons in 2021 and 860,287 tons in 2020, or just below 90% of its 2025 target. In 2022, Roquette made a new commitment to reduce by 25% its greenhouse gas emissions (scopes 1 and 2) between 2021 and 2030 (-10.7% in 2023), unchanged from before but this time based on the Science-Based Target Initiative framework. In scope 3 it made a similar commitment. The group's engagement in optimizing energy use and reducing its environmental impact is ongoing. Furthermore, as an ingredients provider with a large industrial footprint linked to its transformation activities, Roquette aims to meet sustainable chemistry criteria for 70% of its projects by 2025, of which 80% should meet the U.N.'s sustainable development goals. The company reached its target in 2022 (71%) and in 2023 this level further increased to 75%. We continue to regard Roquette's top priority in this area is to offer product traceability to end-customers through sustainable bio-refining and sourcing, given that this is an increasing area of concern for consumers globally.

Social and governance factors are a neutral consideration in our rating analysis. The company is fully owned by the Roquette family, and its financial policy has been consistently conservative, supporting the group's consistent and productive investment strategy.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
Business risk:	Satisfactory
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)

Issuer Credit Rating	BBB/Negative/A-2
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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: 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

- Consumer Product Companies: The Road To Volume Growth Remains Elusive, Oct. 15, 2024
- Research Update: Roquette Freres Ratings Placed On CreditWatch Negative On Announced Acquisition Of IFF's Pharmaceutical Business, March 19, 2024

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Roquette Freres		
Issuer Credit Rating	BBB/Negative/A-2	A-/Watch Neg/A-2

CreditWatch Action

	To	From
Roquette Freres		
Commercial Paper	A-2	A-2/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.