

# Roquette Freres' Proposed Hybrid Notes Rated 'BB+' And Its Proposed Senior Unsecured Debt Rated 'BBB'

November 12, 2024

- Roquette Freres plans to issue a benchmark-size seven-year senior unsecured notes and a €600 million perpetual deeply subordinated hybrid instrument to partially refinance the €2.6 billion-equivalent acquisition bridge facility maturing March 18, 2026, that was secured to pre-fund the acquisition of International Flavors & Fragrances Inc.'s pharmaceutical solutions business.
- Although Roquette has no track record of issuing and maintaining hybrid capital instruments in its structure, we assume the company is committed to maintaining its hybrid stock on its balance sheet and that hybrids represent an important feature of its debt deleveraging strategy.
- We initially classify the equity content on the proposed hybrid notes as minimal and anticipate reclassifying it as intermediate once the acquisition closes, expected in second-quarter 2025, and the associated early redemption clause is waived.
- We therefore rated the proposed senior unsecured notes 'BBB' and the proposed hybrid instrument 'BB+' to reflect its subordination and optional deferability.

DUBLIN (S&P Global Ratings) Nov. 12, 2024--S&P Global Ratings today assigned its 'BBB' long-term issue rating to the benchmark-size seven-year senior unsecured notes Roquette Freres (Roquette; BBB/Negative/A-2) plans to issue. At the same time, we assigned our 'BB+' issue rating to Roquette's proposed €600 million perpetual deeply subordinated hybrid securities.

Roquette will use the proceeds from both instruments to refinance part of the €2.6 billion-equivalent (U.S. dollar denominated) bridge facility, maturing March 18 2026, it secured to pre-fund the acquisition of the pharmaceutical solutions business of International Flavors & Fragrances Inc. (BBB-/Negative/A-3). The transaction is expected to close at the beginning of second-quarter 2025.

This would therefore help further improve the average debt maturity profile of Roquette's capital structure once the acquisition closes. We base our opinion on Roquette's success refinancing €600 million-equivalent amounts from the bridge facility in second-quarter 2024 through an equivalent five-year syndicated term loan split in two tranches (€275 million and \$350 million).

The 'BBB' issue rating on the proposed senior unsecured notes is in line with the issuer credit rating on Roquette. The issue rating reflects the lack of material prior ranking debt in the capital structure. The proposed notes would rank pari-passu with Roquette's other senior debt, comprising commercial paper drawdowns, syndicated term loans, and U.S. private placement notes.

## 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

## **Roquette Freres' Proposed Hybrid Notes Rated 'BB+' And Its Proposed Senior Unsecured Debt Rated 'BBB'**

If Roquette successfully issues the hybrid notes in line with the terms and conditions of the draft documentation we have received, we will initially classify the equity content as minimal. We anticipate reclassifying the equity content as intermediate once the acquisition closes and the associated early redemption clause is waived. The notes would carry intermediate equity content until the first reset date set 5.25 years from issuance (2030). During this period, the securities would meet our criteria in terms of ability to absorb loss or conserve cash if needed.

We derive our 'BB+' issue rating on the proposed securities by notching down from our 'BBB' long-term issuer credit rating on Roquette. The two-notch differential reflects:

- A one-notch deduction because of the deep subordination of the instrument while the rating on Roquette is 'BBB'; and
- An additional one-notch deduction to reflect the payment flexibility--the deferral of payment is optional.

The additional deducted notch reflects our view that Roquette is relatively unlikely to defer interests. Should our view change, we may deduct additional notches to derive the issue rating.

Furthermore, to capture our view of intermediate equity content, we consider 50% of the related payments on the notes a fixed charge and 50% as equivalent to a common dividend, in line with our hybrid capital criteria. The 50% treatment of principal and accrued interest also applies to our calculation of Roquette's adjusted debt.

### **Key factors in our assessment of the proposed hybrid's permanence**

The notes do not have a legal maturity date. That said, they can be called at any time in the period from three months from the first call period (5.25 years from issuance) and for events that we deem external or remote (change in tax, accounting, law rating methodology, change of control, following prior purchase of at least 75% of the originally issued securities). In addition, Roquette can also purchase the notes in the open market at any time, in which case they may be cancelled. In our view, the risk of early redemption is mitigated by Roquette's financial policy commitment to deleveraging and by the group's intention to maintain the hybrid instrument in its capital structure or to replace it with an equivalent instrument in terms of equity credit. We understand that the hybrid securities represent an important feature of its debt deleveraging strategy.

We understand the interest to be paid on the proposed security will increase by 25 basis points (bps) per year over the 5.25 years after the issue date, then by 100 bps per year at the second step-up date--every five years starting after the first reset date. We view the annual 100 bps step-up as an economic incentive to redeem the instrument; as such, we treat the date of the second step-up (2035) as the instrument's effective maturity.

Finally, we expect the amount of issued hybrid notes will not exceed 15% of the group's capitalization pro-forma for the acquisition of IFF pharma solutions business.

### **Key factors in our assessment of the proposed hybrid's deferability**

In our view, Roquette's option to defer payment on the proposed notes is discretionary. This means that the issuer may elect not to pay accrued interest on an interest payment date because doing so is not an event of default, and there are no cross defaults with senior debt instruments. However, any outstanding deferred interest payment will have to be settled in cash if Roquette declares or pays an equity dividend, and if the issuer redeems shares of equally ranking securities. This condition is in line with our criteria because once the issuer has settled the deferred amount,

it can still choose to defer on the next interest payment date.

## **Key factors in our assessment of the proposed hybrid's subordination**

The proposed notes and coupon are intended to constitute Roquette's direct, unsecured, and deeply subordinated obligations, ranking senior only to common shares (actions ordinaires) and deeply subordinated financial obligations (currently none in the capital structure).

## **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: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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**

- Roquette Freres S.A. Downgraded To 'BBB' On IFF's Pharma Solutions Business Purchase; Off CreditWatch; Outlook Negative, Oct. 31, 2024
- Consumer Product Companies: The Road To Volume Growth Remains Elusive, Oct. 15, 2024
- Roquette Freres Ratings Placed On CreditWatch Negative On Announced Acquisition Of IFF's Pharmaceutical Business, March 19, 2024

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](http://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](http://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](http://www.spglobal.com/ratings). Alternatively, call S&P Global

**Roquette Freres' Proposed Hybrid Notes Rated 'BB+' And Its Proposed Senior Unsecured Debt Rated 'BBB'**

Ratings' Global Client Support line (44) 20-7176-7176.

## Roquette Freres' Proposed Hybrid Notes Rated 'BB+' And Its Proposed Senior Unsecured Debt Rated 'BBB'

Copyright © 2024 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).