STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Distribuidora Internacional de Alimentacion S.A

Primary Credit Analyst:
Raam Ratnam, London +442071767462; raam.ratnam@standardandpoors.com

Secondary Contact:
Melvyn Cooke, Paris (33) 1-4420-6783; melvyn.cooke@standardandpoors.com

Analytical Group Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

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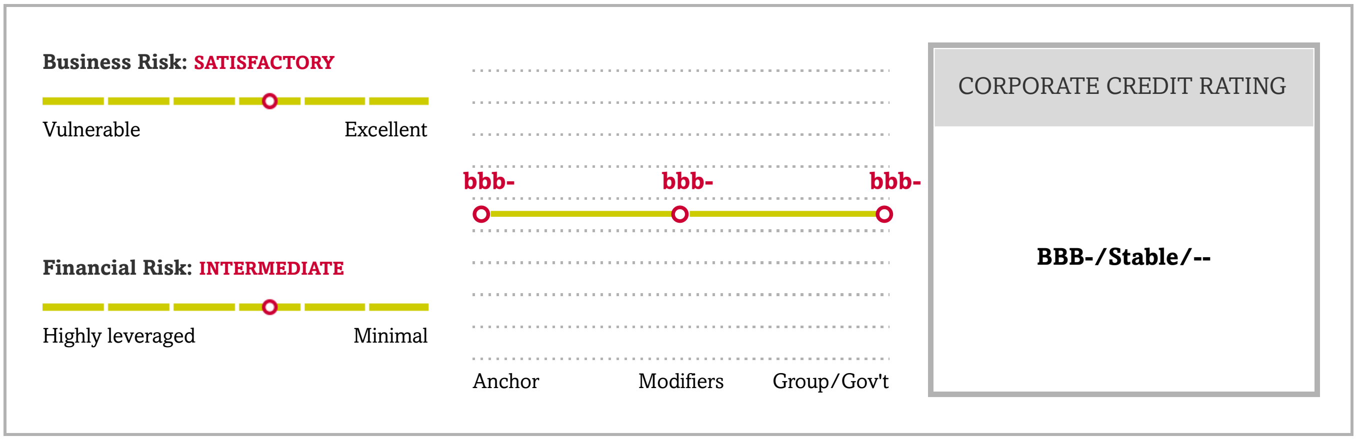

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• Good market position as one of the leading hard-discount food retail store operators in Spain. • Significant market presence of proximity stores in urban areas. • High proportion of private label penetration and franchisee operated stores. • Growing presence in Latin America.	• Financial flexibility as a result of long-term operating leases with short notice exit options. • Successful execution of acquisition strategy in Spain, following exit from France. • Comfortable debt maturity profile and adequate liquidity. • Elevated capex as acquisitions are integrated resulting in negative free operating cash flow over 2015.

Outlook: Stable

The stable outlook reflects our view that Día will moderately improve its financial risk profile while it executes its growth strategy, and that operating earnings will continue to improve, based on a strategy that is successful in Spain. We believe that Día should continue to achieve strong revenue and profit growth in Spain and the emerging markets, enabling it to reduce adjusted debt to EBITDA to below 2x in 2016, through improved free cash flow generation.

Upside scenario

We would consider a positive rating action if the group successfully integrates the new acquisitions and on the back of sustained improvement in trading, margin improvement, and capex normalization, Día materially improved its FOCF generation, leading to the strengthening of the FFO-to-debt ratio toward 45% and with debt to EBITDA under 2x.

An upgrade would also be contingent on our assessment of the sustainability of this financial profile and management's financial policy commitment to using DCF for debt reduction.

Downside scenario

We could lower the rating if a more aggressive financial policy weakened credit metrics, especially if accompanied by increased acquisition activity and shareholder-favoring initiatives that raised adjusted debt to EBITDA towards 3x, accompanied by continued negative FOCF. A negative rating action could also arise if heightened competition, integration challenges from acquisitions, and tougher-than-expected economic conditions in Spain and emerging markets caused operating performance to weaken or profitability to deteriorate substantially.

Standard & Poor's Base-Case Scenario

Assumptions

- Real GDP in Spain to rise by 2.2% in 2015 and 2.4% in 2016.
- Topline growth of over 15% in financial year 2015 owing to organic growth and acquisitions; we forecast strong sales performance for the next two years.
- EBITDA margin to drop by 50-70 bps in 2015 owing to integration of Spanish acquisitions and then improve in 2016 due to stable profitability in Iberia.
- Elevated capex of about €540 million in 2015 due to acquisitions, normalizing to around €350 million in 2016.
- Positive working capital contribution of €50 million-€75 million.
- A 40% haircut for sizable cash located in Latin American subsidiaries for the purposes of calculating surplus cash.
- A dividend payment of about €110 million and share buy-back plan of €200 million in 2015.

Key Metrics

	2014A	2015E	2016E
S&P-adjusted EBITDA margin (%)	8.2	6.7-7	7.2-7.5
S&P-adjusted debt-to-EBITDA (x)	1.2	2-2.1	1.6-1.8
S&P-adjusted FFO-to-debt (%)	61.8	36-38	40-43

A--Actual. E--Estimate.

Business Risk: Satisfactory

Significant portfolio adjustments to consolidate its market position in Spain

Our assessment of Día's business risk profile is underpinned by its key position as one of the leading hard-discount food retail store operators in Spain, with a growing presence in Latin America. We also view favorably Día's distinct business model, primarily based on a significant market presence of proximity stores in urban areas. Further positive factors for the business risk profile are the nondiscretionary nature of food spending and Día's sound profitability, which has continued to improve in tough market conditions. We also view positively the company's operating flexibility as a result of its distinct business model--consisting of long-term operating leases with short notice exit options--as well as its high private label penetration and use of franchised stores which allows for efficient capital allocation. All this is tempered, however, by Día's highly fragmented and competitive markets and a less diversified business than peers, as it generates about 70% of EBITDA in Spain.

That said the group has undertaken several portfolio adjustments notably the exit from the French market and undertaking acquisitions in Spain to consolidate and improve its market position. With the gradual improvements in the Spanish economy and through sound execution of its consolidation strategy we anticipate the group will report double-digit top-line growth with gradual improvement in margins from 2016 as the new acquisitions are integrated.

S&P Base-Case Operating Scenario

We forecast that Día will achieve strong topline growth of over 15% in financial year 2015, through a combination of organic growth helped by strong execution and improved Spanish economy and new contribution from acquisitions (El Árbol) and the integration of Eroski stores. The Standard & Poor's-adjusted EBITDA margin will likely contract to below 7% in 2015 due to the dilutive effect of new acquisitions and should improve by up to 50 bps in 2016. We anticipate the operations in Latin America to continue their robust performance although their contributions to the group profits and cash flows will unlikely materially increase from current levels, over the next two years.

Financial Risk: Intermediate

Elevated near-term leverage due to acquisitions and higher capex

Both of the Día's core ratios--adjusted debt to EBITDA and adjusted FFO to debt--support its "intermediate" financial risk profile. However, recent acquisition activity, higher investment, and the exceptional return of €200 million to shareholders from the French operations disposal will result negative free operating cash flows . Over 2016 we expect the company's ratio of adjusted debt (adjusted mainly for operating leases and surplus cash) to EBITDA to fall below 2x and its FOCF to recover as it returns to its normal capex levels and contributions from acquisitions increase.

The unadjusted EBITDAR (EBITDA plus rent) interest plus rent coverage ratio (EBITDAR coverage) should remain above 2.5x in 2015 and should also improve over 2016 as profit margins recover. Overall, the financial risk profile is also supported by Día's balanced financial policy and its commitment to investment grade ratings.

S&P Base-Case Cash Flow And Capital Structure Scenario

We forecast negative cash flow from operations in 2015 due to the recent acquisition activity, higher investment, and the exceptional return of €200 million to shareholders. This should turn positive, however, in 2016 to €130 million-€150 million, supported by both improvements in working capital of up to €75 million and normalization of capex to around €350 million. We do not factor in additional shareholder returns in our base case. The materially improved FOCF generation should lead to debt to EBITDA of below 2x and the FFO-to-debt ratio of around 40%-43%.

Liquidity: Adequate

Liquidity is supported by comfortable debt maturity profile and committed facilities.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate principal liquidity sources of about €1.3 billion for the next 12 months, which includes: • About €200 million of unrestricted cash and cash equivalents; • A €700 million undrawn credit facilities with €300 million maturing in 2018 and €400 million in 2019; • €350 million-€400 million of projected cash funds from operations in 2015; and • €50 million of working capital inflow.	We forecast liquidity needs over the next 12 months to be over €900 million. These uses include: • €540 million of capex in 2015, normalizing to around €350 million in 2016; • €110 million of dividends; • Seasonal working capital requirements of €50 million; and • Share buy-backs of over €200 million.

Ratings Score Snapshot

Corporate Credit Rating

BBB-/Stable/--

Business risk: Satisfactory

- **Country risk:** Moderately high
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-