

# Edenred SA EDEN (XPAR) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
15.50 EUR	20.00 EUR	14.00 EUR	27.00 EUR	Medium	Wide	Stable	Standard	Credit Services

## Edenred to Form Joint Venture in Brazil

See Page 2 for the full Analyst Note from 12 Jan 2016

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The primary analyst covering this company does not own its stock.

Research as of 12 Jan 2016  
Estimates as of 11 Sep 2015  
Pricing data through 21 Jan 2016  
Rating updated as of 21 Jan 2016

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	2
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	5
Financial Health	6
Enterprise Risk	6
Management & Ownership	8
Analyst Note Archive	10
Additional Information	-
Morningstar Analyst Forecasts	12
Comparable Company Analysis	16
Methodology for Valuing Companies	18

### Investment Thesis 11 Sep 2015

In recent years, the benefit of Edenred's global diversification has been on display, as strong growth in Latin America has more than offset stagnation in its European operations. This situation reversed in 2014, as European markets returned to modest growth and depreciating emerging-market currencies turned into a material headwind. Still, we think the company's ability to maintain solid overall results despite macro pressures in certain economies points to the strength of its international prospects, although the macroeconomic and currency situation in Brazil, which accounts for a little over 30% of revenue, will remain a material near-term headwind.

While the company has a target to enter three new countries over the next three years, it is pivoting somewhat in that it now expects more of its growth to come through the expansion of the business model into new areas, much as it has expanded its voucher business historically past meals and into new areas like government benefits, child care, and travel expenses. The two-sided nature of its expansion opportunities (by country and by product) gives us confidence that the company will be able to sustain its target of 8%-14% annual growth in issue volume.

Edenred also should have a positive long-term factor working on the bottom line. The company is shifting its delivery model from paper vouchers to digital delivery, which should be a material aid to margins over time as digital delivery reduces production costs. The difference can be seen by region. Latin America, where 92% of vouchers are digital, has averaged operating margins of about 49% over the past five years, while Europe, where only 29% of vouchers are delivered digitally, has averaged operating margins of 33%. The company has made considerable progress in this effort, increasing digital from 41% of issue volume to 62% over the past three years, and has set a target of 75% by 2016. We think this shift can materially improve margins long term, but the positives in the near term will be offset by costs incurred in making the switch and the need to run dual platforms until the process is substantially completed.

### Vital Statistics

Market Cap (EUR Mil)	3,505
52-Week High (EUR)	27.15
52-Week Low (EUR)	14.18
52-Week Total Return %	-35.3
YTD Total Return %	-11.2
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	7.0
5-Yr Forward EPS CAGR %	14.3
Price/Fair Value	0.78

### Valuation Summary and Forecasts

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings		34.3	31.5	17.4	16.1
EV/EBITDA		15.6	15.1	11.0	10.3
EV/EBIT		17.1	16.8	12.1	11.3
Free Cash Flow Yield %		5.9	6.4	6.2	5.5
Dividend Yield %		3.6	3.7	5.1	5.5

### Financial Summary and Forecasts (EUR Mil)

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue		1,030	1,034	1,052	1,129
Revenue YoY %		-3.5	0.4	1.7	7.3
EBIT		343	343	352	376
EBIT YoY %		-6.6	—	2.6	6.8
Net Income, Adjusted		160	164	199	215
Net Income YoY %		-12.7	2.5	21.5	7.8
Diluted EPS		0.71	0.73	0.89	0.96
Diluted EPS YoY %		-12.4	2.6	21.5	7.8
Free Cash Flow		226	316	240	213
Free Cash Flow YoY %		-19.7	39.7	-24.0	-11.4

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.  
Analyst Note: Some historical figures shown on a pro forma basis, only certain cash flow statement items shown.

### Profile

Edenred's flagship program is Ticket Restaurant, which was introduced in France in 1962. Through Ticket Restaurant, employers purchase vouchers for employees that can be used to purchase meals. Edenred also operates programs centered on child-care services, transportation, and public aid, in addition to programs that allow companies to manage transportation costs and incentive programs. Edenred's main markets are France, Italy, and Brazil, but the company operates in about 40 countries.

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### Morningstar Analysis

#### Edenred to Form Joint Venture in Brazil 12 Jan 2016

Edenred announced that it has reached an agreement with Brazilian company Embratec to combine their fleet and fuel expense management businesses into a new joint venture. Edenred will hold a 65% stake and is committing EUR 180 million. We have a generally favorable view of this deal. We think scale is a critical aspect of any payment processing business, given the fixed-cost nature of the industry, and the new joint venture would double the size of Edenred's fleet and fuel expense management business in Brazil. The new operation will be the second-largest player in the Brazilian market with 18% share. We think this looks like a very defensible market position.

In the larger view, this will also help Edenred in its quest to make fleet and fuel expense management a more meaningful part of its operations. Upon the completion of this agreement and the exercise of its option in the previously announced UTA deal, expense management will constitute 30% of revenue. The company's ability to quickly achieve critical mass and meaningful market share in this area helps offset any concerns we might have about diluting its wide moat by expanding into new lines. The purchase price looks reasonable, if not necessarily value creative. Including some expected synergies, the consideration equates to an enterprise value/EBITDA multiple of about 14 times, roughly in line with our valuation of Edenred as a whole. We will maintain our EUR 20 fair value estimate.

#### Valuation, Growth and Profitability 11 Sep 2015

We are reducing our fair value estimate to EUR 20 per share from EUR 22 after moderating our near-term growth assumptions in light of the macroeconomic situation in Brazil and the decline in the value of the Brazilian real. Our fair value estimate implies a 2016 price/earnings ratio multiple of 20.8 times and a 2016 enterprise value/EBITDA multiple of 13.5 times. Revenue has declined a bit recently, owing primarily to depreciating Latin American currencies,

and this remains an issue in the near term. The company believes that it can achieve 8%-14% issue volume growth in a normalized environment through program and country expansion and increases in the issue volume of existing programs. These estimates don't look unrealistic to us, and we project a 8% issue volume compound annual growth rate over the next five years, with growth picking up in the back half of our forecast period. We project a five-year revenue CAGR of 7%, as compression in fee percentages is partially offset by higher float income over time due to higher interest rates. Edenred's operating margins have dipped slightly over the past couple of years as a result of lower float income and some one-time charges. We expect operating margins to trend back upward, increasing from 33% in 2014 to 36% by 2019, because of the benefits of scale, a transition toward lower-cost digital vouchers, and normalization of float income. This level is toward the high end of the company's historical range. We use a cost of equity of 9%.

#### Scenario Analysis

Our downside scenario results in a fair value estimate of EUR 14 and implies a 2016 price/earnings ratio of 14.6 times. In this scenario, revenue growth is much more muted, with a five-year revenue CAGR of only 4%, below the bottom range of the company's growth goals. Because of the lack of growth and a more modest bounceback in interest rates, operating margins hold at only 32% by the end of the projection period, a bit below recent results, as the transfer to digital delivery stalls and the business fails to scale.

Our upside scenario results in a fair value estimate of EUR 26 and implies a 2015 price/earnings ratio of 27.1 times. In this scenario, revenue growth is toward the top end of the company's expectations, with a five-year revenue CAGR of 10%. Because of the stronger growth, greater benefits from scale and the shift toward electronic vouchers, operating margins reach 40% by the end of the projection period. This level is close to the firm's highest-margin region, Latin

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America, where digital delivery is the dominant method.

## Economic Moat

We think Edenred has a wide moat. Running a payment network creates the possibility for one of the strongest competitive advantages a company can possess: a network effect. As more companies and users join an Edenred program, it becomes more attractive for merchants to join, which in turn makes it more attractive to companies and users, and so on. As the pioneer company that developed this market, Edenred enjoys a strong network effect and is the number-one player in all of its major markets.

Edenred has a very attractive business model, with the closest comparable companies being MasterCard and Visa. The company's flagship Ticket Restaurant program was launched in 1962 in France to address what was seen as a tax inequality. While large companies could operate lunchrooms and thus provide a tax-subsidized benefit to their employees (because the expense of operating the lunchroom was tax-deductible), small businesses lacked the scale to do the same. The Ticket Restaurant program allows companies to purchase vouchers that they distribute to

employees, who can then redeem these vouchers at local restaurants. While it has widened its scope since into new countries and new types of programs, its business in other areas typically follow the same basic design. Edenred operates the network and collects a fee at both ends (the employer pays a premium to the voucher amount and the merchant collects at a discount to the voucher amount). Edenred also benefits from breakage (vouchers issued but not used) and float income because of the lag between the time the voucher is purchased and when it is redeemed.

With 41 million users, 660,000 corporate and government clients, and 1.4 million affiliated merchants, Edenred is well established. The company's strong competitive position is demonstrated by its high profitability, with EBITDA margins of almost 40%, putting it roughly on par with MasterCard.

## Moat Trend

We think Edenred's moat trend is stable. The biggest potential threat to the company's position is a change in governments' attitude toward its programs and any resulting change in tax laws. Edenred has one major competitor of comparable size, Sodexo, and price competition between the two could damage profitability. But we see nothing that would raise major concerns on these fronts.

It could be argued that Edenred's competitive position is somewhat precarious, given that its business model depends on the vagaries of tax laws in the countries where it operates. However, its programs are long established and embedded in many of its markets. For instance, in France, it is estimated that vouchers are used to pay for 15% of restaurant meals. In less developed countries, we think the company's programs will continue to be viewed favorably by tax authorities as they tend to drive transactions away from the informal economy, which helps spur tax revenue. In this light, we believe the probability of tax law changes disrupting the business is very small.

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### Bulls Say/Bears Say

#### Bulls Say

- ▶ Edenred's programs center on providing for basic needs, which insulates the company from economic cycles.
- ▶ Edenred serves small businesses, which have less bargaining power. Two thirds of its corporate clients have fewer than 200 employees.
- ▶ A shift toward electronic vouchers raises the company's costs in the near term because of the need to maintain dual platforms, but over time this shift should improve profitability. The company estimates that operating margins as a percentage of issue volume increased from 2.3% to 3.4% in Brazil as electronic vouchers were fully phased in.

#### Bears Say

- ▶ About half of Edenred's volume is generated in France and Brazil. This concentration exposes the company to meaningful risk if tax laws are changed in these countries.
- ▶ Edenred had to instigate the legal framework necessary for its programs in many countries. The need to get governments to adjust laws could delay further expansion.
- ▶ The global trend toward electronic payments and new payment methods could open up new possibilities for others to compete with Edenred and place it in competition with much larger companies.

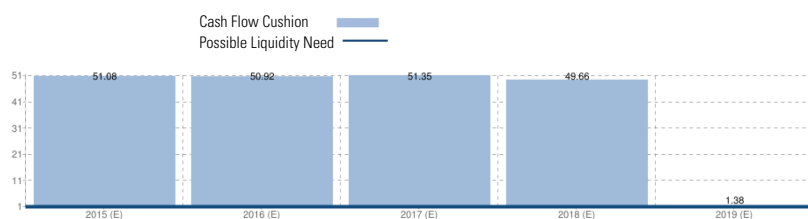
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## Five Year Adjusted Cash Flow Forecast (EUR Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	1,938	1,973	1,967	1,983	1,917
Adjusted Available Cash Flow	65	23	46	-36	-21
Total Cash Available before Debt Service	2,003	1,997	2,013	1,947	1,896
Principal Payments	—	—	—	—	-1,337
Interest Payments	-39	-39	-39	-39	-39
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-39	-39	-39	-39	-1,376

## Cumulative Annual Cash Flow Cushion



## Adjusted Cash Flow Summary

	EUR Millions	% of Commitments
Beginning Cash Balance	1,938	126.4
Sum of 5-Year Adjusted Free Cash Flow	78	5.1
Sum of Cash and 5-Year Cash Generation	2,016	131.5
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	2,016	131.5
Sum of 5-Year Cash Commitments	-1,533	—

## Financial Health

Edenred was spun off from Accor Services in 2010 with fairly high leverage, but has worked this down a bit over time. We estimate that debt/EBITDA will be 3.4 times at the end of 2015. The company carries a large amount of cash on its balance sheet, which might be considered an offset. But its ability to use this cash is limited by legal restrictions, as it supports the liability the company carries for vouchers in circulation. We would prefer a slightly less leveraged balance sheet, although the company is under little pressure to reduce debt, as it received an investment-grade rating after the spin-off. But we are not overly concerned, given the stability of the business and the company's limited reinvestment needs. We note that the company's cash balance does not cover the amount of vouchers in circulation, which could create some liquidity issues if vouchers in circulation dropped dramatically or regulations changed. In Brazil, regulators have proposed a change to this situation, which would require Edenred to eventually hold cash equivalent to its liabilities. Edenred estimates it will ultimately have to hold EUR 100-150 million in additional cash on its balance sheet, but will have until 2019 to reach this point. We think this situation is manageable as it stands, as the amount is relatively small and the company should have a long enough window to raise the funds internally.

## Enterprise Risk

Because the company depends on float income for a portion of its revenue, low interest rates can crimp profitability. Edenred's programs depend on favorable tax laws, and its business model could be disrupted if tax laws change in the countries where it operates. Edenred operates in a number of countries, exposing it to currency shifts. Because Edenred's vouchers are typically offered through employers, the company is somewhat leveraged to employment levels. As with any payment network operator, the company is exposed to system failures, fraud, and security breaches.

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The fact that it does not hold enough cash to fully match outstanding vouchers could give rise to a liquidity issue.

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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Oppenheimer International Growth Fund	4.20	0.92	2,200	30 Nov 2015
VA CollegeAmerica Income Fund of America	5.04	0.22	—	30 Sep 2015
VA CollegeAmerica Cap World Gr and Inc	4.96	0.24	—	30 Sep 2015
Veritas Global Equity Income	3.12	6.30	—	30 Jun 2015
VA CollegeAmerica EuroPacific Growth	3.93	0.13	—	30 Sep 2015

#### Concentrated Holders

Veritas Global Equity Income	3.12	6.30	—	30 Jun 2015
Focus Generation	0.13	3.59	300	30 Sep 2015
Max Otte Vermögensbildungsfonds AMI	0.06	3.43	30	30 Nov 2015
MDPS TOBAM Anti-BM France Equity	—	3.19	-1	30 Nov 2015
LO Funds - Europe High Conv	0.66	3.04	170	30 Jun 2015

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Capital Research and Management Company	17.69	0.18	4,022	30 Sep 2015
OFI Global Asset Management, Inc.	4.60	0.68	2,398	30 Nov 2015
Jupiter Asset Management Limited	0.76	1.34	1,421	30 Sep 2015
Federated Global Investment Management Corp	0.81	0.96	369	30 Sep 2015
Mirova	0.23	1.39	361	31 Dec 2014

#### Top 5 Sellers

Allianz Global Investors GmbH – Frankfurt	—	0.03	-1,377	31 Dec 2015
Government Pension Fund of Norway - Global	1.95	0.02	-531	31 Dec 2013
LGT Capital Partners (FL) AG	0.06	0.21	-253	30 Nov 2015
Fidelity Management & Research Company	0.34	0.04	-171	30 Nov 2015
Teachers Advisors Inc	2.08	0.07	-119	30 Nov 2015

### Management 01 Jan 0001

Jacques Stern had been chairman and CEO, but left the company at the end of July to pursue a new opportunity. Stern started his career with the company in 1992 and became CFO in 2006. To replace Stern, Edenred has announced that it will appoint Bertrand Dumazy as its new chairman and CEO. Dumazy has held a number of executive positions at other companies, most recently as CEO of Cromology, a global player in the decorative paint sector. We don't see much industry experience that is relevant to running Edenred's operations, which is somewhat understandable given the fairly unique nature of the business. However, for that reason, we question whether it would have been preferable to go with an internal candidate. Edenred also announced that CFO Loïc Jenouvrier will depart before the end of 2015, so the company will essentially be wiping the slate clean at the top. This raises some uncertainty about Edenred's strategic direction.

We believe that management's strategy for Edenred historically has been generally sound and the execution has been solid, but we do have some concerns about the company's acquisition strategy, as Edenred has completed a number of small acquisitions in recent years. Given the fundamental attractiveness of its core business, our bias would be that acquisitions would tend to dilute the quality of the company, rather than add value. However, the company has stepped away from its stated goal of EUR 100 million in acquisitions annually, a move in the right direction, in our opinion. In addition, recent acquisitions have been in the food voucher industry and have either been expansions into new countries or bulked up existing operations. These types of acquisitions do make strategic sense to us. Edenred recently announced that it has reached an agreement to acquire a 34% stake in Union Tank Eckstein, a leading issuer of fuel cards for heavy fleets in Europe. As part of the deal, Edenred has the option of acquiring a controlling interest of 51% of the firm starting in 2017. Strategically, the deal



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makes sense to us and is in line with Edenred's internal efforts to expand its fleet management business. This deal will increase fleet management from 12% to 30% of issue volume on a pro forma basis, quickly making it a material portion of Edenred's overall business. The valuation also seems reasonable to us, with Edenred paying EUR 150 million for its initial stake, roughly equivalent to a price/earnings multiple of 14 times.

Edenred has increased its dividend to a substantial level and has said it intends to pay out 90% of net income going forward. We believe this level is sustainable, given the lack of capital required to operate the business. Considering the minimal reinvestment needs of the business and very limited strategic acquisition opportunities, returning cash flow to shareholders is the best course, in our opinion.

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### Analyst Notes

#### Edenred Battles Emerging-Market Headwinds in 3Q 13 Oct 2015

While currency headwinds remain an obstacle, Edenred's third-quarter revenue results show that the underlying franchise continues to perform reasonably well, although top-line growth is getting harder to come by. For the third quarter, revenue was down 4%, largely because of the fall in the Brazilian real relative to the euro. Revenue was up 5% for the third quarter excluding currency effects and 7% for the full nine months. Issue volume growth slowed in the quarter, coming in at 7% ignoring currency effects. European growth remains solid if unremarkable at 4% on this basis, but growth in Latin America fell to 9% from double-digit levels in previous quarters, as the increasingly difficult macroeconomic environment and higher unemployment rates are taking a toll. Results in other emerging markets followed a similar trend.

While this situation will probably continue to compress growth in the near term, we think the company's ability to generate decent growth despite this headwind points to the long-term secular drivers Edenred enjoys and its ability to generate growth through expansion into new geographies and with new products. As such, Edenred's long-term target of 8%-14% issue volume growth still seems realistic to us, even though the company is likely to fall short of this range in the near term. In light of the increasing pressure in emerging markets, Edenred reduced its full-year EBIT guidance to EUR 340 million-355 million from EUR 365 million-380 million. We have already reduced our expectation for 2015 EBIT to a level in line with the updated guidance. We will maintain our EUR 20 fair value estimate and wide moat rating.

#### Edenred Announces New CEO; Headwinds Increasing in Brazil 11 Sep 2015

Edenred announced that it will appoint Bertrand Dumazy as

its new chairman and CEO, following the surprise departure of long-time chief executive Jacques Stern earlier in the year. Dumazy has held a number of executive positions at other companies, most recently serving as CEO of Cromology, a global player in the decorative paint sector. We don't see much industry experience that is relevant to running Edenred's operations, which is somewhat understandable given the fairly unique nature of the business. However, for that reason, we question whether it would have been preferable to go with an internal candidate. Edenred also announced that CFO Loïc Jenouvrier will depart before the end of 2015, so the company will essentially be wiping the slate clean at the top. This raises some uncertainty about Edenred's strategic direction.

Management changes aside, the company faces increasing headwinds in Brazil, which accounts for a little over 30% of revenue. The macroeconomic situation in that country and the recent decline in the Brazilian real relative to the euro will probably ding reported results in the near term. After reviewing our projections, we are lowering our fair value estimate to \$20 from \$22 to account for lower near-term growth in this area, but will maintain our wide moat rating.

Recent reports have raised concerns about Edenred's liquidity. Because of the gap in time between the issuance of vouchers and their eventual use, Edenred benefits from holding client funds and can generate investment income. However, in many countries, it does not have to hold this cash and can distribute it to shareholders, which creates a gap between its cash holdings and its liabilities. Brazilian regulators have proposed a change that would require Edenred to eventually hold cash equivalent to its liabilities. Edenred estimates that it will ultimately have to hold EUR 100 million-EUR 150 million in additional cash on its balance sheet, but will have until 2019 to reach this point. While this could create a liquidity issue for the company, we think

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## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2012	2013	2014	2015	2016	
Growth (% YoY)							
Revenue	0.1	3.4	-3.5	0.4	1.7	7.3	7.0
EBIT	10.9	45.9	-6.6	—	2.6	6.8	8.8
EBITDA	10.7	42.9	-6.3	1.3	2.0	6.8	8.8
Net Income	-0.2	11.1	-12.7	2.5	21.5	7.8	14.3
Diluted EPS	0.0	11.2	-12.4	2.6	21.5	7.8	14.3
Earnings Before Interest, after Tax	8.0	13.8	6.6	3.9	-43.1	6.9	-2.6
Free Cash Flow	4.9	3.0	-19.7	39.7	-24.0	-11.4	-6.1

	3-Year Hist. Avg						5-Year Proj. Avg
		2012	2013	2014	2015	2016	
Profitability							
Operating Margin %	33.6	34.4	33.3	33.2	33.5	33.3	34.2
EBITDA Margin %	37.0	37.6	36.5	36.9	37.0	36.8	38.0
Net Margin %	16.2	17.2	15.5	15.9	18.9	19.0	20.2
Free Cash Flow Margin %	26.3	26.4	22.0	30.5	22.8	18.8	18.2
ROIC %	-13.1	-13.9	-12.8	-12.6	-12.6	-13.5	-16.2
Adjusted ROIC %	-10.1	-10.8	-9.8	-9.6	-9.7	-10.4	-12.2
Return on Assets %	4.0	4.3	3.8	4.0	4.8	5.1	5.8
Return on Equity %	-14.5	-17.6	-13.5	-12.4	-14.9	-16.4	-20.3

	3-Year Hist. Avg						5-Year Proj. Avg
		2012	2013	2014	2015	2016	
Leverage							
Debt/Capital	—	4.66	7.84	-222.83	96.07	37.79	33.11
Total Debt/EBITDA	3.62	3.35	4.00	3.51	3.44	3.22	2.88
EBITDA/Interest Expense	9.53	11.15	9.17	8.28	9.91	10.59	12.10

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	1.01	1.00	—	—
Price/Earnings	34.3	31.5	17.4	16.1
EV/EBITDA	15.6	15.1	11.0	10.3
EV/EBIT	17.1	16.8	12.1	11.3
Free Cash Flow Yield %	5.9	6.4	6.2	5.5
Dividend Yield %	3.6	3.7	5.1	5.5

### Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	8.1
Long-Run Tax Rate %	33.0
Stage II EBI Growth Rate %	5.5
Stage II Investment Rate %	11.0
Perpetuity Year	20

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	EUR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	889	15.8	3.96
Present Value Stage II	2,597	46.2	11.56
Present Value Stage III	2,137	38.0	9.51
<b>Total Firm Value</b>	<b>5,622</b>	<b>100.0</b>	<b>25.03</b>
Cash and Equivalents	—	—	—
Debt	-1,337	—	-5.95
Preferred Stock	—	—	—
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>4,285</b>	<b>—</b>	<b>19.08</b>

Projected Diluted Shares 225

Fair Value per Share (EUR) —

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
15.50 EUR	20.00 EUR	14.00 EUR	27.00 EUR	Medium	Wide	Stable	Standard	Credit Services

## Morningstar Analyst Forecasts

### Income Statement (EUR Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
<b>Revenue</b>	<b>1,067</b>	<b>1,030</b>	<b>1,034</b>	<b>1,052</b>	<b>1,129</b>
Cost of Goods Sold	107	103	103	105	113
<b>Gross Profit</b>	<b>960</b>	<b>927</b>	<b>931</b>	<b>946</b>	<b>1,016</b>
Selling, General & Administrative Expenses	559	551	550	558	601
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	34	33	38	37	40
<b>Operating Income (ex charges)</b>	<b>367</b>	<b>343</b>	<b>343</b>	<b>352</b>	<b>376</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>367</b>	<b>343</b>	<b>343</b>	<b>352</b>	<b>376</b>
Interest Expense	36	41	46	39	39
Interest Income	-25	-28	-30	—	—
<b>Pre-Tax Income</b>	<b>306</b>	<b>274</b>	<b>267</b>	<b>313</b>	<b>336</b>
Income Tax Expense	103	103	99	109	118
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-20	-11	-4	-4	-4
(Preferred Dividends)	—	—	—	—	—
<b>Net Income</b>	<b>183</b>	<b>160</b>	<b>164</b>	<b>199</b>	<b>215</b>
Weighted Average Diluted Shares Outstanding	226	225	225	225	225
<b>Diluted Earnings Per Share</b>	<b>0.81</b>	<b>0.71</b>	<b>0.73</b>	<b>0.89</b>	<b>0.96</b>
Adjusted Net Income	183	160	164	199	215
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>0.81</b>	<b>0.71</b>	<b>0.73</b>	<b>0.89</b>	<b>0.96</b>
Dividends Per Common Share	0.77	0.86	0.86	0.80	0.86
<b>EBITDA</b>	<b>401</b>	<b>376</b>	<b>381</b>	<b>389</b>	<b>415</b>
<b>Adjusted EBITDA</b>	<b>401</b>	<b>376</b>	<b>381</b>	<b>389</b>	<b>415</b>

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
15.50 EUR	20.00 EUR	14.00 EUR	27.00 EUR	Medium	Wide	Stable	Standard	Credit Services

## Morningstar Analyst Forecasts

### Balance Sheet (EUR Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	2,182	2,086	1,938	1,973	1,967
Investments	—	—	—	—	—
Accounts Receivable	1,092	902	1,035	1,017	1,091
Inventory	315	296	286	301	323
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	—	13	—	—	—
<b>Current Assets</b>	<b>3,589</b>	<b>3,297</b>	<b>3,259</b>	<b>3,291</b>	<b>3,381</b>
Net Property Plant, and Equipment	87	58	44	60	77
Goodwill	528	574	570	570	570
Other Intangibles	113	132	160	160	160
Deferred Tax Assets (Long-Term)	37	49	70	70	70
Other Long-Term Operating Assets	10	31	21	21	21
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>4,364</b>	<b>4,141</b>	<b>4,124</b>	<b>4,172</b>	<b>4,279</b>
Accounts Payable	255	248	236	248	266
Short-Term Debt	45	43	30	30	30
Deferred Tax Liabilities (Current)	—	17	16	16	16
Other Short-Term Liabilities	3,655	3,481	3,681	3,697	3,764
<b>Current Liabilities</b>	<b>3,955</b>	<b>3,789</b>	<b>3,963</b>	<b>3,991</b>	<b>4,077</b>
Long-Term Debt	1,301	1,462	1,307	1,307	1,307
Deferred Tax Liabilities (Long-Term)	91	85	96	96	96
Other Long-Term Operating Liabilities	50	95	78	78	78
Long-Term Non-Operating Liabilities	—	—	—	—	—
<b>Total Liabilities</b>	<b>5,397</b>	<b>5,431</b>	<b>5,444</b>	<b>5,472</b>	<b>5,558</b>
Preferred Stock	—	—	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	452	452	458	458	458
Retained Earnings (Deficit)	-1,719	-1,788	-1,766	-1,746	-1,725
(Treasury Stock)	-5	-47	-47	-47	-47
Other Equity	215	70	12	12	12
<b>Shareholder's Equity</b>	<b>-1,057</b>	<b>-1,313</b>	<b>-1,343</b>	<b>-1,323</b>	<b>-1,302</b>
Minority Interest	24	23	23	23	23
<b>Total Equity</b>	<b>-1,033</b>	<b>-1,290</b>	<b>-1,320</b>	<b>-1,300</b>	<b>-1,279</b>

# Edenred SA EDEN (XPAR) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
15.50 EUR	20.00 EUR	14.00 EUR	27.00 EUR	Medium	Wide	Stable	Standard	Credit Services

## Morningstar Analyst Forecasts

### Cash Flow (EUR Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	183	160	164	203	219
Depreciation	34	33	38	37	40
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	133	177	183	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	18	-75
(Increase) Decrease in Inventory	—	—	—	-15	-22
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	—	—	—	12	18
Change in Other Short-Term Liabilities	—	—	—	16	68
<b>Cash From Operations</b>	<b>350</b>	<b>370</b>	<b>385</b>	<b>271</b>	<b>248</b>
(Capital Expenditures)	-40	-47	-50	-53	-56
Net (Acquisitions), Asset Sales, and Disposals	-69	-140	-67	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	—	—	—	—
<b>Cash From Investing</b>	<b>-109</b>	<b>-187</b>	<b>-117</b>	<b>-53</b>	<b>-56</b>
Common Stock Issuance (or Repurchase)	1	-42	-42	—	—
Common Stock (Dividends)	-174	-194	-193	-179	-193
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	-72	115	-79	—	—
Other Financing Cash Flows	-15	-3	83	-4	-4
<b>Cash From Financing</b>	<b>-260</b>	<b>-124</b>	<b>-231</b>	<b>-183</b>	<b>-197</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	-62	-1	—	—
<b>Net Change in Cash</b>	<b>-19</b>	<b>-3</b>	<b>36</b>	<b>35</b>	<b>-6</b>

## Edenred SA EDEN (XPAR) | ★★★★★

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### Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

#### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Sodexo SW FRA	0.96	23.5	18.4	15.4	10.9	9.8	8.3	21.2	18.0	12.2	3.6	3.5	3.1	0.6	0.6	0.6
Average		23.5	18.4	15.4	10.9	9.8	8.3	21.2	18.0	12.2	3.6	3.5	3.1	0.6	0.6	0.6
<b>Edenred SA EDEN FR</b>	<b>0.78</b>	<b>31.5</b>	<b>17.4</b>	<b>16.1</b>	<b>15.1</b>	<b>11.0</b>	<b>10.3</b>	<b>15.5</b>	<b>16.0</b>	<b>18.3</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>5.0</b>	<b>3.3</b>	<b>3.1</b>

#### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Sodexo SW FRA	— EUR	-464.3	-772.0	-702.8	13.2	15.1	18.0	16.0	20.3	20.9	3.6	4.8	5.5	2.2	2.1	2.6
Average		-464.3	-772.0	-702.8	13.2	15.1	18.0	16.0	20.3	20.9	3.6	4.8	5.5	2.2	2.1	2.6
<b>Edenred SA EDEN FR</b>	<b>4,124 EUR</b>	<b>-12.6</b>	<b>-12.6</b>	<b>-13.5</b>	<b>-9.6</b>	<b>-9.7</b>	<b>-10.4</b>	<b>-12.4</b>	<b>-14.9</b>	<b>-16.4</b>	<b>4.0</b>	<b>4.8</b>	<b>5.1</b>	<b>3.7</b>	<b>5.1</b>	<b>5.5</b>

#### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Sodexo SW FRA	18,016 EUR	-2.1	10.0	7.3	14.6	22.5	21.4	10.7	44.1	19.2	54.8	16.6	60.9	2.5	36.3	—
Average		-2.1	10.0	7.3	14.6	22.5	21.4	10.7	44.1	19.2	54.8	16.6	60.9	2.5	36.3	—
<b>Edenred SA EDEN FR</b>	<b>1,034 EUR</b>	<b>0.4</b>	<b>1.7</b>	<b>7.3</b>	<b>—</b>	<b>2.6</b>	<b>6.8</b>	<b>2.6</b>	<b>21.5</b>	<b>7.8</b>	<b>39.7</b>	<b>-24.0</b>	<b>-11.4</b>	<b>-0.4</b>	<b>-7.1</b>	<b>7.8</b>



# Edenred SA EDEN (XPAR) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
15.50 EUR	20.00 EUR	14.00 EUR	27.00 EUR	Medium	Wide	Stable	Standard	Credit Services

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Sodexo SW FRA	490 EUR	15.3	16.0	16.9	6.6	7.2	7.9	5.2	5.8	6.5	2.7	3.5	3.9	3.0	3.6	5.0
Average		15.3	16.0	16.9	6.6	7.2	7.9	5.2	5.8	6.5	2.7	3.5	3.9	3.0	3.6	5.0
<b>Edenred SA EDEN FR</b>	<b>164 EUR</b>	<b>90.0</b>	<b>90.0</b>	<b>90.0</b>	<b>36.9</b>	<b>37.0</b>	<b>36.8</b>	<b>33.2</b>	<b>33.5</b>	<b>33.3</b>	<b>15.9</b>	<b>18.9</b>	<b>19.0</b>	<b>32.4</b>	<b>20.8</b>	<b>16.9</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Sodexo SW FRA	3,928 EUR	123.2	84.2	74.3	55.2	45.7	42.6	6.1	8.3	9.8	3.3	2.2	1.9	4.5	3.9	3.7
Average		123.2	84.2	74.3	55.2	45.7	42.6	6.1	8.3	9.8	3.3	2.2	1.9	4.5	3.9	3.7
<b>Edenred SA EDEN FR</b>	<b>1,337 EUR</b>	<b>-99.6</b>	<b>-101.1</b>	<b>-102.7</b>	<b>22.2833</b>	<b>9,606.8</b>	<b>3,778.6</b>	<b>8.3</b>	<b>9.9</b>	<b>10.6</b>	<b>3.5</b>	<b>3.4</b>	<b>3.2</b>	<b>-3.1</b>	<b>-3.2</b>	<b>-3.3</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Sodexo SW FRA	12,871 EUR	17.89	13.19	17.92	1.03	1.00	1.06	0.99	0.96	1.02	2.66	5.59	7.55	50.6	47.9	40.2
Average		17.89	13.19	17.92	1.03	1.00	1.06	0.99	0.96	1.02	2.66	5.59	7.55	50.6	47.9	40.2
<b>Edenred SA EDEN FR</b>	<b>3,505 EUR</b>	<b>8.63</b>	<b>8.79</b>	<b>8.76</b>	<b>0.82</b>	<b>0.82</b>	<b>0.83</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>64.60</b>	<b>65.77</b>	<b>65.57</b>	<b>117.7</b>	<b>90.0</b>	<b>90.0</b>

## Research Methodology for Valuing Companies

### Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

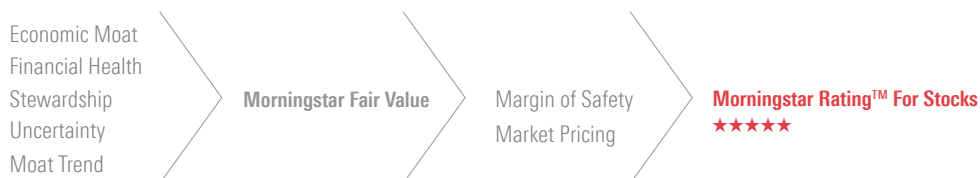
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

### Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

**Detailed Methodology Documents and Materials\***

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

\*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

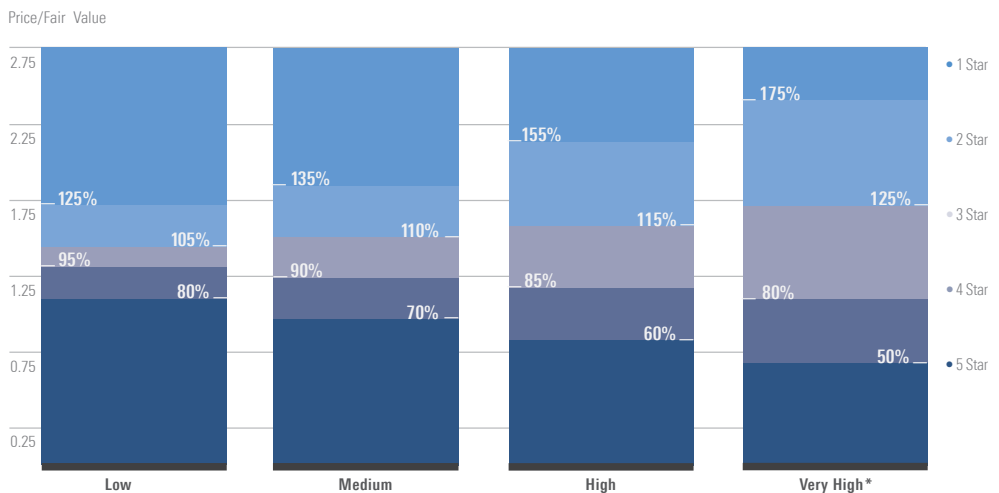
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■■■

**Morningstar Margin of Safety and Star Rating Bands**

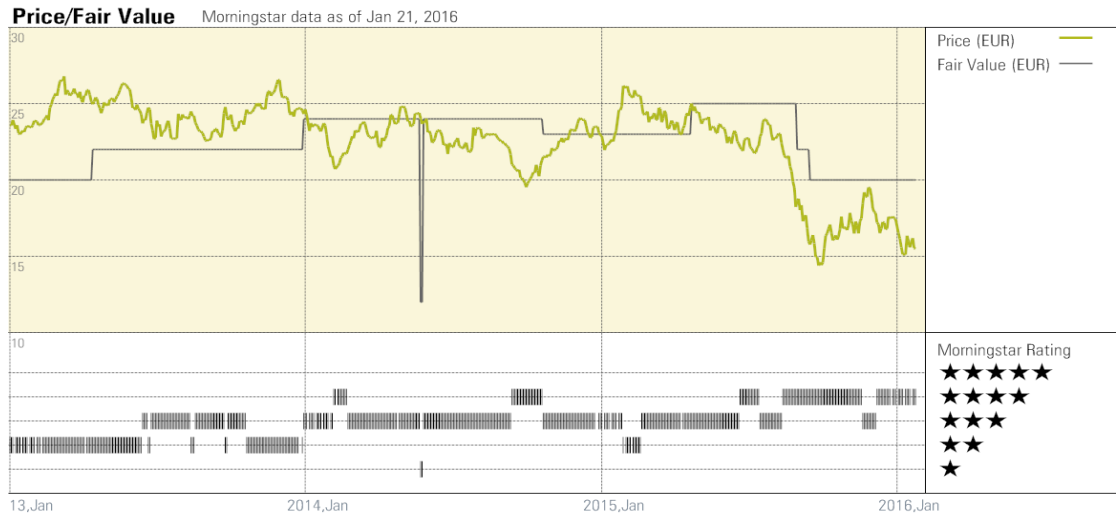


\* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

# Edenred SA EDEN (XPAR) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate, and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

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-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

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- Morningstar does not receive commissions for providing research and does not charge companies to be rated.

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## Edenred SA EDEN (XPAR) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
15.50 EUR	20.00 EUR	14.00 EUR	27.00 EUR	Medium	Wide	Stable	Standard	Credit Services

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