GVC George's Venture Capital Zrt.

Business Services, Hungary

Issuer

BB-

Outlook

Stable

Senior unsecured debt

BB-

Rating composition

Business risk profile		
Industry risk profile	BB	BB-
Competitive position	BB-	
Financial risk profile		
Credit metrics	BBB-	**BBB-**
Liquidity	+/-0 notches	
Standalone credit assessment		**BB**
Supplementary rating drivers		
Financial policy	+/-0 notches	**-1 notch**
Governance & structure	-1 notch	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	17.5x	Net interest	>20x	>20x
Scope-adjusted debt/EBITDA	2.2x	1.5x	1.6x	1.6x
Scope-adjusted funds from operations/debt	40%	64%	55%	56%
Scope-adjusted free operating cash flow/debt	20%	15%	25%	19%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the ratings and Outlook (collectively):

- Debt/EBITDA remaining below 2.0x
- Successful execution of the company's growth ambitions
- Elimination of our concerns regarding the company's governance

The downside scenarios for the ratings and Outlook (individually):

- Debt/EBITDA sustained above 3.0x
- Further deterioration in transparency and governance

*All credit metrics refer to Scope-adjusted figures.

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Related methodologies

General Corporate Rating Methodology, Feb 2025

European Business and Consumer Services Rating Methodology, Jan 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Leading position in Hungary's outsourced catering market • Favourable public contract terms, reflected in solid EBITDA cash conversion • Significant backlog of sales and customer retention of above 90% underlining strong record of fulfilling/suppling tenders as required • Low leverage (below 2.0x)	• Weak diversification, operating in only one country (Hungary) and one industry • Changeable food safety requirements • Significant debt-like payments and intercompany loans, coupled with poor transparency of management, leading to negative notch for financial policy

2. Rating Outlook

The **Stable Outlook** reflects our expectation that credit metrics will develop in line with the current financial risk profile assessment despite the expectation that EBITDA margin will decline below 15% in the medium term, driven primarily by high inflation and costs related to integration and new market entry. The Outlook also incorporates our view that GVC will continue to engage in shareholder-friendly policies and investments in associated companies, which may limit financial flexibility. However, the Outlook does not reflect the execution of any significant M&A over the medium term.

3. Corporate profile

Nationwide presence

GVC Zrt. (GVC) is a family-owned group that has provided catering services in Hungary for 20 years. Its customers operate in the sectors of corporate, healthcare, social care, and schools. The group offers services throughout the whole country, mostly in major cities, through hundreds of serving points and provides more than 100,000 meals a day. As of 2024, GVC had hundreds of contractual partners and almost 3,000 employees.

Ownership of agribusiness groups

The GVC has ownership in Zala Group and Villgroup (agribusiness groups) while the remaining ownership is held by the Gyorgy family, the same owners of GVC. GVC's objective to hold ownership in such groups is aimed at enhancing its efficiency, profitability, supply chain security and long-term returns.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
22 July 2025	Outlook change	BB-/Stable
25 July 2024	Outlook change	BB-/Positive
25 July 2023	Affirmation	BB-/Stable

5. Financial overview (financial data in HUF m)

			Scope estimates		
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	17.5x	Net interest	47.8x	36.2x	35.1x
Debt/EBITDA	2.2x	1.5x	1.6x	1.6x	1.5x
Funds from operations/debt	40%	64%	55%	56%	60%
Free operating cash flow/debt	20%	15%	25%	19%	13%
Liquidity	>200%	>200%	>200%	>200%	>100%
EBITDA					
Reported EBITDA	6,515	7,154	6,322	5,836	5,777
add: operating lease payments	928	996	996	996	996
Other items (incl. one-offs)	(736)	(13)	-	-	-
EBITDA	**6,707**	**8,137**	**7,317**	**6,831**	**6,773**
Funds from operations (FFO)					
EBITDA	6,707	8,137	7,317	6,831	6,773
less: interest	(383)	115	(153)	(189)	(193)
less: cash tax paid	(540)	(701)	(500)	(425)	(393)
Other non-operating charges before FFO	-	-	-	-	-
Funds from operations	**5,785**	**7,551**	**6,664**	**6,218**	**6,187**
Free operating cash flow (FOCF)					
Funds from operations	5,785	7,551	6,664	6,218	6,187
Change in working capital	(940)	(2,438)	(167)	(130)	(388)
Non-operating cash flow	497	-	-	-	-
less: capital expenditures (net)	(1,628)	(2,447)	(2,662)	(3,162)	(3,662)
less: lease amortisation	(801)	(859)	(852)	(838)	(819)
Other items	-	-	-	-	-
Free operating cash flow	**2,913**	**1,806**	**2,982**	**2,088**	**1,318**
Interest					
Net cash interest per cash flow statement	255	(252)	10	31	17
add: interest component, operating leases	127	137	143	158	176
add: other items	-	-	-	-	-
Interest	**383**	**(115)**	**153**	**189**	**193**
Debt					
Reported financial (senior) debt	7,551	7,298	7,292	5,892	4,492
less: cash and cash equivalents	(6,673)	(6,796)	(6,773)	(5,851)	(4,189)
add: non-accessible cash	6,673	6,796	6,773	5,851	4,189
add: operating lease obligations	4,250	4,559	4,768	5,257	5,871
add: other debt-like items	2,838	-	-	-	-
Debt	**14,639**	**11,857**	**12,060**	**11,149**	**10,363**

6. Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Governance risk negative for the issuer rating

ESG factors negatively affect the credit ratings due to concerns over governance and transparency. The increasing volume of intercompany transactions with the owner, the dividend-like payments, and the intercompany guarantees provided over the past years have been factored into our conservative assessment of the financial risk profile and in the supplementary rating drivers.

Unclear economic benefit of the agribusiness investments

GVC's corporate structure raises concerns due to the extension of intercompany loans and guarantees to its agribusiness affiliates, which involve cross-ownership and unclear economic benefits to the group.

Execution risk and limited strategic visibility

Additionally, GVC's project development have execution risks. Management's limited visibility regarding key growth drivers, despite its ambitious M&A projections, further weaken confidence in the group's strategic execution.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BB-

Dominant player in the Hungarian outsourced catering market

The BB- business risk profile assessment reflects GVC's market leadership in Hungary's public catering sector and strong profitability supported by long-term contracts that ensure revenue visibility. The assessment is constrained by the company's limited diversification and high exposure to public sector clients.

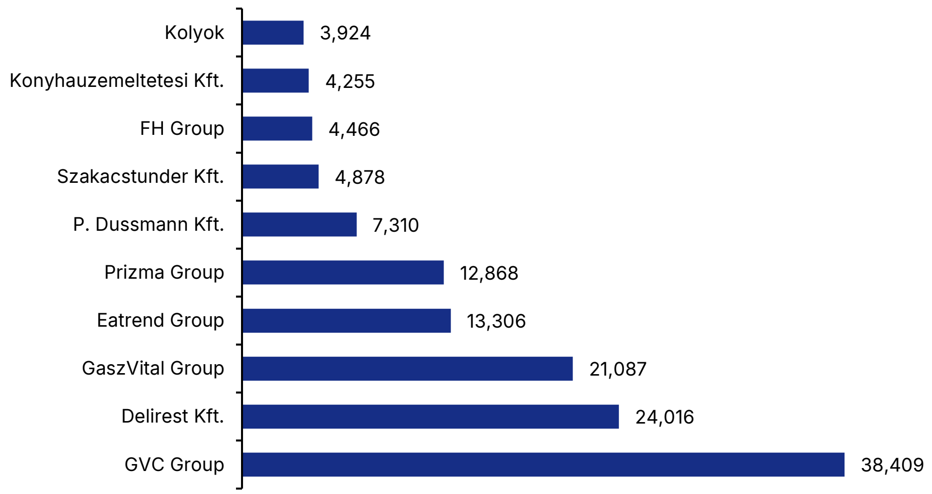
GVC is a well-known brand within Hungary's public catering market, especially given its close ties with public catering services (mainly schools) through fixed-term and/or long-term contracts. This provides revenue stability and visibility into the medium term. The company has a leading position in Hungary's fragmented outsourced catering market, accounting for over 10% of all public-school catering sales as of 2023 (latest data). Within the public sector, the company focuses on educational, social and healthcare institutions.

Strong performance in 2024

GVC's strong performance in 2024 exceeded expectations, underpinned by successful pricing renegotiations that helped mitigate higher costs on raw materials costs and wages. The company benefited from the launch of its self-service buffet concept (supermenza) as well as a new catering contract with a public hospital in Pécs, marking GVC's entry into the healthcare segment – a key strategic focus going forward.

Despite the loss of the AUDI contract in 2023, revenues grew by 4% to HUF 43bn (around EUR 100m). EBITDA also improved, supported by cost savings through competitive sourcing and by GVC's ability to pass on part of its cost increases to clients via inflation-indexed contracts. We also expect GVC's implementation of regional centres nationwide to support its expansion and improve operational efficiency, helped by predictable demand in the education and social segments.

Figure 1. Hungarian catering market, revenues in 2023 in HUF m



Source: Scope research

Ambitious growth through M&A

Inorganic growth is possible in the medium to long term through intermittent, selective consolidation in the highly fragmented market. GVC is targeting significant growth, which could pose execution and integration risks. Our rating does not incorporate significant acquisitions in the foreseeable future.

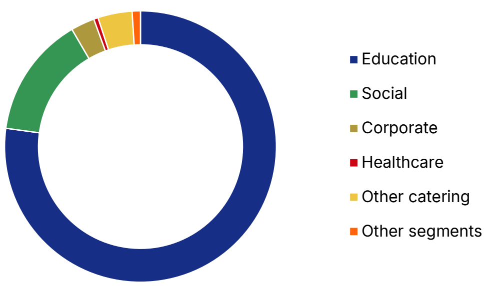
Weak geographical diversification

Geographical diversification remains the weak factor in GVC's business risk profile, as the company only operates in one country and one industry. The dependence on public tenders, at around 80% of revenues, further limits diversification. We do not expect any significant changes in revenue-stream diversification in the medium term.

Local market penetration

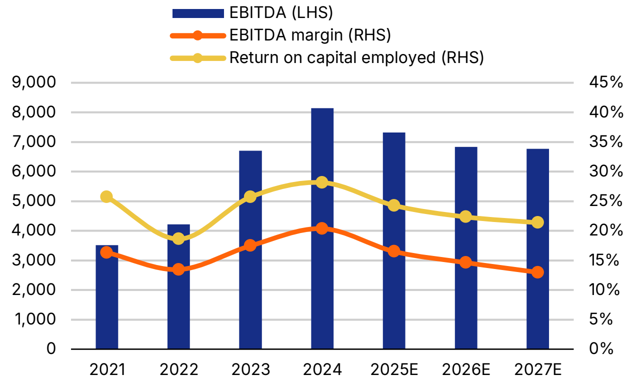
GVC's ongoing expansion strategy, including the establishment of three regional centres in 2024, aims to enhance local market penetration, operational efficiency and responsiveness to regional needs. While the business must comply with strict food safety and nutrition regulations, its expansion initiatives are expected to support product and service diversification, potentially allowing GVC to tap growing niche segments such as dietary and specialised catering over the medium term.

Figure 2: GVC's revenue breakdown by market, 2024



Source: GVC, Scope estimates

Figure 3: GVC's operating performance (HUF m)



Source: Scope estimates

Strong profitability in 2024

In 2024, reported EBITDA increased to HUF 640m and the EBITDA margin to 17.9% from 17%, which outperformed management expectations. This increase was due to i) favourable price adjustments under contracts; ii) cost savings to improve operating efficiency; and iii) the maintenance of low supplier costs. However, revenue growth was dampened by the expiration and non-renewal of the contract with AUDI, one of GVC's major customers until 2023.

A large portion of other revenues are from discounts on raw materials for purchases over a certain amount, provided by suppliers to foster loyalty. The specific rate and conditions of the discount vary depending on the supplier. Based on discussions with the company, we consider these discounts to be cash-relevant, thereby including them our calculation of EBITDA.

Pressured EBITDA margin expected in the medium term

We expect, along with management, that margins will be under pressure in the medium term (less than 15%) due to lower profitability from healthcare, higher inflation (especially for wages), and the integration and market entry costs associated with the expansion strategy.

8. Financial risk profile: BBB-

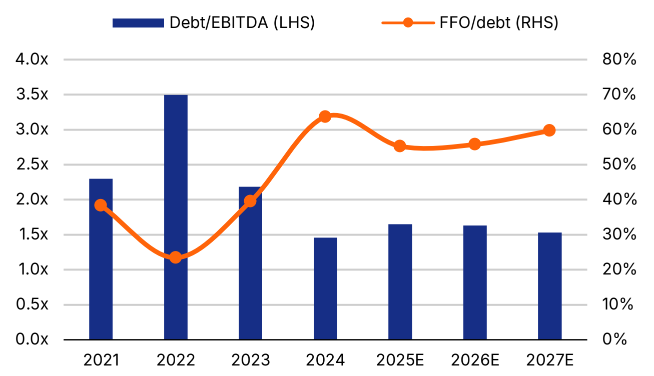
GVC's financial risk profile is stronger than its business risk profile given the cash-generating nature of the business.

Leverage as measured by debt/EBITDA improved below 2.0x and funds from operations/debt exceeded 50% as of FY 2024 thanks to EBITDA growth and a stable capital structure. We note that our EBITDA calculation excludes operating leases and fixed-asset disposal gains but includes discounts from suppliers.

Leverage expected to remain strong

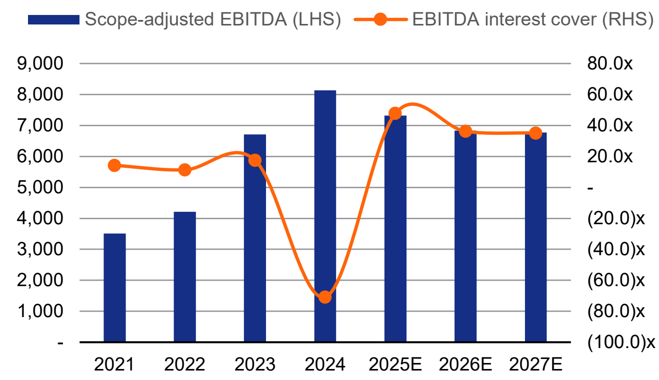
We anticipate that leverage will remain below 2.0x in the medium term thanks to solid operating performance and the expectation of no additional debt, including leases. Rather, we expect debt to be repaid. Our leverage calculation excludes the netting of cash as we expect the high cash balance to be partly utilised rather than serve as the sole liquidity buffer.

Figure 4: Leverage development



Source: GVC, Scope estimates

Figure 5: Interest cover



Source: GVC, Scope estimates

GVC has issued guarantees and suretyships and made deposits primarily to members of its agribusiness activity. It is important to note that the agribusiness is not consolidated and therefore does not affect GVC group performance. To prevent double-counting, our metrics exclude the guarantees provided to consolidated members.

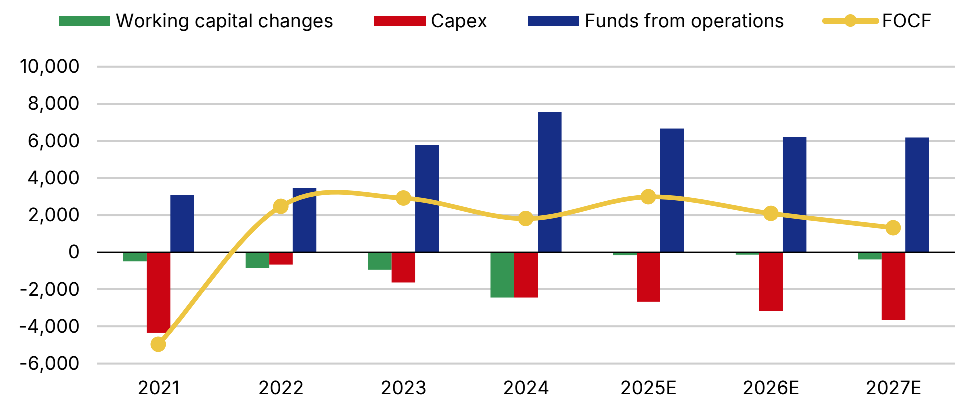
Fixed interest base

We expect EBITDA interest cover ratio to remain strong at above 10x in 2025-2027, supported by the fixed interest rate on the issued bond and no new issuances expected.

Positive free operating cash flow

FOCF/debt was under pressure in 2024 at 15% (20% in 2023) due to increased capex. As expected, GVC used the remaining HUF 1.04bn of proceeds from the bond issued in 2024 to renew and replace assets. FOCF was also under pressure from the extra HUF 1bn of investment in the agribusiness in 2024, in the form of a HUF 495m equity investment in Villanyi Kft. and HUF 490m in Farming Kft. Despite all this, FOCF remained positive. Going forward, we expect capex to increase in line with the group's ambitious topline growth and the continued investment in the agribusiness and/or subsidiaries.

Figure 6: Cash flows (HUF m)



Source: GVC, Scope estimates

Adequate liquidity

GVC's liquidity is adequate due to the limited short-term debt position and sound EBITDA cash conversion. While we expect FOCF to be under pressure from the higher capex associated with operational growth and the investment in associates, the significant cash buffer and the cash-generated should cover these needs without the need for new debt.

We highlight that GVC's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 7.0bn) if the debt rating of the bond drops below B- (accelerated repayment within 10 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is two notches.

Table 1. Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)	-	-	-
Open committed credit lines (t-1)	1,200	1,200	1,200
FOCF (t)	1,806	2,982	2,088
Short-term debt (t-1)	9	6	1,400
Liquidity	**>200%**	**>200%**	**>200%**

Source: Scope estimates

9. Supplementary rating drivers: -1 notch

The negative one-notch adjustment is due to concerns over governance and transparency.

Concerns about financial policy and transparency

In 2024, GVC obtained bondholder approval for a one-time increase in dividend payments, allowing up to HUF 2bn (not exceeding 50% of net profit) by September 2025, while committing to revert to original limits thereafter. However, dividend-like payments (such as shareholder loans and subsidiary-level distributions) continue to occur alongside formal dividends, which are not explicitly restricted by the bond covenants. Combined with management's limited disclosures and the pattern of unpaid shareholder loans, these payments raise concerns around governance and financial transparency. While no covenants have been breached, the recurring nature of these outflows and the weak visibility into financial policy decisions justify the negative adjustment.

10. Debt rating

We have affirmed the BB- rating on senior unsecured debt, which includes the HUF 7.0bn bond (ISIN HU0000360235), in line with the issuer rating.

Senior unsecured debt rating: BB-

The debt rating is based on a hypothetical liquidation scenario as of end-2026, for which we computed an 'above average' recovery for holders of senior unsecured debt, which assumes attainable liquidation values. However, senior unsecured debt is not rated higher than the issuer rating given the company's small size, the potential introduction of new debt to finance growth and the company's vulnerability to internal and external developments that could quickly impact the value of claims at default.

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