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CREDIT OPINION
14 November 2023

Update

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RATINGS

Rexel SA

Domicile	Paris, France
Long Term Rating	Ba1
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Rexel SA

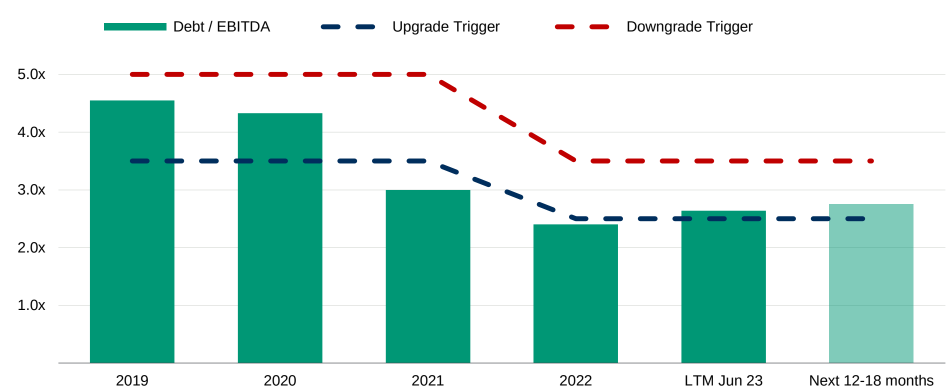
Update to credit analysis

Summary

Rexel SA's (Rexel) Ba1 corporate family rating (CFR) with a stable outlook reflects the company's solid credit metrics, including Moody's-adjusted gross leverage of 2.6x in the 12 months that ended June 2023 (2.4x in 2022) and 2.7x we expect for 2023; strong business profile, underpinned by balanced geographic and end-market diversification; and exposure to positive market fundamentals that mitigates industry cyclicality. These positive trends include electrification, automation, as well as the need for energy-saving solutions.

We expect debt/EBITDA to remain below 3.0x over the next 12-18 months, strongly positioning the company in the current rating category. This will be supported by contributions from acquisitions and low-to-mid single-digit same day sales growth in percentage terms. We also expect adjusted EBITA margin to remain between 6.5% and 7% during the same period, as salary and SG&A expense increases will be partly offset by good operating efficiency and tight cost controls. Our forecasts also exclude one-off gains on inventory. The Ba1 rating is further supported by Rexel's capital allocation policy, including a net leverage target of maximum 2.0x (company-defined), which is equivalent to around 3.0x on a Moody's-adjusted basis, reducing the risks of leverage increasing above the levels required for the current rating.

Exhibit 1
Rexel's debt/EBITDA will remain below 3.0x over the next 12-18 months



Source: Moody's Investors Service

Credit strengths

» Large-scale and globally diversified operations, which provide resilience to the business

» Positive medium- to long-term demand outlook, driven by electrification and energy efficiency

» Good liquidity, with access to sizeable bank facilities and securitisation programmes, and positive free cash flow (FCF) generation

» Prudent financial policy, balancing a net leverage target of around 2.0x (excluding IFRS 16 leases)

Credit challenges

» Weaker macroeconomic conditions, namely in Europe, which might reduce the demand for Rexel's products over the next 12-18 months

» Exposure to cyclical end markets, such as the construction and industrial sectors, mitigated by well diversified operations

» Competitive industry, with high level of market fragmentation in certain countries like the US

Rating outlook

The stable rating outlook assumes that Rexel's credit metrics will remain in line with the levels required for the current rating over the next 12-18 months, including Moody's-adjusted debt/EBITDA of below 3.0x and Moody's-adjusted RCF/debt of around 20%.

Factors that could lead to an upgrade

The ratings could be upgraded if Rexel continues to grow earnings and demonstrates a track record of maintaining a prudent financial policy, leading to Moody's-adjusted debt/EBITDA declining sustainably towards 2.5x, Moody's-adjusted retained cash flow/debt of above 25%, or the operating profit margin improving to the high-single-digit range in percentage terms.

Factors that could lead to a downgrade

The ratings could be downgraded if Moody's-adjusted debt/EBITDA increases above 3.5x on a persistent basis, Moody's-adjusted retained cash flow/debt falls below 15%, or the operating profit margin persists below the mid-single-digit range in percentage terms.

Key indicators

Exhibit 2
Rexel SA

	31-12-2019	31-12-2020	31-12-2021	31-12-2022	30-06-2023	12-18 month forward view
Revenue (USD Billion)	$15.4	$14.4	$17.0	$20.0	$20.9	$20 - $22
EBITA (USD Billion)	$0.7	$0.6	$1.1	$1.4	$1.4	$1.3 - $1.4
Operating Margin	4.4%	4.1%	6.4%	7.0%	6.6%	6% - 6.8%
Return on Invested Capital	6.1%	5.6%	9.7%	7.1%	6.4%	9% - 10%
Debt / EBITDA	4.6x	4.3x	3.0x	2.4x	2.6x	2.5x - 3.0x
EBITA / Interest	4.9x	4.7x	9.2x	11.4x	9.4x	6.5x - 7.5x
RCF / Debt	12.3%	16.3%	21.1%	26.3%	19.8%	19% - 20%

All figures and ratios are calculated using our estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = Last 12 months. The forecasts (f) or projections (proj.) are our opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

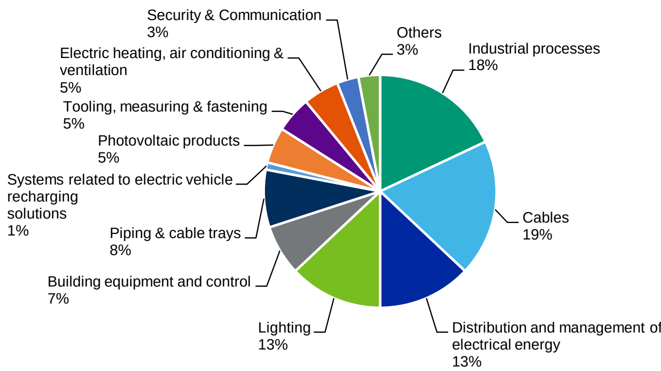
Headquartered in Paris, France, Rexel SA (Rexel) is a global leader in the low- and ultralow-voltage electrical distribution market.

In the 12 months that ended June 2023, Rexel reported total sales and company-adjusted EBITA of €18.4 billion and €1,358 million, respectively, leading to an EBITA margin of 7%. Exhibit 3 shows a split of revenue by product range.

Rexel is listed on Euronext Paris.

Exhibit 3

Wide offering of low- and ultralow-voltage electrical products
Breakdown of sales by product range, 2022



The product families presented above correspond to the sole activity of professional distribution of electrical equipment.
Source: Company

Detailed credit considerations

Balanced geographical footprint and positive market fundamentals will support demand for Rexel's products over the next 12-18 months

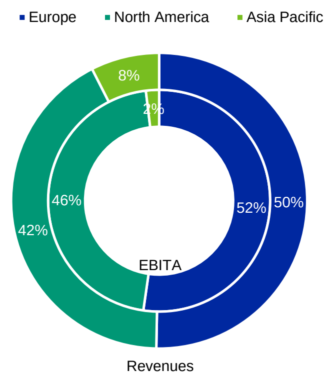
Despite its cyclical industry exposure, Rexel's performance in 2023 was resilient, bolstered by electrification exposure (22% of Q3 2023 sales), including solar, EV charging infrastructure, HVAC, and industrial automation, as well as geographical and end-market diversification. These trends will continue supporting demand over the next 12-18 months, resulting in mid-to-low single-digit revenue growth.

In terms of geographies, Rexel's distribution network is primarily centered on Europe (50% of 2022 revenue) and North America (42%), with minor Asia-Pacific (8%) presence. While Rexel has some exposure to the residential end-market (25% of 2022 revenue), this is limited compared to its presence in the industrial (30%) and commercial sectors (45%) where demand has been more resilient. The industrial sector, especially in North America, remains robust, driven by increasing manufacturing spending spurred by federal funding and labor issues that are fueling demand for industrial automation. Similarly to 2023, the commercial market will continue to show relative strength in North America and Europe, as weaker demand from the office segment will be offset by positive trends in other commercial segments such as education and healthcare, less sensitive to rate hikes.

Given Rexel's limited exposure to the office segment and the sustained demand from other commercial and industrial segments, along with the ongoing trend of electrification, we expect revenue to grow organically in the low single digit in percentage in 2024. For 2025, our expectations are for demand to further strengthen, aligning with the recovery of the construction cycle. This is projected to result in a mid-single-digit organic revenue growth.

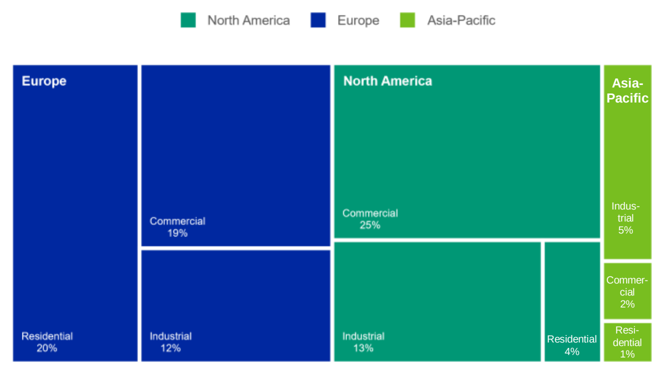
Over the medium to long term, the company will continue to benefit from increased demand for low- and ultralow-voltage electrical products. The increasing number of electrical applications and solutions, combined with efforts to decarbonise the economy as illustrated by the US and European green spending plans, will act as structural growth drivers. The company estimates that the total share of electricity in energy consumption will increase from 20% in 2020 to 51% in 2050.

Exhibit 4
Breakdown of sales and EBITA by region, 2022



Source: Company

Exhibit 5
Breakdown of sales by end market and by region, 2022



Source: Company

In the first nine months of 2023, Rexel reported 3.8% revenue growth driven by higher volumes and price increases. Q3 saw low-to-mid single-digit growth in North America and Europe, but a 2.7% revenue decline in Asia-Pacific due to oversupply, deflationary pressures, and a high comparison base from the previous year's lockdown recovery in Asia. These trends should continue in Q4, leading to around 4% full-year reported revenue growth.

We do not expect deflation in non-cable products (around 80% of revenue) to strain performance over the next 12-18 months, considering these products' complexity and the inflation manufacturers are experiencing from labour and energy costs, factors that will likely contribute to maintaining at least stable prices. Some deflationary pressure has occurred in more commodity-type products, such as pipes and solar panels, but these represent a limited share of the company's revenue (around 10% of non-cable products). The development of prices of cable products (less than 20% of revenue) will depend on copper prices, which we expect will remain broadly stable over the next 12 months. As a result, our revenue growth forecasts assume no material positive impact from price inflation over the next 12-18 months.

Strategic acquisitions and digital investments will further support Rexel's competitive position

Rexel is well positioned to strengthen its competitive position through digital investments and acquisitions, as outlined in its 2022 Capital Market Day strategy. The company aims to enhance sales by €2 billion inorganically by 2025, using acquisitions to consolidate its North American and European presence. Concurrently, it targets 40% digital sales by 2025, enhancing operational efficiency and customer-supplier relationships. This level of digital investment provides a competitive edge over smaller market players lacking similar resources.

Despite Rexel's leading position in Europe and North America, the market remains fragmented. In Europe, Rexel is the second-largest distributor behind Sonepar, with 17%-18% market share, and ranks first or second in 10 out of 17 countries it operates in. In the US, Rexel's market share is around 6%. Given the market's fragmented nature, acquisitions will continue to be integral to Rexel's strategy.

In 2023, Rexel made two acquisitions in Europe's green energy sector: Wasco, a Dutch HVAC product and service distributor, and a 51% stake in Mavisun, a French solar solutions distribution business. Including the acquisitions closed in 2022 and Wasco, Rexel has acquired just above €1 billion in sales year to date, half of its 2025 target.

Rexel's digital sales rose to about 28.4% of total sales in Q3 2023 (38% in Europe and 21% in North America), up from 18% in 2019. We expect the contribution of digital sales and profits to increase further going forward. Although the shift to digital will increase operating expenditure, this will be offset by productivity gains because of better product assortment, enhanced client monitoring and reduced store surface. Rexel's digital transformation will facilitate better operational adaptation (for example, pricing, inventory levels, or receivable collections) during weaker market conditions in the next 12-18 months. Rexel is also expected to make small acquisitions for new digital solutions, potentially rolling these out group wide.

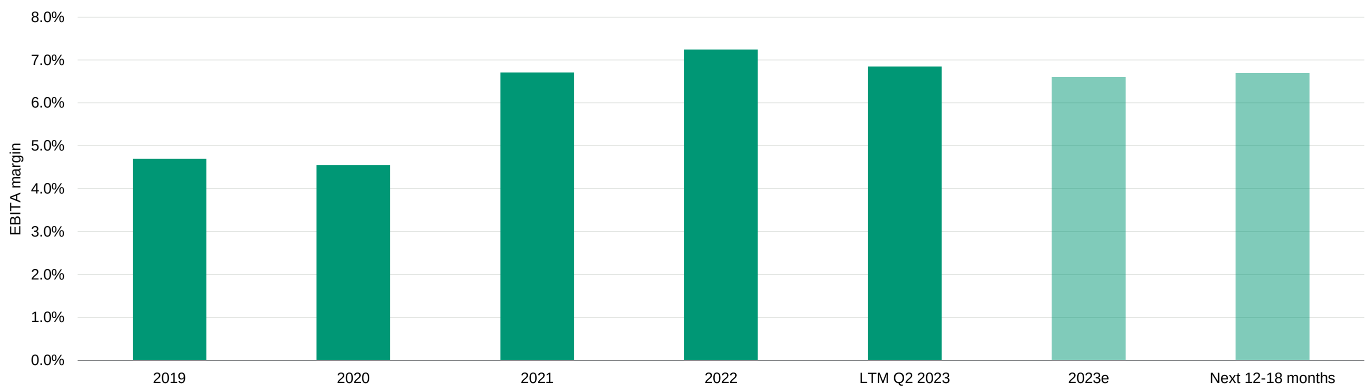
Credit metrics and financial policy support the Ba1 rating

As of June 2023, Rexel's credit metrics were well within the range required for the Ba1 rating, including Moody's-adjusted debt/EBITDA of 2.6x and RCF/debt of 20%. We expect credit metrics to remain around these levels in 2023 and within the range required for the current rating on a sustained basis. In particular, we expect leverage of below 3.0x and RCF/debt of around 20% over the next 12-18 months.

These forecasts reflect low- to mid-single-digit revenue growth in percentage terms at group level and adjusted EBITA margin of between 6.5%-7% over the next 12-18 months. This is below the 7.3% adjusted EBITA margin in 2022, which was boosted by a 66-basis-point gain on non-cable inventory inflation net of higher performance-linked bonuses. Our forecast assumes no positive contribution from price gain on non-cable inventory. The absence of price gain on inventory, coupled with inflationary pressure, will be partly offset by cost measures and operating efficiency. We expect the EBITA margin to increase towards the higher end of the 6.5%-7% range through 2025, in line with the first half of 2023, reflecting lower opex inflationary pressure and increasing operational leverage.

Exhibit 6

Moody's adjusted EBITA margin expected to remain between 6.5%-7% over the next 12-18 months



Source: Moody's Investors Service

We expect Rexel to continue to generate positive FCF of around €200 million over the next 12-18 months. This forecast includes the company's dividend payout policy of at least 40% of recurring net income and capital spending of around 0.9% of total revenue.

We also expect the company to maintain a prudent financial policy, reflecting the company's net leverage target of 2.0x (compared with 2.5x, previously), which is equivalent to Moody's-adjusted debt/EBITDA of 3.0x. This level of leverage is in line with the requirement of the current rating.

ESG considerations

Rexel SA's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Rexel's ESG credit impact score of **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating. This reflects the company's progress in deleveraging in line with its net leverage target and in spite of its acquisitive strategy. The score also takes into account positive demand fundamentals and the company's contribution to the carbon transition through its product portfolio, which partly offset its reliance on a large vehicle fleet.

Exhibit 8
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-3
Moderately Negative

Source: Moody's Investors Service

Environmental

E-3. Rexel is exposed to similar environmental risks as other rated distribution companies. These risks are primarily tied to carbon transition and emissions reduction, as product transport, which currently relies primarily on combustion engine vehicles, remains integral to its operations. While Rexel is progressively reducing carbon emissions in line with its stated targets, and there is no negative economic impact at this stage, we believe the company is exposed to potential future economic risks. This is because its fleet of trucks, vans, and cars will need to comply with potentially stricter emissions regulations over time. These risks are mitigated by the depth of Rexel's branch network, a high share of outsourced transportation (around 80%), its supply chain expertise to ensure "just-in-time" deliveries while minimizing fuel and mileage consumption, and the instrumental role that Rexel plays in the carbon transition, supplying products that support electrification trends and energy efficiency.

Social

S-3. Rexel is exposed to similar social risks as other rated distribution companies. While the demand for Rexel' products benefits from positive secular trends from electrification, automation and energy efficiency, the increasing focus on decarbonization and reducing pollution from transportation could increase the need to accelerate the transition to lower emission levels over time.

Governance

G-3. Rexel has a prudent financial policy, as evidenced by the company's reduction in leverage since 2018, debt repayment and dividend cancellation in 2020. Given the company's acquisitive strategy and currently low leverage, below its net leverage target of

2.0x (around 3.0x Moody's gross leverage), there is some risks that leverage might increase over time, although remaining in line with our expectations for the Ba1 rating. Management track record is good, supporting the rating. Rexel is listed on Euronext Paris and around 20% of its share are owned by Cevian Capital Partners. 80% of the Board of Director is independent (8 members out of 10, including 2 employee representative).

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

We view Rexel's liquidity as good. Liquidity is supported by our expectation of positive annual Moody's-adjusted FCF of around €200 million over the next 12-18 months, cash balances of €762 million as of June 2023 and access to an undrawn revolving credit facility of €850 million, of which €59 million expires in January 2024 and the rest in January 2025. The securitisation programmes of around €1.5 billion in aggregate will largely mature between 2023 and 2025, and are expected to be rolled over. Apart from receivable financing, Rexel does not have material debt maturities before June and December 2028 when the senior notes mature.

The terms and conditions of the RCF agreement offer flexibility in terms of maintenance financial covenants (tested semiannually, in June and December). This is because Rexel can exceed its 3.5x net leverage ratio as defined by the senior facility agreement on three separate accounting dates during the life of the RCF; only two of such three accounting dates may be consecutive, provided that the ratio does not exceed 3.75x on two accounting dates and 3.90x on one accounting date. We expect the company to stay well in compliance with its maintenance covenant over the next 12-18 months.

Structural considerations

The senior unsecured notes are rated Ba1, in line with the CFR. In accordance with our Loss Given Default (LGD) methodology, we would typically notch down all Rexel's senior unsecured debt to Ba2 because of the magnitude of non-debt liabilities, including trade payables, which are structurally senior to the notes. However, we have applied an override to this notching, reflecting the strong positioning of Rexel in the Ba1 rating and our expectations that trade payables would decline during downturns, increasing the recovery for the notes.

Methodology and scorecard

Exhibit 7 shows Rexel's scorecard-indicated outcome using the Distribution and Supply Chain Services Industry rating methodology, with data as of 15 February 2023 and on a forward-looking basis.

The scorecard-indicated outcomes are Baa3, reflecting the company's strong leverage and coverage metrics as of June 2023 and based on our forward view. The gap with the Ba1 CFR reflects risks to our forecasts related to a potentially more challenging macroeconomic environment over the next 12-18 months.

Exhibit 9

Rating factors

Rexel SA

Distribution and Supply Chain Services Industry Scorecard [1][2]	Current LTM 6/30/2023		Moody's 12-18 Month Forward View As of 11/2/2023 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$20.3	Baa	$20 - $22	Baa
b) EBITA (USD Billion)	$1.4	Baa	$1.3 - $1.4	Baa
Factor 2 : Business Profile (15%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability & Efficiency (15%)				
a) Operating Margin	6.6%	Ba	6% - 6.8%	Ba
b) Return on Invested Capital	11.4%	Ba	9% - 10%	Ba
Factor 4 : Leverage & Coverage (35%)				
a) Debt / EBITDA	2.6x	Baa	2.5x - 3x	Baa
b) EBITA / Interest	9.4x	Baa	6.5x - 7.5x	Baa
c) RCF / Debt	19.8%	Ba	19% - 20%	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Ba1

All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. This represents our forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestures.
Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
REXEL SA	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba1
Senior Unsecured -Dom Curr	Ba1/LGD4

Source: Moody's Investors Service

Appendix

Exhibit 11

Moody's-adjusted debt reconciliation for Rexel SA

in EUR millions	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	LTM ending Jun-23
As Reported Debt	**3,513.9**	**3,487.2**	**3,034.3**	**3,291.7**	**3,554.1**	**3,895.9**
Securitization	196.5	199.3	138.2	197.9	210.9	206.0
Pensions	266.2	312.1	320.9	208.9	164.1	164.1
Leases	-	-	-	-	-	-
Moody's Adjusted Debt	**3,976.6**	**3,998.6**	**3,493.4**	**3,698.5**	**3,929.1**	**4,266.0**

All figures are calculated using our estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted EBITDA reconciliation for Rexel SA

in EUR millions	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	LTM ending Jun-23
As Reported EBITDA	**772.2**	**882.6**	**768.5**	**1,264.8**	**1,680.6**	**1,660.1**
Unusual Items - Income Stmt	23.9	(5.5)	32.5	(31.6)	(45.6)	(45.6)
Securitization	2.4	2.5	2.1	3.1	8.9	8.0
Pensions	(0.3)	(1.0)	0.3	0.6	(4.4)	(4.4)
Moody's-Adjusted EBITDA	**798.2**	**878.6**	**803.4**	**1,236.8**	**1,639.5**	**1,618.1**

All figures are calculated using our estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13

Peer comparison

	Rexel SA Ba1 Stable			WESCO International, Inc. Ba2 Stable			IMCD N.V. Baa3 Stable			Brenntag SE Baa2 Stable		
(in US millions)	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23
Revenue	$17,381	$19,710	$20,297	$18,218	$21,420	$22,272	$4,064	$4,850	$4,787	$17,017	$20,477	$19,498
EBITA	$1,166	$1,428	$1,390	$1,151	$1,617	$1,658	$434	$567	$541	$1,213	$1,524	$1,329
Total Debt	$4,212	$4,193	$4,654	$5,302	$6,084	$6,200	$1,287	$1,341	$1,632	$3,590	$3,528	$3,442
Cash & Cash Equivalents	$652	$956	$831	$213	$527	$529	$202	$231	$234	$802	$1,116	$679
Operating Margin	6.4%	7.0%	6.6%	5.4%	7.1%	7.1%	8.9%	10.0%	9.8%	6.7%	7.3%	6.6%
ROIC	9.7%	12.2%	11.4%	9.6%	12.4%	12.4%	9.4%	12.6%	11.4%	11.0%	15.5%	14.1%
Debt / EBITDA	3.0x	2.4x	2.6x	3.9x	3.3x	3.3x	2.9x	2.2x	2.7x	2.5x	1.9x	2.0x
RCF / Debt	21.1%	26.3%	19.8%	12.6%	19.7%	18.5%	21.4%	26.2%	17.7%	24.1%	33.7%	26.9%
EBITA / Interest Expense	9.2x	11.4x	9.4x	3.3x	4.8x	4.2x	19.7x	19.3x	14.1x	15.8x	13.5x	9.9x

All figures and ratios are calculated using our estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

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