

Tear Sheet:

# Rexel S.A.

March 19, 2024

**S&P Global Ratings expects Rexel's business performance will be resilient in 2024, despite a weak economy.** We predict Rexel's sales in 2024 will continue to benefit from increased demand related to corporate net zero agendas in Europe, as well as continued industrial reshoring in the U.S., and global electrification. Sales momentum could slow during the first half of 2024 due to the strong performance of electrification products during the first half of 2023. We also anticipate lower pricing compared with 2023, reflecting lower inflation. Rexel's targets for 2024 include stable-to-slightly-positive sales growth, adjusted EBITA margin of 6.3%-6.6%, and a reported free cash flow conversion rate above 60%. We believe these objectives are consistent with the company's capabilities and track record.

**In 2023, Rexel reported record sales of €19.2 billion and EBITA margin of 6.8%.**

Notwithstanding the weak economy, Rexel's sales in 2023 were supported by exposure to the electrification megatrend, as well as reshoring manufacturing activities, and stimulus packages in the U.S. S&P Global Ratings-adjusted EBITA margin stood at 6.8% in 2023, marginally above the 2022 level (excluding positive non-recurring items that affected 2022), fueled by operational excellence and effective portfolio management. Rexel reported free cash flow of close to €1 billion, with a conversion rate of 73%, due to disciplined working capital management and modest capital expenditure (capex).

**Rexel has sufficient rating headroom to pursue further growth.** Rexel's credit metrics deteriorated in 2023 due to its debt-funded acquisition of Wasco. Adjusted funds from operations (FFO) to debt stood at 31.1% as of year-end 2023, down from 40.1% in 2022, although higher than 26%-28%, which we forecast in June 2023. This better-than-expected result is largely due to solid EBITDA and free operating cash flow (FOCF). Adjusted FFO to debt remains well above the minimum threshold of 20%, commensurate with our rating. We anticipate Rexel's credit metrics will progressively weaken in 2024-2025, reflecting its current capital-allocation priorities, particularly its target to increase sales by up to €1 billion by 2025 through acquisitions. In our base case scenario, we assume Rexel will spend €400 million-€500 million per year in 2024-2025 to meet its target, and that FFO to debt will be about 25%.

**We believe Rexel remains committed to a prudent financial policy commensurate with our 'BB+' rating.** In 2022, Rexel released its medium-term capital allocation policy and introduced a target of maximum 2.0x reported debt to EBITDA pre-International Financial Reporting Standard 16. This target is equivalent to adjusted FFO to debt of slightly over 20%, which is in line with the 20%-30% range we view as commensurate with the 'BB+' rating. Rexel reported debt to EBITDA of 1.33x at year-end 2023.

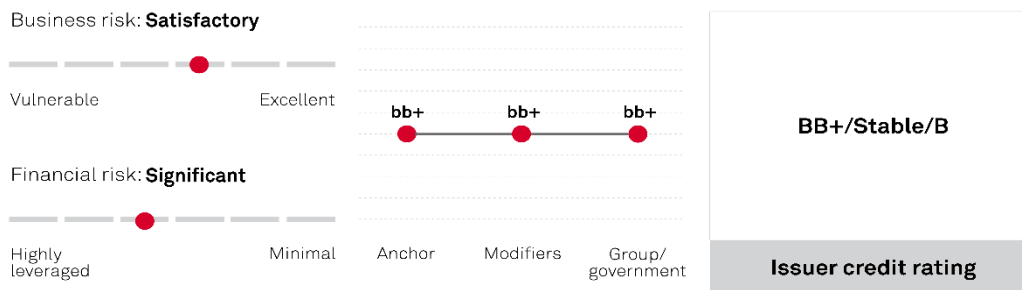
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## Ratings Score Snapshot



## Recent Research

- Global Building Materials Companies: Strongest To Weakest, Feb. 6, 2024
- Industry Credit Outlook 2024: Building Materials, Jan. 9, 2024
- Rexel S.A.'s Proposed Senior Unsecured Notes Assigned 'BB+' Issue Rating And '4' Recovery Rating, Sept. 5, 2023
- Tear Sheet: Rexel S.A., June 6, 2023

## Company Description

France-based Rexel is one of the top five-largest global business-to-business distributor of low- and ultra-low-voltage electrical products and supplies. The company sells an extensive portfolio of products to the residential, commercial, and industrial construction sectors. It also provides complementary services, such as technical assistance and training. Its distribution network comprises over 65 logistical centers and 1,950 branches. It also has broad geographic coverage, with operations in Europe (52% of sales in 2023), the Americas (42% of sales in 2023), and Asia-Pacific (6% of sales in 2023). Rexel reported sales of about €19.2 billion and EBITA of €1.3 billion in 2023. Rexel is listed on the Euronext stock exchange in Paris. As of March 5, 2024, it had a market capitalization of about €7 billion.

## Outlook

The stable outlook reflects our view that Rexel will continue to weather global macroeconomic uncertainties while posting adjusted FFO to debt of about 25% in 2024-2025.

### Downside scenario

We could lower our rating on Rexel if it experienced severe margin pressure and weaker cash flow, such that its FFO to debt falls below 20% absent swift prospects for a recovery. We would

## Rexel S.A.

also downgrade Rexel if it adopted a more aggressive financial policy, including large share buybacks and debt-funded acquisitions, that caused its FFO to debt to remain below 20%.

### Upside scenario

We would raise our rating on Rexel if it sustained FFO to debt of more than 30%. Under such a scenario, the company would need to demonstrate its ability and willingness to preserve these improved credit metrics. We view this scenario as unlikely in the next 24 months, given Rexel's current capital-allocation priorities, particularly its target to increase sales by up to €1 billion by 2025 through acquisitions.

## Key Metrics

### Rexel S.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	12,593	14,690	18,702	19,153	19,800-20,200	21,000-22,000	23,000-24,000
EBITDA	768	1,241	1,672	1,634	1,550-1,650	1,650-1,750	1,700-1,800
Debt	2,879	3,201	3,132	3,693	4,000-4,400	4,500-5,000	5,000-5,500
Adjusted ratios							
Debt/EBITDA (x)	3.8	2.6	1.9	2.3	2.4-2.6	2.5-3.0	2.7-3.2
FFO/debt (%)	19.8	29.5	40.1	31.1	24-26	24-26	22-25
CFO/debt (%)	25.1	20.9	26.0	27.8	17-22	17-22	17-22
FOCF/debt (%)	21.3	17.4	21.8	23.5	14-18	13-17	13-17
DCF/debt (%)	21.3	13.1	12.3	10.1	3-7	3-7	3-7
EBITDA margin (%)	6.1	8.4	8.9	8.5	7.5-8.5	7.5-8.5	7.5-8.5

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. EUR--euro.

## Financial Summary

### Rexel S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	13,366	13,742	12,593	14,690	18,702	19,153

**Rexel S.A.--Financial Summary**

EBITDA	833	908	768	1,241	1,672	1,634
Funds from operations (FFO)	622	662	570	945	1,254	1,150
Interest expense	130	133	112	95	110	170
Cash interest paid	130	128	109	97	106	157
Operating cash flow (OCF)	438	573	724	668	814	1,025
Capital expenditure	118	124	110	109	131	158
Free operating cash flow (FOCF)	320	449	614	558	683	867
Discretionary cash flow (DCF)	183	316	614	419	386	373
Cash and short-term investments	545	514	685	574	895	913
Gross available cash	545	514	685	574	895	913
Debt	3,269	3,562	2,879	3,201	3,132	3,693
Common equity	4,232	4,235	3,795	4,561	5,282	5,531
<b>Adjusted ratios</b>						
EBITDA margin (%)	6.2	6.6	6.1	8.4	8.9	8.5
Return on capital (%)	7.3	7.9	6.4	12.7	16.1	14.0
EBITDA interest coverage (x)	6.4	6.8	6.9	13.1	15.1	9.6
FFO cash interest coverage (x)	5.8	6.2	6.2	10.8	12.8	8.3
Debt/EBITDA (x)	3.9	3.9	3.8	2.6	1.9	2.3
FFO/debt (%)	19.0	18.6	19.8	29.5	40.1	31.1
OCF/debt (%)	13.4	16.1	25.1	20.9	26.0	27.8
FOCF/debt (%)	9.8	12.6	21.3	17.4	21.8	23.5
DCF/debt (%)	5.6	8.9	21.3	13.1	12.3	10.1

**Peer Comparison**

**Rexel S.A.--Peer Comparisons**

	<b>Rexel S.A.</b>	<b>WESCO International Inc.</b>	<b>Adolf Wuerth GmbH &amp; Co. KG</b>
Foreign currency issuer credit rating	BB+/Stable/B	BB/Stable/--	A/Stable/A-1
Local currency issuer credit rating	BB+/Stable/B	BB/Stable/--	A/Stable/A-1
Period	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2022-12-31
Mil.	EUR	EUR	EUR
Revenue	19,153	20,252	19,821
EBITDA	1,634	1,658	2,320
Funds from operations (FFO)	1,150	1,092	1,894
Interest	170	380	93
Cash interest paid	157	378	73
Operating cash flow (OCF)	1,025	596	833
Capital expenditure	158	84	796

**Rexel S.A.--Peer Comparisons**

Free operating cash flow (FOCF)	867	513	37
Discretionary cash flow (DCF)	373	261	(158)
Cash and short-term investments	913	474	1,110
Gross available cash	913	474	938
Debt	3,693	5,354	2,659
Equity	5,531	4,308	7,621
EBITDA margin (%)	8.5	8.2	11.7
Return on capital (%)	14.0	13.6	17.2
EBITDA interest coverage (x)	9.6	4.4	25.0
FFO cash interest coverage (x)	8.3	3.9	26.8
Debt/EBITDA (x)	2.3	3.2	1.1
FFO/debt (%)	31.1	20.4	71.2
OCF/debt (%)	27.8	11.1	31.3
FOCF/debt (%)	23.5	9.6	1.4
DCF/debt (%)	10.1	4.9	(5.9)

## Environmental, Social, And Governance

Environmental factors are a positive consideration in our credit rating analysis of Rexel. Electrical product distributors' environmental risk is comparatively low because they distribute, rather than develop, products and thus are not as energy intensive as manufacturers. Rexel's product offerings respond to new structural trends, such as the internet of things, digitalization, and the greater demand for carbon-free products and solutions. To increase its market, the company has invested about €300 million in digital platforms in the past three years (about 2% of sales), which has enabled it to increase its proportion of digital sales to 28% of total sales in 2023 and improve its profitability profile (digital sales are more profitable). Digital sales are also a driver of market share gains for Rexel. Rexel has set a target to increase its digital sales to 40% of total sales by 2025. Rexel's exposure to megatrends such as electrification are helping the company to navigate the current downturn in the construction business with a comparatively better performance than its average peer in the sector. Rexel reported sales volumes increased by 2% in 2023, a time when most companies reported a volume drop of high single digits. In 2021, Rexel became the first French speculative-grade company to issue a sustainability-linked bond, which featured a record-low interest rate of 2.125%.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BB+/Stable/B</b>
<b>Local currency issuer credit rating</b>	<b>BB+/Stable/B</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bb+</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>bb+</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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