MOODY'S RATINGS

CREDIT OPINION
27 August 2024

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.

Contacts

Marcella Pavesi +49.69.70730.742
AVP-Analyst
marcella.pavesi@moodys.com

Stanislas Duquesnoy +49.69.70730.781
Associate Managing Director
stanislas.duquesnoy@moodys.com

Wiktor Piechnik +49.69.86790.2166
Ratings Associate
wiktor.piechnik@moodys.com

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Rexel SA

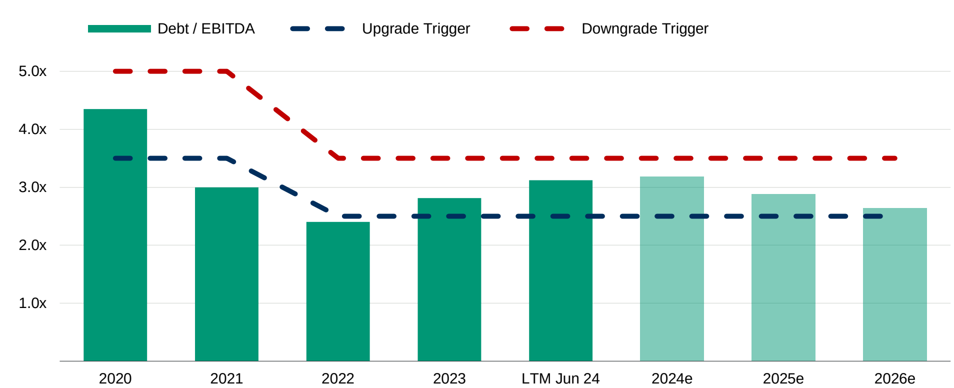
Update to credit analysis

Summary

Rexel SA's (Rexel) Ba1 corporate family rating (CFR) with a stable outlook reflects its solid business profile, underpinned by balanced geographical and end-market diversification; exposure to positive market fundamentals that mitigates industry cyclicality, including electrification, automation and the need for energy-saving solutions; and improved business resilience because of the digital transformation initiated since 2017.

Rexel's structurally improved business fundamentals have been evident even amid challenging market conditions, such as weaker demand in the residential market, particularly in Europe, and deflationary pressure. Despite these challenges, Rexel's credit metrics remain aligned with the current rating, including debt/EBITDA of around 3.0x as of June 2024, when we anticipate the company's performance to bottom. We forecast credit metrics will stay around these levels in 2024, improving from 2025 and leading to debt/EBITDA between 2.5x and 3.0x. This forecast is based on market recovery, contributions from acquisitions and the implementation of Rexel's strategic plan, which encompasses continuous investment in digitalization and cost management. Our forecast excludes the payment of potential fees related to the ongoing antitrust investigation in France.

Exhibit 1
Rexel's debt/EBITDA will remain below 3.0x over the next three years



Source: Moody's Ratings

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

» Solid positive free cash flow (FCF) generation

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

Credit challenges

» 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

» Structurally low profitability typical of this business model, although improved steadily over the past five years

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 around 3.0x.

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. We could relax the triggers if the company continues to demonstrate evidence of a stronger business profile translating into improved resilience through market cycles and structurally higher profitability, in line with its strategy.

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

	12/31/2020	12/31/2021	12/31/2022	12/31/2023	6/30/2024	2024e	2025e	2026e
Revenue (USD Billion)	$14.4	$17.4	$19.7	$20.7	$20.8	$21.2	$22.6	$24.5
EBITA (USD Billion)	$0.6	$1.2	$1.4	$1.4	$1.4	$1.4	$1.5	$1.7
Operating Margin	4.1%	6.4%	7.0%	6.4%	6.0%	6.0%	6.4%	6.6%
Return on Invested Capital	5.6%	9.7%	12.2%	10.4%	9.1%	9.3%	9.7%	9.9%
Debt / EBITDA	4.3x	3.0x	2.4x	2.9x	3.1x	3.2x	2.9x	2.6x
EBITA / Interest	4.7x	9.2x	11.4x	7.7x	5.8x	5.8x	7.1x	8.8x
RCF / Debt	16.3%	21.1%	26.3%	18.5%	15.8%	13.5%	17.5%	19.6%

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 Ratings

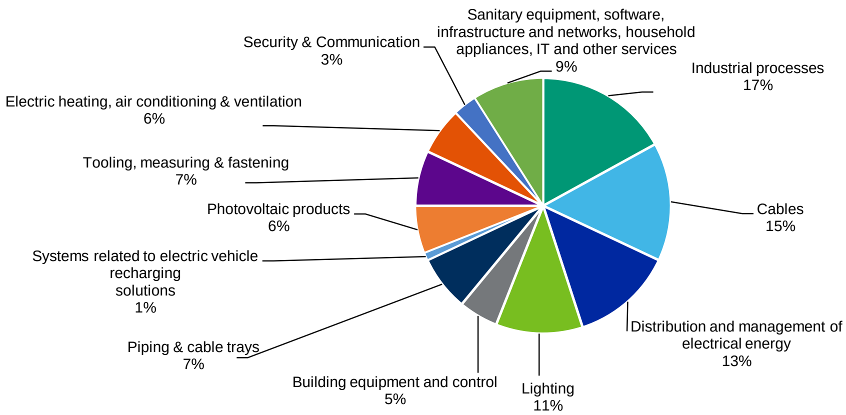
Profile

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 2024, Rexel reported total sales and company-adjusted EBITA of €19 billion and €1.2 billion, respectively. 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, 2023



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 continue to support demand for Rexel's products despite some weaknesses in 2024

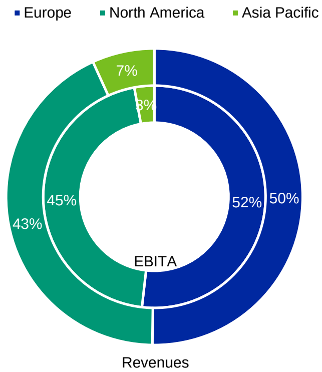
Despite a decline in demand for some product categories since the second half of 2023, Rexel's performance has remained solid, because of the company's balanced geographical distribution (see Exhibit 3) and a diverse mix of end markets (see Exhibit 4). This mix notably includes high exposure to the more resilient commercial and industrial segments. However, demand in 2024 has mainly been hurt by continued weaknesses in the residential market, especially in Europe, and a normalization of demand for electrification following a spike in 2022 and the first half of 2023.

Over the medium to long term, Rexel is poised to benefit from the increased demand for low- and ultra-low-voltage electrical products. The growth in electrical applications and solutions, coupled with efforts to decarbonize the economy — as illustrated by green spending plans in the US and Europe — will serve as structural growth drivers.

Given Rexel's limited exposure to the office segment and sustained demand from the other commercial and industrial segments, along with the ongoing trend towards electrification and contribution from acquisitions, we expect revenue to increase in the low single digit percentage in 2024. In H1 2024, the company reported a 3.5% decline in sales on a same-day basis with a gradual improvement during the period. Our forecast assumes this improving trend will continue, further aided by an easier comparison with H2 2023. For 2025, we expect demand to further strengthen, in line with the recovery of the construction cycle, potentially leading to mid-single-digit organic revenue growth.

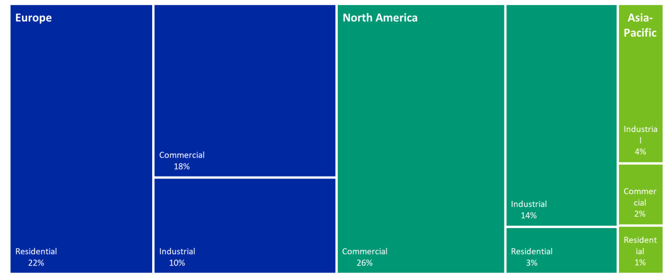
The future demand for products related to energy efficiency — such as solar panels, EV charging infrastructure, and heat ventilation air conditioning electrification — will also be influenced by the evolution of subsidies, particularly in Europe, following the demand spike in 2022 driven by record-high energy prices. Upcoming elections in European countries and the US in 2024 and 2025 introduce some uncertainty, but we expect the long-term fundamentals to remain solid. Rexel estimates that around 32% of its revenue is tied to fast-growing categories, namely energy efficiency and automation.

Exhibit 4
Breakdown of sales and EBITA by region, 2023



Source: Company

Exhibit 5
Breakdown of sales by end market and by region, 2023



Source: Company

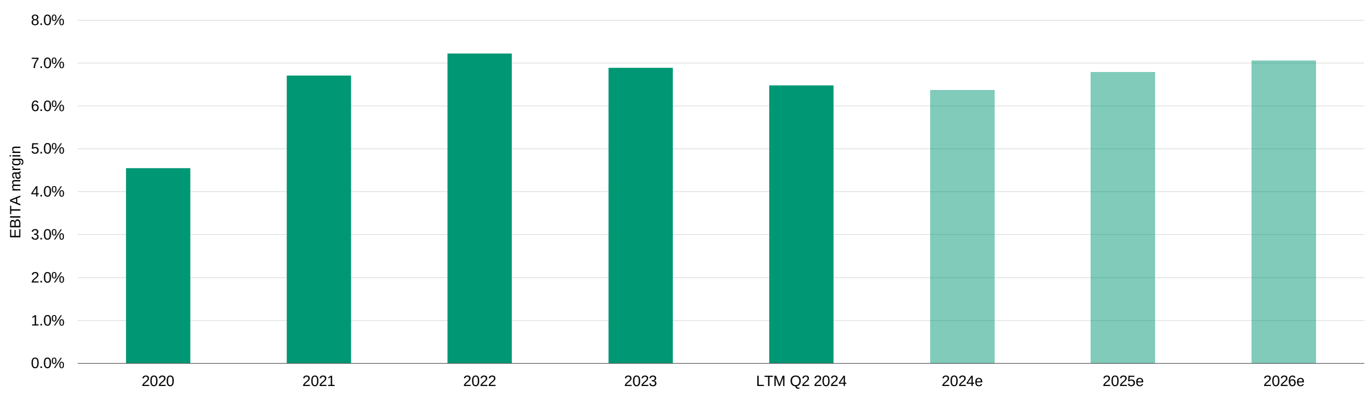
Profitability has structurally improved, but remains inherently exposed to price variation

Despite the decline in revenue in H1 2024, the company's adjusted EBITA margin was around 6% in the same period (6.8% in 2023). Despite the margin decline, this level of profitability is higher than that in 2019 because of gross margin expansion on the back of measures such as data-based pricing and value-added services; improvement in productivity, reflecting increasing investments in digital; and portfolio management. Underlying market growth and net inflation contributed positively to margins expansion between 2019 and 2023.

We expect the company's profitability to increase further over the next three years, with EBITA margin above 7%, in line with management's medium-term target communicated during the capital market day in June 2024. Improvement in profitability will be driven by market recovery, low single-digit percentage growth in inflation, exposure to positive market fundamentals, market share gains and continued portfolio management. This includes improving profitability in countries currently operating below the group's levels, such as the UK and Germany.

Rexel's digital transformation will continue to further support profitability improvements, facilitating operational adaptation and efficiencies (for example, pricing, inventory levels or receivable collections). The company targets to increase digital sales from 31% currently to 50% in the medium term. Rexel is also likely to make small acquisitions for new digital solutions, potentially rolling these out group wide.

Exhibit 6
Moody's-adjusted EBITA margin likely to remain between 6.5% and 7% over the next three years



Source: Moody's Ratings

In 2024, profitability has been hurt by both volumes and price deflation in some product categories such as piping, industrial automation in China and solar panel (less than 10% of revenue), and decline in cable prices. Inflation in other product categories remains stable. We expect inflation to contribute positively over the next two to three years; however, the company's profitability will remain exposed to price fluctuation, particularly in the cable segment (below 20% of revenue), where prices are driven by copper price evolution.

Since 2019, the company exited less-profitable and non-strategic countries such as Norway and Spain, and expanded its presence in more strategic end markets and countries, such as through the acquisition of heat pumps distributor Wasco in the Netherlands in 2023 and of the distributor of wireless infrastructure products and solutions Talley in Q2 2024. Given the market's fragmented nature, acquisitions will continue to be integral to Rexel's strategy. 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%. The company plans to add 2%-3% to sales growth over the next three years.

Credit metrics and financial policy support the Ba1 rating

As of June 2024, Rexel's credit metrics were well within the range required for the Ba1 rating, including Moody's-adjusted debt/EBITDA of around 3.0x (2.8x in 2023). We expect leverage to remain around these levels in 2024 and to decline towards 2.5x over the next 12-18 months on the back of market recovery and the company's strategic initiatives. Our forecast excludes the payment of potential fees related to the ongoing antitrust investigation in France.

We also expect Rexel to continue to generate positive FCF between €200 million and €300 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. FCF will be used to fund acquisitions and fund the company's share buyback program of €50 million-€150 million per year.

We also expect the company to maintain a prudent financial policy, reflecting the company's net leverage target of up to 2.0x, which is equivalent to Moody's-adjusted debt/EBITDA of up to 3.0x-3.5x. This level of leverage is in line with the requirement of the current rating.

ESG considerations

Rexel SA's ESG credit impact score is CIS-3

Exhibit 7
ESG credit impact score

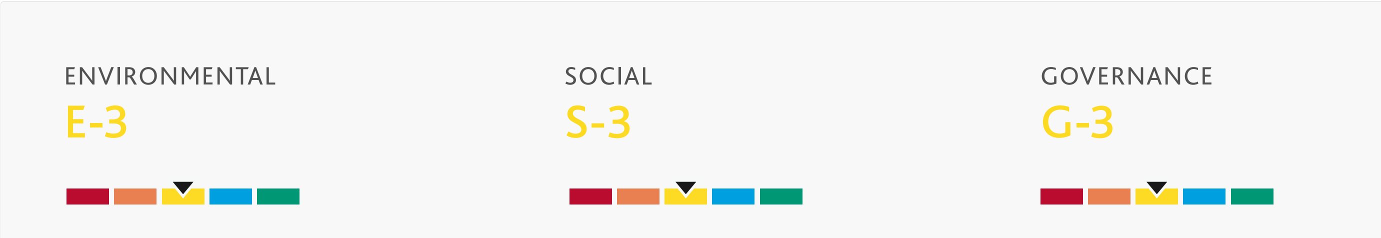
CIS-3

ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Ratings

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



Source: Moody's Ratings

Environmental

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.

Social

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

Rexel has demonstrated a prudent financial policy. At the same time, 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.

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 adequate. The company's 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 €417 million as of June 2024 and access to an undrawn revolving credit facility of €700 million. The securitisation programmes of around €1.5 billion in aggregate will largely mature between 2025 and 2026, and are likely to be rolled over. Apart from receivable financing, Rexel does not have significant 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

The current scorecard-indicated outcome is in line with the assigned rating. The forward-view scorecard-indicated outcome of Baa3 is one notch above the assigned rating, reflecting the improvement in credit metrics in line with our expectations on the construction cycle. The difference with the current rating assigned reflects risk of a more prolonged construction downturn.

Exhibit 9

Rating factors

Distribution and Supply Chain Services Industry Scorecard [1][2]	Current LTM 6/30/2024		Moody's 12-18 Month Forward View As of 8/5/2024 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$20.8	Baa	$21 - $23	Baa
b) EBITA (USD Billion)	$1.4	Baa	$1.4 - $1.5	Baa
Factor 2 : Business Profile (15%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability & Efficiency (15%)				
a) Operating Margin	6.0%	Ba	6% - 6.4%	Ba
b) Return on Invested Capital	9.1%	Ba	9% - 10%	Ba
Factor 4 : Leverage & Coverage (35%)				
a) Debt / EBITDA	3.1x	Ba	2.9x - 3.2x	Ba
b) EBITA / Interest	5.8x	Baa	6.0x - 7.0x	Baa
c) RCF / Debt	15.8%	Ba	14% - 18%	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba1		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 Ratings

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 Ratings

Appendix

Exhibit 11

Moody's-Adjusted Debt Reconciliation for Rexel SA[1][2]

in EUR millions	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	FYE Dec-2023
As Reported Debt	**3,487.2**	**3,034.3**	**3,296.8**	**3,554.1**	**4,193.1**
Securitization	199.3	138.2	197.9	210.9	203.6
Pensions	312.1	320.9	208.9	164.1	158.7
Moody's-Adjusted Debt	**3,998.6**	**3,493.4**	**3,703.6**	**3,929.1**	**4,555.4**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Exhibit 12

Moody's-adjusted debt reconciliation for Rexel SA[1][2]

in EUR millions	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	FYE Dec-2023	LTM ending Jun-24
As Reported Debt	**3,487.3**	**3,034.4**	**3,296.7**	**3,554.1**	**4,193.2**	**4,482.4**
Securitization	199.0	138.0	197.9	210.9	203.6	210.2
Pensions	312.2	321.0	208.9	164.1	158.7	135.8
Leases	-	-	-	-	-	-
Moody's Adjusted Debt	**3,998.5**	**3,493.4**	**3,703.5**	**3,929.1**	**4,555.5**	**4,828.4**

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

Exhibit 13

Moody's-adjusted EBITDA reconciliation for Rexel SA

in EUR millions	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	FYE Dec-2023	LTM ending Jun-24
As Reported EBITDA	**959**	**821**	**1,265**	**1,681**	**1,633**	**1,548**
Unusual Items - Income Stmt	(82)	(19.4)	(33.9)	(49.2)	(23.7)	(10.3)
Securitization	2	2.1	3.1	8.9	8.0	8.0
Pensions	(1.0)	0.3	0.6	(4.4)	2.4	2.4
Moody's-Adjusted EBITDA	**878.7**	**803.6**	**1,234.5**	**1,636.2**	**1,619.7**	**1,547.6**

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 14

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-22	FYE Dec-23	LTM Jun-24	FYE Dec-22	FYE Dec-23	LTM Mar-24	FYE Dec-21	FYE Dec-22	FYE Dec-23	FYE Dec-22	FYE Dec-23	LTM Mar-24
Revenue	$19,710	$20,712	$20,758	$21,420	$22,385	$22,213	$4,064	$4,850	$4,804	$20,477	$18,184	$17,671
EBITA	$1,428	$1,406	$1,346	$1,617	$1,504	$1,409	$434	$567	$545	$1,524	$1,279	$1,173
Total Debt	$4,193	$5,032	$5,269	$6,084	$6,152	$6,025	$1,287	$1,341	$1,865	$3,528	$3,293	$3,182
Cash & Cash Equivalents	$956	$1,008	$455	$527	$524	$984	$202	$231	$433	$1,116	$637	$553
Operating Margin	7.0%	6.4%	6.0%	7.1%	6.4%	6.1%	8.9%	10.0%	9.6%	7.3%	6.7%	6.3%
ROIC	12.2%	10.4%	9.1%	12.4%	11.4%	11.4%	9.4%	12.6%	10.8%	15.5%	12.5%	11.1%
Debt / EBITDA	2.4x	2.8x	3.1x	3.3x	3.5x	3.6x	2.9x	2.2x	3.1x	1.9x	2.0x	2.1x
RCF / Debt	26.3%	18.5%	15.8%	19.7%	16.5%	15.4%	21.4%	26.2%	14.7%	33.7%	28.7%	26.5%
EBITA / Interest Expense	11.4x	7.7x	5.8x	4.8x	3.5x	3.4x	19.7x	19.3x	10.1x	13.5x	10.1x	9.5x

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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