

Tear Sheet:

Rexel S.A.

August 27, 2024

S&P Global Ratings expects Rexel's business performance to remain resilient in 2024, despite a difficult operating environment. In the second quarter of 2024, sales growth turned positive at 1.8% year on year mainly due to merger and acquisition (M&A) contribution, however, on a same day basis it was down 2.4% year on year. The current uncertainty on energy saving tax incentives in the residential segment in a few countries in Europe undermines the electrification business trend. The core electrical distribution (including cable) business was resilient, including in Europe. Pricing for noncable products was down 1.1% year on year, mainly due to deflation in solar panels, particularly in Europe. Volumes in North America were slightly positive, supported by the infrastructure and data centers segments. The reported EBITA margin in the first half of 2024 stood at 6%, lower than anticipated, mainly due to the decline in organic sales from the high base effect compared with the first half of 2023, partly offset by positive actions plans. We forecast full year EBITA margin to be at the lower end of the 6.3%-6.6% guidance range, in line with the new indication provided by the company.

Rexel's strategic roadmap over the next few years--with continued solid growth, notably in the U.S., driven by reshoring, grid modernization, and expanding data centers--is a supporting factor for its business risk profile. In June 2024, Rexel unveiled updated medium-term financial targets, which include:

- Sales growth potential of between 5%-8%, with targeted M&A representing between 2%-3%;
- Adjusted EBITA margin above 7%; and
- An average conversion rate of 65% of EBITDA after leases into free cash flow before interest and tax.

These will be supported by the company capital allocation priorities:

- A dividend payout of at least 40%, and share buybacks of between €50 million-€150 million per year;
- A contribution of M&A to sales of between 2%-3%;
- A targeted net financial debt to EBITDA after leases leverage ratio of about 2.0x, which is equivalent to adjusted funds from operations (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 at 1.33x as of end-2023.

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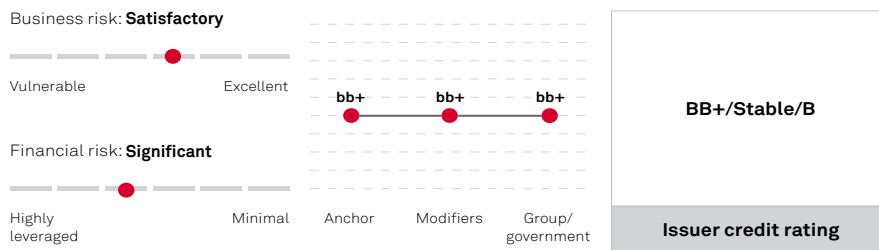
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In the past few years Rexel's growth has been supported by powerful electrification megatrends targeting a lower-carbon world. While 2024 is facing a high comparable base, the medium-term prospects point to continued growth. Rexel's field has expanded with new opportunities in utilities; heating, ventilation, and air conditioning; security; and datacom, which the group has already begun seizing. Rexel aims to derive 40% of its sales from "acceleration" businesses in the medium term (from 32% currently), both through organic growth and M&A, particularly in the North American platform.

We anticipate that Rexel's credit metrics will progressively weaken in 2024-2025 when compared with 2022-2023 but will remain commensurate with the 'BB+' rating. In our base-case scenario, we assume Rexel will spend €400 million-€500 million per year in 2024-2025 to meet its growth target, and that FFO to debt will be about 23%-25%.

Ratings Score Snapshot



Recent Research

- Industry Credit Outlook Update Europe: Building Materials, July 18, 2024
- Tear Sheet: Rexel S.A, March 19, 2024
- Industry Credit Outlook 2024: Building Materials, Jan. 9, 2024

Company Description

France-based Rexel is one of the top five-largest global business-to-business distributors 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 August 21, 2024, it had a market capitalization of about €6.8 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 23%-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 could 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 could 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 through acquisitions and to distribute funds to shareholders.

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	19,700-20,000	21,000-21,500	23,000-23,500
EBITDA	768	1,241	1,672	1,634	1,500-1,600	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	2.6-2.8	2.7-3.2	2.7-3.2
FFO/debt (%)	19.8	29.5	40.1	31.1	23.5-25.5	23-25	22-25
CFO/debt (%)	25.1	20.9	26.0	27.8	19-22	17-22	17-22
FOCF/debt (%)	21.3	17.4	21.8	23.5	14-17	13-17	13-17
DCF/debt (%)	21.3	13.1	12.3	10.1	3-6	3-7	3-7
EBITDA margin (%)	6.1	8.4	8.9	8.5	7.6-7.9	7.5-8.5	7.5-8.5

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
EBITDA	833	908	768	1,241	1,672	1,634

Rexel S.A.

Rexel S.A.--Financial Summary

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
Adjusted ratios						
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

	Rexel S.A.	WESCO International Inc.	Adolf Wuerth GmbH & Co. KG
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	2023-12-31
Mil.	EUR	EUR	EUR
Revenue	19,153	20,252	20,218
EBITDA	1,634	1,658	2,319
Funds from operations (FFO)	1,150	1,092	1,842
Interest	170	380	168
Cash interest paid	157	378	101
Operating cash flow (OCF)	1,025	596	1,968
Capital expenditure	158	84	898
Free operating cash flow (FOCF)	867	513	1,070

Rexel S.A.--Peer Comparisons

Discretionary cash flow (DCF)	373	261	830
Cash and short-term investments	913	474	1,638
Gross available cash	913	474	1,467
Debt	3,693	5,354	2,148
Equity	5,531	4,308	8,455
EBITDA margin (%)	8.5	8.2	11.5
Return on capital (%)	14.0	13.6	15.5
EBITDA interest coverage (x)	9.6	4.4	13.8
FFO cash interest coverage (x)	8.3	3.9	19.3
Debt/EBITDA (x)	2.3	3.2	0.9
FFO/debt (%)	31.1	20.4	85.8
OCF/debt (%)	27.8	11.1	91.6
FOCF/debt (%)	23.5	9.6	49.8
DCF/debt (%)	10.1	4.9	38.6

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

Foreign currency issuer credit rating	BB+/Stable/B
Local currency issuer credit rating	BB+/Stable/B
Business risk	Satisfactory
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb+
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)
Stand-alone credit profile	bb+

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, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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