

PRESS RELEASE



Spread Research assigns its SR1 short-term rating to the €500m NEU CP program of Sonepar with a stable outlook

Lyon, June 4th, 2018 – Credit rating agency Spread Research assigns its SR1 short-term rating to the NEU CP instrument of Sonepar SAS (“Sonepar”) with a stable outlook. The short-term instrument rating is part of the financial documentation of the planned NEU CP issuance by Sonepar for up to €500m.

Rating rationale

Spread Research has analysed the short term credit profile of Sonepar in order to assign its short-term rating. The outcome is an SR1 short-term rating, the second-highest grade in Spread Research’s rating scale.

Credit profile

Sonepar benefits from its strong business profile as the world’s largest B-to-B distributor of electrical products, solutions and related services. The company operates in three continents, with the bulk of sales being generated in Europe and North America where the group has leading market positions. Our rating is supported by Sonepar’s large and diversified product offering, its strong local footprint and distribution network, and limited customer concentration. Sales are subject to some degree of cyclicalities due to the group’s exposure to the construction and renovation end-markets for residential and commercial buildings, and to various industries. Mitigating this, Sonepar has displayed resilience both in terms of operating margins and cash generation during past economic downturns, and has outperformed peers over the past few years. It has consistently achieved a high level of free cash flow, a trend that we expect to continue, which provides scope for deleveraging.

Our rating factors in Sonepar’s relatively modest leverage, and strong commitment to its prudent financial policy. Sonepar has built substantial financial flexibility, even though M&A is clearly a key component of its development. While this strategy could eventually lead to some releveraging, we are comforted by Sonepar’s good track record and proven ability for integrating companies.

Liquidity profile

Liquidity is very strong. This is driven by the significant amount of cash on balance sheet, large undrawn committed credit lines, the long-term debt maturity profile, and our expectation that Sonepar will continue to generate strong free cash flow after dividends.

Credit outlook

Our Stable outlook reflects our expectation that credit metrics will slightly improve over the next twelve months on the back of moderate earnings growth and continued high free cash flow, although this could be offset by debt-funded M&A activity.

Our methodology for short-term ratings, published on January 7th, 2016, is available at www.spreadratings.com/Short-term_rating_methodology.

Sonepar

Sonepar is an independent family-owned company with global market leadership in B-to-B distribution of electrical products, solutions and related services. Assisting customers in a wide range of markets and drawing on the skill and passion of its 44,500 associates, Sonepar has sales of €21.6 billion (as of December 31, 2017). Through a dense network of 167 operating companies spanning 44 countries and 5 continents, and the digital solutions developed, Sonepar delivers greater service and enhanced customer relations every day. Sonepar's ambition is to become "La Référence" - the standard-setter for all its stakeholders. www.sonepar.com

Spread Ratings

Spread Ratings is the trademark under which Spread Research operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Spread Research itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Spread Research capitalizes on over fourteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Spread Research is one of the few rating agencies approved by the Bank of France to provide financial ratings for NEU CP (short-term) and NEU MTN (medium-term) programs.

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NEU CP Instrument rating Initiation report



Rated Entity: Sonepar SAS
Sector: Capital Goods

Short-term rating: SR1
Credit outlook: Stable

Rating rationale

- We initiate coverage on Sonepar and assign an SR1 short-term rating, the second-highest grade in our rating scale, to its planned NEU CP instrument issuance for up to €500m. This reflects Sonepar's strong business profile and credit metrics, and its excellent liquidity profile. We understand that proceeds from the NEU CP program will be used to further diversify and optimize the group's existing debt facilities.
- Family-owned Sonepar is the world's largest B-to-B distributor of electrical products, solutions and related services, a fragmented market in which the group holds an 8% share globally. In 2017, Sonepar reported sales of €22bn .
- Our rating is supported by Sonepar's diversified product offering, its strong local footprint and distribution network, and limited customer concentration. Sonepar benefits from its large scale, operating in three continents, with the bulk of sales being generated in Europe and North America where the group has leading market positions. This is a key factor as intense competition results in low operating margins, making scale a key driver for profitability.
- Sonepar has significantly digitalized its operations - the group is ahead of peers, which is expected to yield further efficiency gains and support margins.
- The industry is anticipating positive long-term trends on the back of rising energy needs and electrical uses, paving the way for further growth in all regions, including in emerging markets where B-to-B electrical product distribution has had a low penetration rate so far. We expect Sonepar to benefit from these trends, especially in fragmented markets where the group is well positioned to drive market consolidation. Sonepar has a long history of M&A - it completed over 120 small-to-medium-size deals over the past ten years (representing €8.2bn of acquired sales) - and a sound track record for integration. This is supported by the group's policy to involve local management in the acquisition and integration processes.
- Sales are subject to some degree of cyclicity due to the group's exposure to the construction and renovation end-markets for residential and commercial buildings, and to various industries. Mitigating this, Sonepar has displayed resilience both in terms of operating margins and cash generation during past economic downturns, and has outperformed peers over the past few years. It has consistently achieved a high level of free cash flow, a trend that we expect to continue, which provides scope for deleveraging.
- Our rating factors in Sonepar's relatively modest leverage (net adjusted debt / EBITDAR within the 2.0-2.5x range at YE17), plus its stable and prudent financial policy, including limited shareholder distribution as most earnings are reinvested to support growth. Over the past 10 years the group has consistently met its shareholders' conservative guidance regarding debt ratios (including a maximum net reported leverage of 2.50x; it stood within the 1.00-1.50x range at YE17).
- While Sonepar has built substantial financial flexibility and M&A is clearly a key component of its development strategy, which could eventually lead to some releveraging, we are comforted by Sonepar's good track record for integrating companies and adhering to its disciplined financial policy.



Capital structure

Nearly all financing, mostly denominated in EUR and USD, has been raised at the level of parent company Sonepar S.A.S.

At YE17, 40% of outstanding debt consisted of (i) on-balance sheet factoring and securitization programs (there is no off-balance sheet program) plus (ii) some subsidiaries' debt. The remaining debt included private placements and term loans. In addition, the group benefits from €1.6bn of undrawn committed revolving credit facilities.

Net adjusted leverage stands at a modest level (within the 2.0-2.5x range at YE17), gradually decreasing after a sustained acquisition pace in 2014 and 2015. The difference compared to the reported ratio of 1.0-1.5x stems from our debt adjustments, including the capitalization of operating leases, plus limited pensions deficit and other financial liabilities.

Excellent liquidity profile

The liquidity profile is excellent. This is driven by the significant amount of cash on balance sheet, large undrawn committed credit lines, the long-term debt maturity profile, and our expectation that Sonepar will continue to generate strong free cash flow after dividends.

Credit outlook: Stable

- Our Stable outlook reflects our expectation that credit metrics will slightly improve over the next twelve months on the back of moderate earnings growth and continued high free cash flow, although this could be offset by debt-funded M&A activity.

Rating sensitivity

- Sonepar is strongly positioned in the SR1 category. An upgrade to SR0 could be considered if one or several key rating factors improved markedly on a sustainable basis, i.e. greater scale and business diversification, increased operating margins and cash generation, and/or lower leverage (such as improved FFO/debt and debt/EBITDAR ratios).
- At this stage, a downgrade to SR2 is unlikely. It could result from a significant deterioration of the financial risk profile, such as rising leverage due to large debt-funded M&A and/or a contraction in margins/free cash flow.





Spread Research

SPREAD RESEARCH assigns ratings and as such is regulated by ESMA.

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REGULATORY DISCLOSURES

Initiation report on NEU CP Instrument rating

Rating nature: Solicited short-term public rating (the rating report was issued after being reviewed by the issuer)

Limitation of the Rating action:

Spread Research believes the quality and quantity of information available on the rated entity is sufficient to provide a rating. Spread Research has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research: Short-Term Ratings Methodology available at

<http://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf>

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