

## PRESS RELEASE



### **Spread Research affirms its SR1 short-term rating to the NEU CP instrument of Sonepar with a Stable outlook**

**Lyon, June 3<sup>rd</sup>, 2019 – Credit rating agency Spread Research affirms its SR1 short-term rating to the NEU CP instrument of Sonepar SAS with a Stable outlook.**

#### **Rating rationale**

Spread Research has analysed the 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 a strong business profile as the world's largest B-to-B distributor of electrical products, solutions and related services. The company operates in four continents, with the bulk of sales 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. The group reported solid results for 2018, with mid-single-digit organic sales growth, low-double-digit EBIT growth, and continued improvement in free cash flow and leverage.

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 other industries. Mitigating this, Sonepar has displayed resilience in terms of both 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 periodically result in 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:

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

### **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 €22.4 billion (as of December 31, 2018). Through a dense network of 167 operating companies spanning 44 countries and 4 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](http://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.

### **Press contact**

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**Company:** Sonepar  
**Sector:** Capital Goods



SR Rating	Outlook
SR1	Stable

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### Rating rationale

We affirm our SR1 short-term rating, the second-highest grade in our rating scale, for the €500m NEU CP instrument of Sonepar SAS. 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.

Our SR1 rating reflects Sonepar's strong business profile and credit metrics, and its excellent liquidity profile. The group has reported solid results for 2018, with mid-single-digit organic sales growth (revenues amounted to €22bn), low-double-digit EBIT growth, and continued improvement in free cash flow and leverage.

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 four 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 gone a long way to digitalizing its operations - and on this front 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 already present and well positioned to drive market consolidation. Sonepar has a long history of M&A - it completed over 130 small-to-medium-size deals over the past eleven years (representing over €9bn 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 other 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 a 1.5-2.0x range at YE18), 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 a 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 periodically lead to some releveraging, we are comforted by Sonepar's good track record for integrating companies and adhering to its disciplined financial policy.

### Debt structure

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

At YE18, 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 has access to €1.6bn of undrawn

committed revolving credit facilities.

Net adjusted leverage stands at a modest level (within a 1.5-2.0x range at YE18) and has gradually decreased 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

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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

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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 will probably be partially offset by debt-funded M&A activity.

### Rating sensitivity

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- 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, such as greater scale and business diversification, increased operating margins and cash generation, and/or lower leverage (eg 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.

## REGULATORY DISCLOSURES

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SPRR/2019/000376/RAT/03/06/2019

**Initiation report:** No.

**Rating initiation:** SR1 on 4 June 2018.

**Rating nature:** Solicited short-term public rating (the rating report was published after having been reviewed by the issuer).

**Name of the rating committee chair:** Marc Pierron, Senior Credit Analyst.

**Material sources used to support the rating decision:**

- Financial statements 2018, 2017, 2016, 2015
- Discussions with Sonepar management, presentation of its strategic plan

**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 available at [www.spreadresearch.com](http://www.spreadresearch.com):

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

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