



INSTRUMENT RATING
NeuCP

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Rating action and rationale

- EthiFinance Ratings affirms Sonepar's short-term rating for the NEU CP instrument (of up to €1.5bn) at EF1+.
- Sonepar is a global B2B distributor of electrical products, solutions, and related services, operating through a decentralized model across more than 40 countries.
- Our rating affirmation reflects Sonepar's strong expected deleveraging trajectory over our forecast period (2025-27), following a point in time deterioration in credit metrics in FY24. Despite some erosion relative to the previous year, FY24 credit metrics remained robust and consistent with upper category investment-grade thresholds. The EthiFinance Ratings-adjusted net leverage ratio rose to 1.8x in FY24 (from 1.1x in FY23), whereas the interest coverage ratio slightly declined from 15.5x in FY23 to 11.2x, and the capitalisation ratio decreased from 209% to 175%. This temporary weakening was primarily driven by: (i) €1.5bn in cash outflows related to 17 bolt-on acquisitions completed in 2024, partially financed through a debt intake of up to €1bn; and (ii) a low double-digit EBITDA decline, reflecting normalisation after the exceptionally strong FY21-23 period, during which profitability benefited from inflationary tailwinds. Higher interest expenses also weighed on the coverage ratio for the year.
- Sonepar's top-line contraction was primarily due to a 5% drop in volumes, reflecting weak market conditions in Europe, particularly in Germany and France. From a product mix perspective, the decline in renewable energy sales, contribution in FY24, was a major reason for this underperformance due to the pricing pressure on Europe-made renewable equipment. However, Sonepar made 17 acquisitions in 2024, equivalent to a revenues contribution of €2.2bn on a full-year basis. The gross profit margin remained stable, but was insufficient to offset rising personnel expenses, including wage inflation and cost integration from newly acquired companies. As a result, the adjusted EBITDA margin contracted slightly yoy.
- Despite this temporary setback in credit metrics, our rating remains supported by Sonepar's solid credit profile and our expectation of sustained deleveraging, with adjusted net leverage expected to improve by around 0.8x over our forecast period until 2027. We also take a positive view on the company's profitability margin trajectory throughout our forecast period, albeit at a lower level than in the pre-2024 period, driven by the seamless integration of recent acquisitions and the progressive rollout of automation in distribution, particularly through AI deployment. From a macroeconomic standpoint, we expect revenues and profitability growth to be primarily driven by the US market, which remains strategically important as the world's largest electrical distribution market, valued at around \$200bn.
- Under our methodology, the retailing industry has medium ESG risks (sector heatmap score between 3 and 3.5). As a result, the sector-specific ESG profile does not materially influence the overall business risk profile. From an environmental perspective, the industry's direct impact on climate and biodiversity is generally low, aside from emissions related to logistics operations. However, the sector exhibits a medium-level impact on natural resources due to the environmental footprint of distribution channels and an impact on pollution, particularly from packaging waste.
- Our assessment of the company's ESG policy is favourable (company ESG score of between 1 and 1.5), resulting in a half-a-notch upgrade of the financial risk profile.

Issuer description

Sonepar, a family-owned company, is the world's largest B2B distributor of electrical products, solutions, and related services. Its portfolio, primarily marketed under manufacturers' brands, spans four main product segments: i) Electricity and Energy Distribution (31% of FY24 sales); ii) Cables and Wires (19%); iii) Lighting (12%); and iv) Building Automation and Construction (9%). The majority of customers are intermediary installers, typically construction firms in the residential and commercial building sectors or specialized installers. The remainder comprise direct end-users across various industries, including component manufacturing, public infrastructure, and institutional facilities.

As of end-2024, Sonepar operated in 41 countries through approximately 2,396 branches, 188 distribution centres, and employed around 46,400 people.

Over 2024, Sonepar generated €32.5bn of revenues, with an EthiFinance Ratings-adjusted net leverage ratio of 1.8x at year-end.

Fundamentals

Business risk profile

Industry risk assessment

- **Mid-single digit EBIT margin across the B2B electric equipment distribution sector**

Profitability across the electrical equipment distribution industry peaked in 2022, supported by strong post-Covid momentum in infrastructure investment, industrial CapEx, and electrical retrofitting activity. The median EBIT margin of the four largest players (Sonepar, Rexel, Graybar, and Wesco) reached 7.0% that year. However, margins contracted thereafter, declining to 6.6% in FY2023 and down to 5.5% in FY2024. This erosion reflects the normalization of demand and pricing following the sharp growth observed in 2021–2022, with prior base effects, which has made further expansion unsustainable. Additionally, the sector faced supply chain rebalancing pressures and inventory write-downs, stemming from clients excess inventory accumulation during the 2021–2022 upswing.

The industry remains somewhat exposed to cyclical dynamics, largely due to its reliance on construction and renovation markets. Nevertheless, large-scale distributors tend to mitigate these fluctuations through disciplined cost management and agile pricing strategies, enabling them to safeguard profitability amid shifting market conditions.

- **Moderate barriers to entry in a fragmented market, with scale as a key differentiator**

The electrical distribution industry presents moderate barriers to entry, primarily due to its fragmented structure. On one hand, thousands of small independent distributors are operating in the market, typically regional players with personalized service or niche product specialization. Market entry at a small scale remains accessible for firms with supplier relationships and efficient working capital management. On the other hand, large incumbents such as Sonepar benefit from capital- and scale-intensive competitive advantages, such as considerable purchasing power, broad inventory availability, advanced IT infrastructure (notably in digitalization and automation), and integrated logistics networks. Additionally, established relationships with major contractors and industrial clients, along with value-added services such as technical support and e-commerce platforms, reinforce competitive positioning and customer retention. Overall, while entering the market at a small scale is feasible, growing into a major competitor requires overcoming the cost advantages and customer loyalty enjoyed by incumbents. This structural dynamic has supported ongoing industry consolidation, with growth increasingly driven by M&A operations.

- **Long-term growth drivers backed by rising energy demand and electrification, particularly in the U.S.**

The growth outlook for the electrical equipment distribution sector remains structurally positive, supported by global trends in electrification and infrastructure investment. Globally, the push for renewable energy, electric vehicles (EVs), and grid modernisation is fuelling demand for electrical components and services. While European markets have recently experienced softer momentum due to macroeconomic headwinds, the United States continue to represent the most dynamic and sizable opportunity. The U.S. market is valued at approximately \$200bn, considerably larger than Germany (\$24bn) or France (\$14bn) (Source : Sonepar). Distributors are well positioned to benefit from federal programs such as the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA), which are deploying substantial funding toward power grid upgrades, renewable energy expansion, and transport electrification. These initiatives are accelerating large-scale investments in transmission and distribution infrastructure, EV charging networks, data centres, and energy storage systems, all of which generate sustained demand for electrical components and distribution services.

Company's competitive positioning

- **World's largest B2B distributor of electrical products, solutions and services**

Sonepar leverages its global scale, with operations spanning four continents and approximately 94.4% of 2024 revenues generated in Europe and North America. These two regions remain the core focus of the group's M&A strategy, aimed at reinforcing its leadership positions through targeted consolidation.

The group has made significant progress in digitalising its operations and currently leads peers in this area, which we believe will yield further efficiency gains and margin support. In 2024, digital sales accounted for 35% of total revenues, compared to around 32% for Rexel, its closest competitor. These digital revenues include online channels (web and mobile) as well as system-to-system transactions. Given the structurally low operating margins driven by intense price-based competition, digitalization and scale remain critical levers to sustain profitability.

- **Resilient financial profile and strategic digital transformation support credit strength**

Sonepar has exhibited strong resilience in past economic downturns, both in terms of gross margin stability and cash generation. The group has maintained a solid track record of free cash flow generation, a credit-positive factor expected to continue over the short and medium term. In FY24, Sonepar ranked third among its main competitors with respect to gross margin and adjusted EBIT margin. However, Sonepar stands out with a robust adjusted capitalisation ratio of 175% and a strong interest coverage ratio of 11.2x, as of FY24, highlighting its conservative financial structure and supporting its credit rating.

- **Strong local presence, diversified offerings, and low customer concentration support credit quality**

Sonepar's rating is supported by its extensive local footprint and dense distribution infrastructure, reflected in its global network of approximately 2,396 branches and 188 distribution centres. This operational reach supports local market responsiveness and underlies the group's competitive positioning.

The company also benefits from a well-diversified product portfolio across multiple segments. In recent years, it has focused on expanding its renewable energy offering, which accounted for less than 10% of FY23 sales, but declined to less than 5% in FY24, primarily due to sharp price declines in solar panels and renewable electrical equipment. This was due to excess global manufacturing capacity, particularly from China, which exerted downward pricing pressure across the sector, especially in Europe. Customer concentration remains low. In each key geography, the top 10 clients account for only 5 to 15% of national sales. While certain niche segments may exhibit higher concentration due to industry-specific exposures, these represent a limited portion of overall operations and do not materially affect the group's business risk profile.

Governance

- **Stable family ownership structure with active governance involvement**

Founded in 1969 by Henri Coisne and his brothers, Sonepar remains a family-owned group. Ownership is structured through the holding company Colam Entreprendre and other affiliated vehicles of the founding Coisne and Lambert families, bringing together around 500 shareholders from the two legacy families. As of end-2024, the remaining shares were held by employees and members of the management team. Several family representatives continue to serve on the Corporate Board, ensuring continuity in strategic oversight and governance.

- **Disciplined growth strategy underpinned by conservative financial policy and active M&A strategy**

Sonepar has demonstrated a consistent track record of profitability thanks to a prudent financial policy. Over the past five years, the group's adjusted net leverage ratio has remained below 1.8x, supported by strong free cash flow generation and effective working capital management. The financial policy is particularly marked by (i) robust internal cash flow generation, and (ii) limited shareholder distributions, with the majority of earnings reinvested to fund growth initiatives.

M&A represents a central pillar of Sonepar's long-term growth strategy. The company has completed over 200 acquisitions over the past two decades, contributing more than €12bn in additional sales and accounting for roughly 60% of its total revenues growth over the period. In 2024 alone, Sonepar completed 17 acquisitions, equivalent to additional revenues of €2.2bn on a full-year basis, primarily targeting generalist distributors in Europe and North America. The group has maintained financial discipline while making its bolt-on acquisitions, with a strong track record for integrating acquired businesses. This has been supported by a consistent approach of involving local management in both the acquisition process and post-integration phases, ensuring alignment and operational continuity.

- **Positive ESG policy**

Sonepar's ESG strategy is structured around three core pillars: (i) supporting customers in reducing their environmental impact, primarily through the launch of its "Green Offer"; (ii) training all employees via the Energy Transition Academy; and (iii) reducing the group's own environmental footprint. In line with this, Sonepar has committed to Science Based Targets initiative (SBTi)-validated goals, including a 46.2% reduction in Scope 1 and 2 emissions (from buildings and fleet) by 2030. As of 2024, emissions had only declined by 2.9% relative to the 2019 baseline. However, the group plans to recalculate emissions for the reference year taking into account changes in scope and methodological improvements that have significantly increased emissions since 2019.

Our ESG assessment is positive thanks mainly to the group's strong governance framework, particularly in terms of board independence ratio (45%), the separation of the roles of chairman and CEO, and the prioritization of ESG issues. However, the environmental and social pillars remain at an earlier stage of maturity. Notably, the absence of a formal sustainable purchasing policy remains a gap, although implementation is scheduled by end-2025. In addition, key environmental performance metrics have deteriorated in the short term: energy intensity increased by 27% year-on-year between 2023 and 2024, and GHG emissions intensity rose by 9%.

Financial risk profile

Results and profitability

In FY24, EthiFinance Ratings-adjusted EBITDA decreased by 12.6% yoy, the lowest level since 2020. We believe this reflects a normalisation trend after the exceptionally strong FY21 - FY23 period, during which profitability was supported by inflationary tailwinds.

Looking ahead to the 2025–2027 forecast period, we expect revenue in Europe to remain broadly flat. Growth in datacom and EV charging infrastructure is likely to offset continued weakness in solar and industrial automation. The primary driver of both revenue and margin expansion is expected to be the U.S. market, which is likely to contribute nearly two-thirds of the group's total profitability in the next few years.

With regard to the U.S. tariff risks, Sonepar is currently minimally exposed, provided that tariffs are not extended to imports from Mexico by U.S. electric equipment manufacturers. Even in a downside scenario where such tariffs are imposed, approximately two-thirds of affected components would likely be exempt under the United States-Mexico-Canada Agreement (USMCA), limiting the impact on the group's cost structure.

Cash flow and leverage

For FY24, Sonepar reported negative free cash flow of €300m (post-M&A, pre-dividends), primarily due to €1.5bn in cash outflows related to 17 bolt-on acquisitions. By comparison, the M&A spend in FY23 was roughly half this amount. We remain confident in Sonepar's underlying operating cash flow generation capacity, which we forecast to remain within the €2.0 - 2.3bn range annually until 2027. This is expected to provide sufficient headroom to absorb upcoming acquisition spending and CapEx, which is expected to stand around 2.2% of revenues on average over our forecast period.

Our adjusted net leverage (including employee benefits, earn-outs, and commitments to buy out minority interests) slightly deteriorated from 1.1x in FY23 to 1.8x in FY24, due mainly to a 39% rise in adjusted net debt, reflecting cash outflow related to acquisitions, as well as a decline in adjusted EBITDA.

Looking forward, we expect the adjusted net leverage ratio to improve gradually within a range of 1.4x – 1.0x over our forecast period, supported by EBITDA growth, and low momentum in acquisitions in line with the group's conservative financial policy.

Capitalisation

As of end-2024, Sonepar's reported gross debt increased to €5.2bn (up from €3.8bn in FY23), primarily denominated in EUR and USD. The debt structure consisted mainly of €1.5bn in private placements, €201m of on-balance sheet factoring in France, c. €1.2bn from securitization programs across Europe (Germany, Austria, the Netherlands) and the U.S., and €396m in NEU CP. The remainder was largely made of IFRS 16 lease liabilities totalling €1.7bn.

Our adjusted gross debt amounted to €5.7bn, adjusted for pension obligations of €278m and other financial liabilities of €212m, mainly related to earn-outs and put options granted to non-controlling interests.

The interest coverage ratio slightly declined from 15.5x in FY23 to 11.2x in FY24. This deterioration resulted from a 22% increase in interest expenses and a decrease in EBITDA. Such a level stands below our thresholds for the current rating. Nevertheless, with 54% of the total debt (excluding leases) indexed to floating rates, we expect this ratio to improve in the next 12 to 24 months, on the back of lower interest rates in EU and the U.S., as well as EBITDA growth.

Liquidity

- A “Superior” liquidity profile with strong refinancing capacities

According to our methodology, we assess the liquidity profile of Sonepar as “Superior” (the highest category on our short-term scale). This reflects the group’s ability to cover all upcoming debt maturities for more than 2 years without requiring external refinancing. Our liquidity assessment is supported by significant level of cash in hand, and undrawn committed credit lines as of end-2024. Sonepar’s liquidity is further reinforced by a favourable debt maturity profile, with maturities well aligned beyond 2027.

Credit metrics expected evolution (CMEE)

Our Stable CMEE reflects our expectation that credit metrics will likely return to their historical level over the next twelve months.

Modifiers

Country risk

Considering Sonepar’s excellent geographic diversification, no specific country risk has been identified.

Controversies

On October 29, 2024, the French Competition Authority handed down a decision imposing a fine of €96m on Sonepar France Distribution SAS, Sonepar France Interservices SAS, Sonepar France SAS, and Sonepar SAS, for alleged practices of resale price fixing with electrical equipment manufacturer Schneider Electric. A fine was also imposed on each of the industry peers : Legrand, Schneider Electric and Rexel. This decision is not final as Sonepar has appealed to the Paris court of appeal based on what it says are unfounded elements in both law and facts. As per the company’s statement, it remains very difficult to evaluate the likelihood of success for such an appeal. At this stage, no controversy modifier has been applied. Meanwhile, we will closely be monitoring the situation.

Main financial ratios

Main financial ratios				
	FY22	FY23	FY24	24vs23
Equity / Adj TFD ⁽²⁾	220.3%	208.9%	174.8%	-34.1pp
Adj NFD / Adj EBITDA ^{(1) (2)}	0.9x	1.1x	1.8x	0.7x
Adj Funds From Operations	2,316	1,984	1,759	-11.3%
Adj EBITDA / Interest ⁽¹⁾	28.8x	15.5x	11.2x	-4.4x

(1) Adj EBITDA takes into account the gains (losses) from asset sale

(2) Adj debt includes employee benefits, commitments to buy out minority interests and earn-outs

Rating sensitivity

- **Rating list:**
 - NEU CP: EF1+

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑)**

Sonepar already has the highest short-term rating under our methodology.

- **Negative factors (↓)**

A downgrade of our short-term rating to EF1 could occur in case of a sharp and unexpected deterioration in credit metrics through the cycle, particularly if margins were to contract materially or if the group were to adopt a more aggressive financial policy—for example, through a large debt-funded acquisition. Specifically, a downgrade could occur if the EthiFinance Ratings-adjusted net leverage ratio were to rise sustainably above 1.4x and/or the interest coverage ratio were to fall below 14.0x.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
 - Corporate Rating Methodology - General : <https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203>
 - Corporate Rating Methodology - General : <https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203>
 - Corporate Rating Methodology - General : <https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203>
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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