S&P Global Ratings

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Research Update:

Nexans Upgraded To 'BB+' On Sound Results And Progressing Transformation Plan; Outlook Stable

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Rating Action Overview

- French cable manufacturer Nexans S.A.'s operating performance and profitability improved, thanks to its execution on its transformation plan and successful restructuring of its operations.
- Nexans posted solid credit metrics for 2021, with debt to EBITDA at about 1.0x, and funds from operations (FFO) to debt well above 50%, and ample free operating cash flow (FOCF) of about €200 million.
- We therefore raised to 'BB+' from 'BB' our long-term issuer credit rating on Nexans and our issue rating on the group's senior unsecured notes. We affirmed the 'B' short-term rating on Nexans. The recovery rating on the notes remains unchanged at '3' with 65% recovery prospects.
- The stable outlook reflects our expectation that Nexans will maintain S&P Global Ratings-adjusted funds from operations to debt above 35% and an EBITDA margin around 6%, which will be underpinned by positive free operating cash flow (FOCF).

Rating Action Rationale

Nexans' transformation plan has ushered in sustainable and solid credit metrics. Despite COVID-19-related headwinds, Nexans delivered stronger credit ratios in 2021 than the year before. The group's successful transformation cumulated with a market recovery characterized by S&P Global Ratings-adjusted FFO to debt of about 80% in 2021 (compared with below 27% in 2020 and 10% in 2019), and an S&P Global Ratings-adjusted debt to EBITDA of about 1.0x (2.2x in 2020 and 6x in 2019), according to our estimates. We view positively the group's focus on profitability and FOCF, enabling it to deleverage, rather than prioritizing volumes as it has in the past.

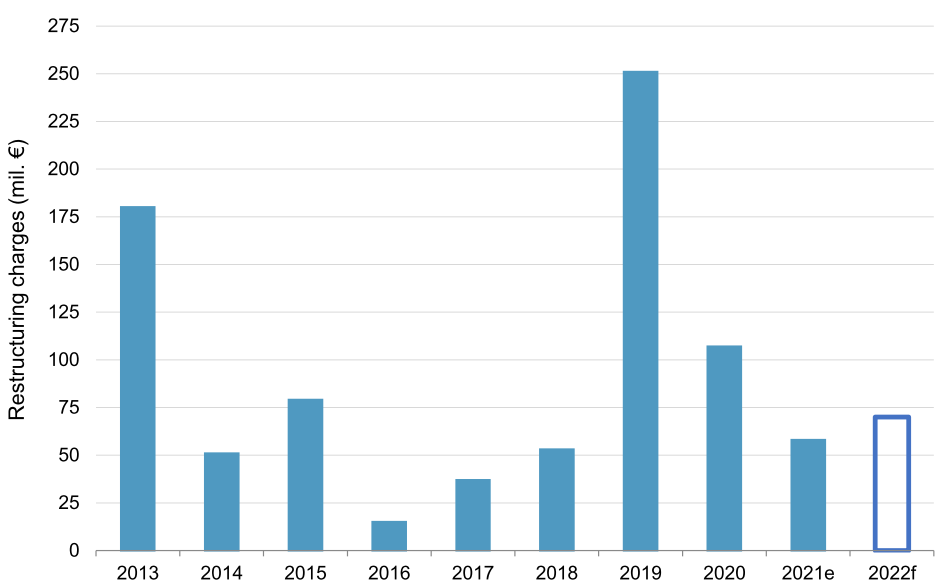
We estimate Nexans will use its financial flexibility to further its transformation and expand its operations. We forecast the group will use part of its excess cash (€972 million at the end of 2021) to fund the acquisition of Centelsa, a cable maker for building and utilities application in

Latin America, for about €200 million in the first half of 2022. This will increase S&P Global Ratings-adjusted debt to €600 million-€650 million in 2022 from about €500 million in 2021.

Nexans should complete its transformation plan by end-2022, after the pandemic caused a delay of about a year. The group announced its three-year transformation program in November 2018, and the plan resulted in restructuring charges of roughly €58 million in 2021 (€99 million cash out). This is notably below the restructuring charges in 2019 and 2020, at €250 million and €158 million, respectively. S&P Global Ratings-adjusted EBITDA for 2021 was about €503 million--€200 million more than in 2020--benefiting from the transformation measures, the positive core exposure effect, and the progressive reduction in restructuring costs. However, we anticipate that the group will face additional restructuring costs of about €70 million this year to achieve its transformational targets, and this will squeeze margins. Furthermore, we assume the group will redistribute investments in some of its businesses to electrification-related products. We consider the group has a strong cash balance and will be able to cope with any unexpected additional costs.

Chart 1

Nexans Has Historically Demonstrated A Progressive Reduction Of Restructuring Costs



e--Estimate. f--Forecast. Source: S&P Global Ratings.

We project Nexans will continue to generate positive FOCF in 2022-2023 despite our expectation of somewhat flat revenue and an adjusted EBITDA margin limited by the restructuring costs. We estimate annual FOCF of about €100 million. This is notably down from an estimate €200 million in 2021, due to a lack of working capital inflows, higher capex, and stable profitability. We estimate that the group will sustain the achieved 4%-6% working capital-to-sales ratio in 2021 despite sales increase.

Nexans' investments in a new vessel supports its competitive position. The new cable vessel delivered in 2021 has shown a high utilization rate through 2021 and will likely continue to do so in 2022-2023. Paired with its older vessel, the new vessel supports the offshore wind turbines installation and marine cables installation businesses. Alongside Nexans' factory in North America, the two vessels enable the group to gain new contracts and participate in long-term and more profitable projects. We understand that only its competitors Italy-based Prysmian S.p.A. and Denmark-based NKT A/S have similar vessels.

Nexans remains the world's second-largest cable manufacturer. We view positively Nexans' diversified customer base (no customer accounts for more than 10% of revenue), its established footprint in its core market, and its solid No. 2 position behind Prysmian (€10 billion of revenue and €781 million of reported EBITDA in 2020). Although Nexans lost market share following the Prysmian-General cable consolidation, it remains the No. 2 manufacturer in terms of revenue and retains an advantage of scale in competition with many smaller players.

Nexans' margins are exposed to cyclical end markets and metals prices. The group sells its cables mainly in the building and territories sector and the industry and solutions segment. The sector in which the group operates is highly competitive and fragmented. Nexans relies on copper and aluminum for its production, which can decrease profit and increase the working capital volatility during periods of rapidly moving metals prices. We recognize, however, that the group's strongly improved working capital and contract management, with pass through clauses, helps to mitigate that risk. Operating margins could also be affected by slower end-market demand or higher-than-expected competitive pressure.

Outlook

The stable outlook reflects our expectation that Nexans will maintain adjusted FFO to debt above 35% and debt to EBITDA below 3x, with an adjusted EBITDA margin around 6% and comfortable FOCF. We think these metrics will be underpinned by the company's efforts to reduce restructuring costs and adhere to a supportive financial policy.

Upside scenario

Although unlikely in the near term, we could raise the rating if we believe Nexans can sustainably achieve:

- FFO to debt above 50%;
- Debt to EBITDA around 1.5x
- Adjusted EBITDA margin of around 8%;
- Meaningful FOCF; and
- A supportive financial policy without significant restructuring needs.

Downside scenario

We may lower the rating if Nexans' FFO-to-debt ratio drops below 35% or adjusted leverage exceeds 3x. Failure to achieve an EBITDA margin of around 6% would also constrain the rating. These developments could stem from a weaker-than-expected revenue or margins due to a severe operational setbacks. Pressure could also materialize if the group pursues substantial debt-funded expansion, acquisitions, or aggressive dividends. Moreover, we might consider a negative rating action if Nexans incurs higher restructuring costs or if FOCF turns negative.

Company Description

France-based Nexans is the world's second-largest cable manufacturer, with €7.4 billion of revenue and €463 million of reported EBITDA in 2021. The group has more than 26,000 employees and is present in more than 30 countries. It operates through five divisions:

Building and territories (about 41% of sales): Covers markets such as building, e-mobility, rural electrification, and decentralized energy systems. It aims to furnish cabling systems and energy solutions for buildings and territories to improve efficiency and sustainability.

Industry and solutions (about 23%): Provides support to original equipment manufacturers (OEMs) and industrial infrastructure projects, offering customized cabling and connection solutions. It covers the transportation, automation, renewables (solar and wind power), resources (oil and gas and mining), and high-tech (nuclear and medical) end markets.

High voltage and projects (about 13%): Covers end markets such as offshore wind farms, land high voltage, and smart solutions for the oil and gas sector (direct electric heating and subsea heating cables).

Telecommunications and data (about 5%): Serves customers deploying copper and fiber optic infrastructure within the data transmission (subsea, fiber), telecom networks, hyper scale data centers, and local area network cabling solutions end-markets.

Other activities (about 18%): Captures the wire rods, electrical wires, and winding wire production businesses.

Our Base-Case Scenario

Assumptions

- Estimated sales increase in 2022 of about 1%-2% supported by the focus by the group on profitable contract and projects but not volume. We estimate that the advance of 5G will drive revenue growth from 2022.
- Adjusted EBITDA margin of about 5.5%-6.5% in 2022, after about 6.5% in 2021, as we assume a neutral effect of the core exposure with restructuring charges estimated at about €58 million for 2021 (€99 million cash out), and €70 million in 2022. The positive core exposure effect of about €106 million in 2021 we factor into our calculation mitigate the impact of the restructuring costs, resulting in an EBITDA margin of about 6.5% in 2021. However, we consider a neutral core exposure effect for our forecast in 2022, explaining our projection of a smaller

EBITDA margin at about 5.5%-6.5%.

- A positive €111 million change in working capital in 2021 and neutral 2022.
- Capex of about €207 million in 2021, increasing to about €220 million-€230 million in 2022, remaining at about 3%-4% of total revenue.
- About €43 million of dividends in 2022.
- We consider an amount of €200 million of acquisitions in 2022, as announced by Nexans. Although we do not exclude possible investments in opportunities that may arise, but we note that the group could consider offsetting the impact with divestitures.

Key metrics

Nexans S.A. -- Key Metrics

	--Fiscal year ended Dec. 31--			
(Mil. €)	**2019a**	**2020a**	**2021e**	**2022f**
Revenue growth (%)	3.8	(11.2)	About 23.0	1.0-2.0
EBITDA margin (%)	2.4	4.9	About 6.5	5.5-6.5
Capex	238	225	About 205	220-240
FOCF	27	185	About 200	85-105
Debt/EBITDA (x)	6.0	2.2	About 1.0	1.5-2.5
FFO/debt (%)	7.4	30.9	About 80.0	45.0-55.0

*All figures adjusted by S&P Global Ratings. Note: 2020 year-end debt consists of net financial debt of €1.216 billion with key adjustments being €105 million in leases, €300 million in pension, €74 million litigation, and €1028 million of net cash (we considered 10% cash trapped). a--Actual. e--Estimate. f--Forecas

Liquidity

The short-term issuer credit rating is 'B'. We view Nexans' liquidity as strong, based on our expectation that sources of liquidity will exceed uses by more than 1.5x over the 12 months started Jan. 1, 2022, and remain above 1.0x over the in 2023. We expect liquidity sources will exceed uses even if forecast EBITDA declines by 30%.

We think Nexans has well-established relations with banks and demonstrates prudent liquidity management, with sizable cash balances, an undrawn long-term RCF, and a focus on working capital reduction.

Given its strong balance sheet, we do not exclude the early repayment of the €325 million bond due in 2023 coupled with other potential acquisitions in the coming years in order to participate in the market's consolidation.

Principal liquidity sources as of end-2021:

- About €972 million of cash and cash equivalents at the end of December 2021.
- €600 million fully undrawn RCF, extended to 2023 in December 2018.
- €200 million from the European Investment Bank fully undrawn.

- About €300 million-€350 million of forecast FFO in 2022 and 2023.

Principal liquidity uses as of the same date:

- About €50 million of seasonal variation in working capital for 2022 and 2023.
- Between €200 million-€250 million annual capex in 2022 and 2023.
- About €40 million-€50 million of annual dividends in 2022 and 2023.

Covenants

On Dec. 12, 2018, the group amended its €600 million syndicated credit facility. It is subject to the following two covenants, applicable since June 30, 2019.

- The consolidated net debt-to-equity ratio (including no-controlling interests) must not exceed 1.20x.
- Consolidated debt is capped at 3.2x consolidated EBITDA.

No covenant was breached in 2021. In our opinion, the group has ample headroom given its high cash balances.

Environmental, Social, And Governance

ESG credit indicators: E2, S2, G2

ESG factors are an overall neutral consideration in our credit rating analysis of Nexans S.A. Through its products, Nexans contributes to the development of sustainable energy and sustainable electrification across many industries. Its exposure to O&G, mining, and nuclear is balanced by exposure to companies focusing on renewable energy such as the wind turbine sector.

Issue Ratings - Recovery Analysis

Key analytical factors

- The senior unsecured notes (comprising the €325 million notes due in 2023, and €200 million notes due in 2024) are rated 'BB+' and a recovery rating of '3' (capped due to unsecured nature of obligations). The ratings are based on our expectation of 50%-70% recovery (rounded estimate of 65%) in the case of a payment default.
- The recovery rating on the facilities is supported by limited priority ranking debt, while it is constrained by the notable quantum of pari-passu unsecured debt.
- Under our hypothetical default scenario, we consider a severe global recession in key markets, tightening credit markets, and significant contraction in demand due to an overall economic slowdown.
- We value the group as a going concern, given its strong brand and strong competitive position.

Simulated default assumptions

- Year of default: 2027
- Jurisdiction: France

Simplified waterfall

- Emergence EBITDA: €249 million
- Minimum capex at 2%, based on the group's average minimum capex requirement trend: €120 million.
- Standard cyclicality adjustment of +15%.
- Implied enterprise value multiple: 5.5x.
- Gross enterprise value at default: €1.372 billion
- Net enterprise value after administrative costs (5%): €1.196 billion
- Estimated senior unsecured debt: €1.68 billion
- Recovery expectations: 50%-70% (rounded estimate: 65%)

Note: All debt amounts include six months of prepetition interest accrued and assumed 85% drawn on the RCFs.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/B

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Low
- Competitive position: Fair

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)

- Financial policy: Neutral (no impact)
- Management and governance: Fair (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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Ratings List

Upgraded; Outlook Action; Rating Affirmed

	To	From
Nexans S.A.		
Issuer Credit Rating	BB+/Stable/B	BB/Positive/B
Senior Unsecured	BB+	BB
Recovery Rating	3(65%)	3(65%)