BB-

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 21/06/2022
Review date: 31/07/2023

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Rating Action and Rationale

- EthiFinance Ratings reaffirms Riba Mundo Tecnología, S.L.'s "BB-" rating, maintaining its Stable outlook.
- The company's rating is favoured by a solid financial profile, marked by low leverage, which results in an NFD/EBITDA ratio within accepted values (2.5x in 2022), and a degree of interest coverage, via EBITDA, within attractive values (7.5x in 2022). However, the rating is constrained by a limited competitive position at the international level, given Riba Mundo's short track record and small size, as well as its high concentration in both products sold (mobile phone sales accounted for 78% of total revenues in 2022), and customer segment (the wholesale channel accounted for 73% of sales). In addition, it operates in an environment of low operating margins (EBITDA margin: 2.3% in 2022), and low financial autonomy (PN/TFD: 36.1% in 2022), thus penalising its credit quality. The remarkable growth shown in its first years of activity is expected to normalise, within a context of a consolidation of market position. However, this is conditioned by the impact on the sector from economic uncertainty, especially in relation to the marketing of smartphones, which explains the outlook in the rating.
- In line with our new methodology, the electronics wholesale distribution sector presents a medium ESG risk (sector heatmap between 3.0 and 3.5), given its impact on the environment. This assessment results in a sector analysis that is not affected by this factor.

Issuer Description

Riba Mundo, based in Valencia (Spain), has been operating since 2018 as a wholesale distributor, mainly of electronic goods, with a strong focus on mobile telephony (78% of sales in 2022). The group's scope of operations is primarily focused on Europe (82% of sales in 2022), with Italy (20%) and Spain (16%) as the main markets. In the last financial year, the company recorded a turnover of €329.1m and a gross margin of €15.3m (margin: 4.7%). At year-end 2022, EBITDA stood at €7.5m (margin: 2.3%) and the NFD/EBITDA ratio was 2.5x.

Fundamentals

Business Profile

Industry Risk Assessment

- **Sector characterised by its degree of correlation with the business cycle and low barriers to entry, with singularity for certain technology products**. The sector is characterised by its association with the business cycle, although this is to some extent tempered by the growing dependence on certain electronic products (e.g. smartphones). Furthermore, while the industry is highly concentrated around a small number of players, the low barriers to entry, in terms of distribution factors, intensifies the degree of competition. This, together with the limited added value associated with this activity (mainly wholesale distribution), conditions the margins of the players. On the other hand, volatility in terms of profitability is favoured by reduced discretion in the use of certain goods. With regard to the outlook for the industry, a positive trend is expected in the medium/long term; as a result of the very nature of the sector. However, in the short term, evolution will likely continue to be conditioned by the sector's situation. This, in 2022, already resulted in lower demand at international level compared to that of 2021.

- **In line with our new methodology, the sector presents a medium ESG risk (sector heatmap between 3.0 and 3.5) given its impact on the environment.** The main risks encountered derive from those related to customer services, due to their importance in terms of the positioning of the different players. This is in order to improve the quality of the service offered.

Company's competitive positioning

- **Positioning limited by its small size.** Although Riba Mundo has shown significant growth in recent years, its positioning is still constrained by its small size compared to the main international players. However, it is worth highlighting its notable growth, which has been supported in recent years by a series of competitive advantages. These include its proximity to Valencia airport, and the development of its own 'Marvin' operational software in 2020. This has enabled it to improve efficiency levels, providing a differentiating element to its main competitors. This is particularly so in terms of price in both the purchasing and sales processes. However, given the company's position within the sector's value chain, we consider that the margin for improving profitability is limited. This is taking into account the margins recorded in the last financial year (EBITDA margin: 2.3% in 2022), as well as those estimated for the coming years.
- **Business with a marked international focus, however, with a high concentration in terms of offering and customer segment.** The activity is characterised by its high international presence (84% of sales in 2022). However, this shows a concentration in terms of product marketed, with smartphone sales accounting for 78% of total sales in 2022, as well as in terms of customer segment, with the wholesale channel accounting for 73% of its turnover (86% in 2021). These, in turn, penalise operating profitability. In this regard, the company expects to continue to progressively reduce its exposure to this customer profile, to the benefit of the retail channel (higher associated margins).

Governance

- **Ownership structure concentrated around its main shareholder.** Shareholding is concentrated in the figure of Marco Dezi, following his entry in 2020, currently holding 50.25% of the capital. Despite the strengthening of the equity structure in recent years, the broad expertise in the sector, and the commitment to the strategic objectives by its shareholders; we consider the level of support in financial terms to be limited, in view of potential needs. However, the limited financial support could be mitigated, to some extent, after the imminent listing on the Euronext Growth Milan exchange (estimated date: 28th July 2023). Regarding financial policy, the company's recent growth has been accompanied by a manageable level of financial leverage.
- **ESG Policy.** The company presents a strategy where ESG (Environmental, Social and Governance) factors do not present significant relevance. On the other hand, taking into account the current size of the company together with the estimated future growth, the company could show a greater involvement in these factors.

Financial Profile

Cash-flow and leverage

- **Operations characterised by low margins.** Significant growth in turnover since the start of its activity, reaching €329.1m in 2022 (+90% YoY), driven both by the higher volume of units sold and by international expansion. However, Riba Mundo's operations are carried out in an environment of low margins (gross margin: 4.7%; EBITDA margin: 2.3%, in 2022), in line with its business model and a limited margin of differentiation to services offered associated with the product sold. On the other hand, the company's positive performance, between January and May 2023, gives a favourable outlook for the end of the year. Although, some caution is advised, given the economic uncertainty and the prospects of normalisation of demand in the sector in the short term.
- **Business model with high exposure to working capital financing.** Activity highly exposed to the changes in working capital, mainly in terms of stock and customers. In this regard, the generation of resources within the activity was able to cope in an adjusted manner with the variations in working capital in 2022, resulting in an operating cash flow of €0.6m.

Furthermore, despite the divestment (€2.8m) related to its facilities in 2022, investments (acquisition of the e-Price business unit and software upgrades) resulted in a negative free cash flow in 2022 (-€3.9m), in line with previous years. This, together with the distribution of dividends and annual amortisation, determined the need to access external resources in order to avoid penalising the cash position, which stood at €16.4m at the end of 2022 (€1.8m in 2021).

- **Financial leverage at controlled levels**. While total financial debt increased in 2022 (€35.7m vs €11.8m in 2021), the NFD/EBITDA ratio remained under control (2.5x), thanks to the increase in EBITDA and cash position. The expected continuity in both aspects is projected to lead to an improvement in 2023. The EBITDA/interest ratio remained at attractive levels in 2022 (7.5x), despite a significant reduction (-20.3x vs. 2021) due to higher financial leverage. Moreover, the high cost associated with financial debt is currently expected to lead to a further reduction of this ratio in 2023, thus highlighting the importance of generating operating results.

Solvency

- **Reduced financial autonomy.** Financing structure characterised by a tight financial autonomy, with equity representing 36.1% of total financial debt at the end of 2022 (39.6% in 2021). This was a result of access to external sources of financing, to meet both the higher operational financing needs and investments. In addition, the solvency ratio was penalised by outflows via dividends in 2022 (€2.2m; pay-out of 87%), which limited the strengthening of the equity structure. In this regard, the estimated increase in the activity is associated, and correlated with higher leverage. Thus, the company's financial autonomy is expected to continue to be conditioned by this.

Liquidity

- **Adequate liquidity.** Riba Mundo reports a ratio, between its sources of funds (cash, liquid assets, expected and available FFO and available working capital financing), and uses of funds (mainly short-term debt, maintenance investment and working capital financing needs) above 1x, which is considered reasonable. This is supported by a financial profile characterised by controlled leverage thresholds, resulting in a rating of adequate liquidity.

Modifiers

ESG Factors

- No notable risks related to ESG controversies have been found.

Country Risk

- No discernible country risks have been identified.

Main financial figures

Main financial figures. Thousands of euros. (1)	2020 (2)	2021	2022	22vs21
Turnover	59,876	173,695	329,093	89.5%
Gross Margin	2,433	7,133	15,310	114.6%
Gross Margin (%)	4.1%	4.1%	4.7%	0.5pp
EBITDA	836	3,888	7,451	91.6%
EBITDA Margin	1.4%	2.2%	2.3%	0.0pp
EBIT	844	3,576	8,159	128.2%
EBIT Margin	1.4%	2.1%	2.5%	0.4pp
EBT	820	3,437	6,853	99.4%
Total Assets	11,809	31,681	73,655	132.5%
Equity (3)	2,119	4,685	12,881	174.9%
Total Financial Debt (4)	2,742	11,832	35,657	201.4%
Net Financial Debt (4)	1,835	9,866	18,911	91.7%
Equity/TFD	77.3%	39.6%	36.1%	-3.5pp
NFD/EBITDA	2.2x	2.5x	2.5x	0.0x
Funds From Operations	836	2,916	4,808	64.9%
FFO/NFD	45.6%	29.6%	25.4%	-4.1pp
EBITDA/Interest	38.0x	27.8x	7.5x	-20.3x

(1) Figures based on financial statements prepared under International Financial Reporting Standards adopted by the European Union (IFRS-EU). (2) Year not audited under IFRS-EU. (3) Includes 2022 debt with partners (€5.5m) as it is converted into a shareholder loan. (4) Includes debt with partners of €0.5m in 2020 and €2.2m in 2021. Includes amounts drawn of non-recourse factoring (€7.3m in 2022).

Rating Sensitivity

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

- **Positive factors (↑).** Improvement of the company's competitive position within the industry. This is based on a progressive increase in size and the maintenance of its existing main competitive advantages, resulting in operating margins higher than those of its main competitors (benchmark EBITDA margin: 5%). Improvement of financial autonomy, supported by a strengthening of the equity structure, together with debt at controlled thresholds (approximate reference values: Equity/Total financial debt = 100%).

- **Negative factors (↓).** Deterioration of the financial profile, by continued worsening of financial autonomy (approximate reference values: 30%), leverage ratio (NFD/ EBITDA ratio lower than 3x) and interest coverage (EBITDA/ interest ratio below 4.0x).

Credit Rating

Credit Rating	
Business Risk Profile	**B+**
Industry Risk Assessment	*B*
Sector ESG Adjustment	*No affected*
Competitive Positioning	*B*
Governance	*BB-*
Financial Risk Profile	**BB+**
Cash flow and leverage	*BBB-*
Solvency	*B+*
Company's ESG Adjustment	*No affected*
Anchor Rating	**BB-**
Modifiers	*No affected*
Rating	**BB-**

Regulatory information

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:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- 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, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale 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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