S&P Global Ratings

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Wuerth GmbH & Co. KG Adolf

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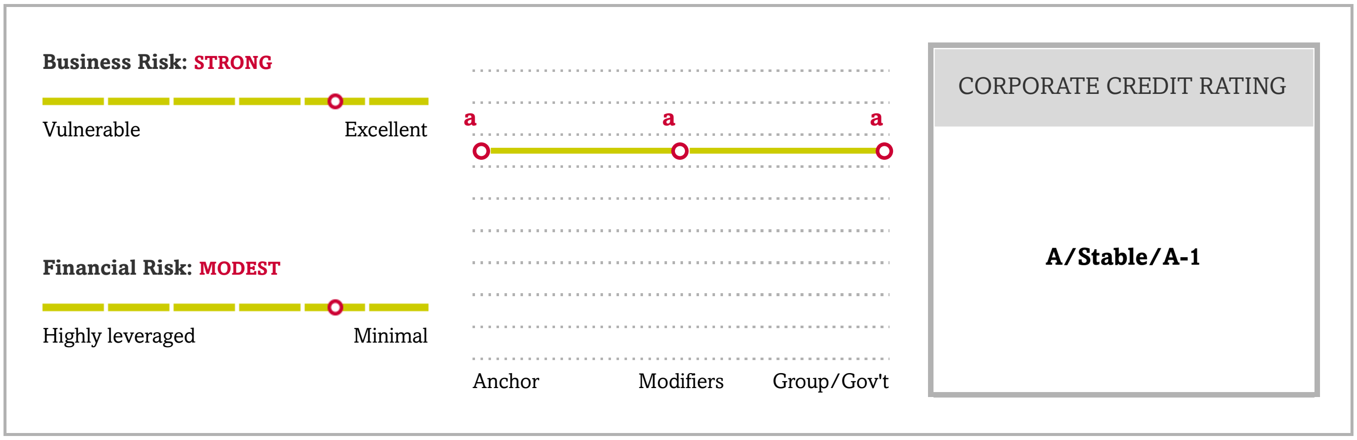
Wuerth GmbH & Co. KG Adolf



Rationale

Business Risk: Strong	Financial Risk: Modest
• Leading provider of low-ticket items for the global repair and construction industry, with a strong brand. • Wide product diversity and extensive distribution network, with diversified customer and supplier base. • Stable margins supported by customers' perception of low-ticket premium products and focus on operating efficiency. • High concentration in mature and fragmented Western European markets.	• Cautious financial policy, with a solid track record in preserving balance sheet strength and maintaining stable credit metrics. • Strong cash flow generation.

Outlook: Stable

The stable outlook on Germany-based Wuerth GmbH & Co. KG Adolf (Wuerth) reflects S&P Global Ratings' view that Wuerth's profitability will remain around current levels, with an adjusted EBITDA margin of about 11%, underpinned by a continued focus on efficiency, and despite increasing raw material costs. The stable outlook also reflects our view that the management's cautious financial policy should enable the group to maintain modest leverage levels. We forecast that the adjusted ratio of debt to EBITDA will remain between 1.5x and 2.0x and FFO to debt will be about 45%-50% in the next 24 months. The outlook also assumes that the group's liquidity will remain at least adequate.

Downside scenario

We could lower the ratings if the group implemented a more aggressive financial policy than we currently expect, including materially higher shareholder returns, or larger-than-expected debt-funded acquisitions, leading to a material and prolonged weakening of credit metrics such that adjusted debt to EBITDA exceeded 2x and FFO to debt was below 40%. A lasting deterioration in margins could also weigh on the ratings.

Upside scenario

The potential for an upgrade is currently limited, in our view. However, we could consider raising the ratings if we believed that the group could sustain stronger leverage metrics, with adjusted debt to EBITDA of about 1.5x and adjusted FFO to debt approaching 60%, supported by a financial policy that supports such credit measures over the long term.

Our Base-Case Scenario

Assumptions

- Revenue growth of 7%-8% in 2018 and 5%-6% in 2019, reflecting continued organic growth in the group's key markets and integration of bolt-on acquisitions. We expect that positive market conditions in Germany and Eastern Europe and the continued recovery in Southern Europe will support organic revenue growth over our forecast period.
- Adjusted EBITDA margin of about 11%, reflecting some pressure from increasing raw materials costs that will be offset by continued revenue growth and efficiency improvements.
- Working capital consumption of about €275 million in 2018, decreasing to about €175 million in 2019, in line with revenue growth.
- Capital expenditure (capex) of about €600 million in 2018 driven by some one-off effects and back to around 4% of revenues, or about €600 million thereafter.
- Bolt-on acquisitions of about €200 million in 2018 and about €100 million per year thereafter.
- Net dividend of €150 million in 2018 and about €165 million in 2019, based on a stable payout ratio.

Key Metrics

	2017A	2018E	2019E
EBITDA margin* (%)	11.1	~11	~11
Debt/EBITDA* (x)	1.6	1.6-1.8	1.5-1.7
FFO/debt* (%)	50.2	46-50	48-52

* Fully S&P Global Ratings-adjusted. FFO--Funds from operations. A--Actual. E--Estimate

Company Description

Headquartered in Kunzelsau, Germany, the family trust-owned Wuerth group is the largest global distributor of assembly products in the maintenance, repair, and operations industry, mainly selling to small and midsize industrial companies. The group sells more than 125,000 different own-brand products in its core business to the automotive, electrical components, metalworking, woodworking, and craft industries, which generated around 56% of group revenues in 2017. Acquired entities that maintain their individual brand names are combined under allied companies, contributing around 44% of revenues.

Business Risk: Strong

Our business risk assessment reflects Wuerth's large size and broad geographic presence; its leading market positions in highly fragmented assembly products distribution markets; an extensive, multi-channel distribution network which is difficult to replicate; and substantial product diversity coupled with a well-diversified end-customer and supplier base.

With sales of more than €12.7 billion in 2017, Wuerth is one of the world's largest building materials distributors. The group has a broad geographic presence, but has high exposure to mature European markets. It derives about 81% of revenues in Europe, with roughly 42% generated in Germany, 14% in the Americas, and 5% in Asia-Pacific. It mainly operates in developed countries with mature markets and high competitive pressure, which somewhat limits potential for organic sales growth and margin improvement. Therefore, the group will continue undertaking small and midsize bolt-on acquisitions.

The group also benefits from a diverse customer and supplier base--it serves more than three million customers. The 10-largest customers are mainly large industrial corporations and account for less than 5% of the group's sales.

Wuerth operates in a highly fragmented industry that is also subject to moderate cyclicality. We expect pressure on margins due to increasing raw material costs and the high fragmentation and competition of the distribution markets. However, this is offset by customers' perception that the company's products are low ticket and most of them are premium products for the craft segment, supporting the track record of healthy and resilient profit margins. We also believe that Wuerth's strong focus on operating efficiency and the gradual shift of its sales model from predominantly direct sales to a more balanced multi-channel approach (through branch offices and e-commerce) should allow it to sustain potential pressure on margins over the next couple of years.

Peer comparison

Table 1

Wuerth GmbH & Co. KG Adolf -- Peer Comparison

Industry Sector: Building Materials & Products					
	Wuerth GmbH & Co. KG Adolf	**Grainger (W.W.) Inc.**	**Legrand S.A.**	**Compagnie de Saint-Gobain**	**Travis Perkins PLC**
Rating as of June 4, 2018	A/Stable/A-1	A+/Stable/A-1	A-/Negative/A-2	BBB/Stable/A-2	BB+/Stable/--
	--Fiscal year ended Dec. 31, 2017--				
(Mil. €)					
Revenues	12,653.1	8,681.1	5,520.8	40,810.0	7,247.5
EBITDA	1,409.9	1,174.8	1,265.1	4,544.5	787.6
Funds from operations (FFO)	1,164.1	851.2	897.2	3,539.7	585.7
Net income from cont. oper.	506.2	487.8	711.2	1,566.0	263.6
Cash flow from operations	821.3	916.8	875.8	3,392.7	456.1
Capital expenditures	485.4	195.9	144.6	1,722.0	255.9
Free operating cash flow	335.9	720.9	731.2	1,670.7	200.2
Discretionary cash flow	235.2	467.4	412.6	950.7	72.9
Cash and short-term investments	665.5	272.2	818.3	3,284.0	311.8
Debt	2,320.4	1,845.2	2,700.6	10,997.1	1,864.9
Equity	4,603.1	1,728.8	4,148.1	18,854.0	3,222.4
Adjusted ratios					
EBITDA margin (%)	11.1	13.5	22.9	11.1	10.9
Return on capital (%)	11.9	21.7	15.5	9.1	9.1

Table 1

Wuerth GmbH & Co. KG Adolf -- Peer Comparison (cont.)

Industry Sector: Building Materials & Products

	Wuerth GmbH & Co. KG Adolf	Grainger (W.W.) Inc.	Legrand S.A.	Compagnie de Saint-Gobain	Travis Perkins PLC
EBITDA interest coverage (x)	12.0	14.7	11.6	8.4	5.8
FFO cash int. cov. (X)	32.7	14.0	11.9	13.3	23.2
Debt/EBITDA (x)	1.6	1.6	2.1	2.4	2.4
FFO/debt (%)	50.2	46.1	33.2	32.2	31.4
Cash flow from operations/debt (%)	35.4	49.7	32.4	30.9	24.5
Free operating cash flow/debt (%)	14.5	39.1	27.1	15.2	10.7
Discretionary cash flow/debt (%)	10.1	25.3	15.3	8.6	3.9

Financial Risk: Modest

The financial risk assessment reflects our expectation that, following a strong operating performance and slightly improved credit metrics in 2017, Wuerth will sustain an adjusted EBITDA margin of around 11% and maintain 1.5x-1.8x adjusted debt to EBITDA in 2018-2019 due to generally positive fundamentals in its key markets. We also anticipate management will remain committed to a cautious financial policy, and liquidity will remain at least adequate.

In 2017, Wuerth's operating performance was strong. Sales were up by 7.5% to €12.7 billion and its adjusted EBITDA margin improved by 1 percentage point to 11%. Robust revenue growth has mainly come from positive fundamentals across almost all key markets and business divisions, especially double-digit growth in Eastern and Southern Europe. High revenue growth, coupled with improved productivity and efficient cost management, has strengthened profitability. As a result, debt to EBITDA improved slightly to 1.6x in 2017 from 1.7x one year ago and FFO to debt increased to 50.2% from 46.5%. However, net debt has increased due to higher-than-expected working capital consumption.

In 2018-2019, we expect leverage to remain stable with debt to EBITDA of 1.5x-1.8x and FFO to debt between 45% and 50%. Revenue growth will moderate from 2019, given that the ongoing favorable market trends so far in 2018 cannot last in the medium term as the industry moves from the peak of the cycle. We expect the EBITDA margin to remain around current levels of about 11%, assuming revenue growth and the focus on efficiency will mitigate margin pressure from competitions and increasing input costs.

Despite the robust operating performance, we expect net debt to continue to increase in 2018 due to higher-than-expected working capital outflows driven by revenue growth and higher input costs, increasing capex and acquisitions (including some one-off effects), as well as higher net dividend distribution. This will lead to an at least temporary weakening in liquidity to adequate and lower headroom under the current rating.

Financial summary

Table 2

Wuerth GmbH & Co. KG Adolf -- Financial Summary

Industry Sector: Building Materials & Products

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Revenues	12,653.1	11,771.7	10,976.3	10,054.0	9,669.4
EBITDA	1,409.9	1,186.1	1,100.6	1,022.8	995.9
Funds from operations (FFO)	1,164.1	936.6	931.0	817.9	793.0
Net income from continuing operations	506.2	451.4	419.6	361.8	295.3
Cash flow from operations	821.3	1,057.3	761.8	729.6	722.7
Capital expenditures	485.4	477.5	500.6	334.0	406.5
Free operating cash flow	335.9	579.8	261.2	395.6	316.2
Discretionary cash flow	235.2	480.5	171.1	329.6	251.2
Cash and short-term investments	665.5	839.2	680.3	683.0	866.4
Debt	2,320.4	2,015.4	2,110.2	1,773.5	1,693.6
Equity	4,603.1	4,308.6	3,947.8	3,582.2	3,339.0
Adjusted ratios					
EBITDA margin (%)	11.1	10.1	10.0	10.2	10.3
Return on capital (%)	11.9	11.2	11.0	11.4	11.0
EBITDA interest coverage (x)	12.0	9.1	8.4	7.7	6.3
FFO cash int. cov. (x)	32.7	30.8	22.7	15.5	16.5
Debt/EBITDA (x)	1.6	1.7	1.9	1.7	1.7
FFO/debt (%)	50.2	46.5	44.1	46.1	46.8
Cash flow from operations/debt (%)	35.4	52.5	36.1	41.1	42.7
Free operating cash flow/debt (%)	14.5	28.8	12.4	22.3	18.7
Discretionary cash flow/debt (%)	10.1	23.8	8.1	18.6	14.8

Liquidity: Adequate

The short-term rating is 'A-1'. We view Wuerth's liquidity position as adequate, based on our forecast that the group's sources of liquidity will exceed its uses by more than 1.2x over the next 12 months.

We note that the increase in capex and acquisitions in 2018 is driven by some one-off effects. We could revise upward our assessment liquidity to strong in the next 24 months in support of disciplined financial policy regarding capex, dividend, and acquisitions.

Principal Liquidity Sources	Principal Liquidity Uses
For the 12 months from March 31, 2018: • Unrestricted cash and short-term securities of about €550 million; • An undrawn committed revolving credit facility (RCF) of €400 million, maturing in July 2022; and • Our forecast of unadjusted FFO of above €1 billion.	For the same period: • About €140 million of short-term debt maturities (excluding the €500 million bond due in May 2018, which has been successfully refinanced by a new €500 million bond due 2025 based on the €3 billion EMTN program); • Working capital outflows of about €250 million and peak working capital requirements of about €70 million; • Capex of up to €600 million; • Bolt-on acquisitions of about €200 million; and • Net dividends of €150 million.

Debt maturities

After the bond refinancing in May 2018*

- 2018: €139 million
- 2019: €9 million
- 2020: €509 million
- 2021: €170 million
- 2022: €519 million
- Thereafter: €501.5 million

* Excluding debt at Internationales Bankhaus Bodensee AG.

Covenant Analysis

Wuerth has financial covenants under its syndicated credit line and U.S. private placement facility specifying maximum net debt to EBITDA of 4x. We forecast that over the next 24 months, the group will have significant headroom under these covenants.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/A-1

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Issue Ratings--Subordination Risk Analysis

Capital structure

Wuerth's capital structure consists of about €125 million of prior-ranked bank debt at operating subsidiaries, €162 million of unsecured U.S. private placement, and €1.6 billion senior unsecured notes issued by Wuerth Finance International B.V. after the bond refinancing in May 2018.

Analytical conclusions

The issue rating on the senior unsecured notes issued by Wuerth Finance International B.V. and guaranteed by Wuerth is 'A', in line with the issuer credit rating on Wuerth. The amount of prior-ranking liabilities is limited and does not warrant notching down the ratings on the debt, given the group's diversity and the concentration of financial debt at the finance subsidiary.

Reconciliation

Table 3

Reconciliation Of Wuerth GmbH & Co. KG Adolf Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2017--									
Wuerth GmbH & Co. KG Adolf reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	3,127.9	4,668.0	12,721.9	1,194.6	768.4	70.9	1,194.6	584.0	274.2	486.9

Table 3

Reconciliation Of Wuerth GmbH & Co. KG Adolf Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
S&P Global Ratings' adjustments										
Interest expense (reported)	--	--	--	--	--	--	(70.9)	--	--	--
Interest income (reported)	--	--	--	--	--	--	33.8	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(166.9)	--	--	--
Operating leases	706.9	--	--	260.2	48.9	48.9	211.3	211.3	--	--
Postretirement benefit obligations/deferred compensation	267.2	--	--	(1.0)	(1.0)	4.2	(4.1)	(4.9)	--	--
Surplus cash	(581.3)	--	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	--	(1.5)	3.8	--	(1.5)	(1.5)	--	(1.5)
Deconsolidation / consolidation	(1,370.9)	(175.5)	(68.8)	(6.8)	(14.7)	(6.0)	(0.8)	58.7	--	--
Non-operating income (expense)	--	--	--	--	33.8	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(39.2)	--	--
Non-controlling Interest/Minority interest	--	110.6	--	--	--	--	--	--	--	--
Debt - Guarantees	35.5	--	--	--	--	--	--	--	--	--
Debt - Contingent considerations	35.1	--	--	--	--	--	--	--	--	--
Debt - Put options on minority stakes	100.0	--	--	--	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	--	(1.2)	(1.2)	--	(1.2)	--	--	--
EBITDA - Fair value changes of contingent consideration	--	--	--	(31.9)	(31.9)	--	(31.9)	--	--	--
EBITDA - Valuation gains/(losses)	--	--	--	(2.5)	(2.5)	--	(2.5)	--	--	--
FFO - Other	--	--	--	--	--	--	4.2	--	--	--
Working capital - Other	--	--	--	--	--	--	--	12.9	--	--
Dividends - Other	--	--	--	--	--	--	--	--	(173.5)	--
Total adjustments	(807.5)	(64.9)	(68.8)	215.3	35.2	47.1	(30.5)	237.3	(173.5)	(1.5)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	2,320.4	4,603.1	12,653.1	1,409.9	803.6	118.0	1,164.1	821.3	100.7	485.4

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Building Materials Industry, Dec. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- 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 And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Germany-Based Wuerth Ratings Affirmed At 'A/A-1'; Outlook Stable, May 25, 2018

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	**a+/a**	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 7, 2018)	
Wuerth GmbH & Co. KG Adolf	
Corporate Credit Rating	A/Stable/A-1
Corporate Credit Ratings History	
15-Jul-2010	A/Stable/A-1
16-Sep-2009	A/Negative/A-1
19-Jan-2000	A/Stable/A-1

Ratings Detail (As Of June 7, 2018) (cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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