

RatingsDirect®

Wuerth GmbH & Co. KG Adolf

Primary Credit Analyst:

Alexandra Balod, London (44) 20-7176-3891; alexandra.balod@spglobal.com

Secondary Credit Analyst:

Terence O Smiyan, London (44) 20-7176-6304; terence.smiyan@spglobal.com

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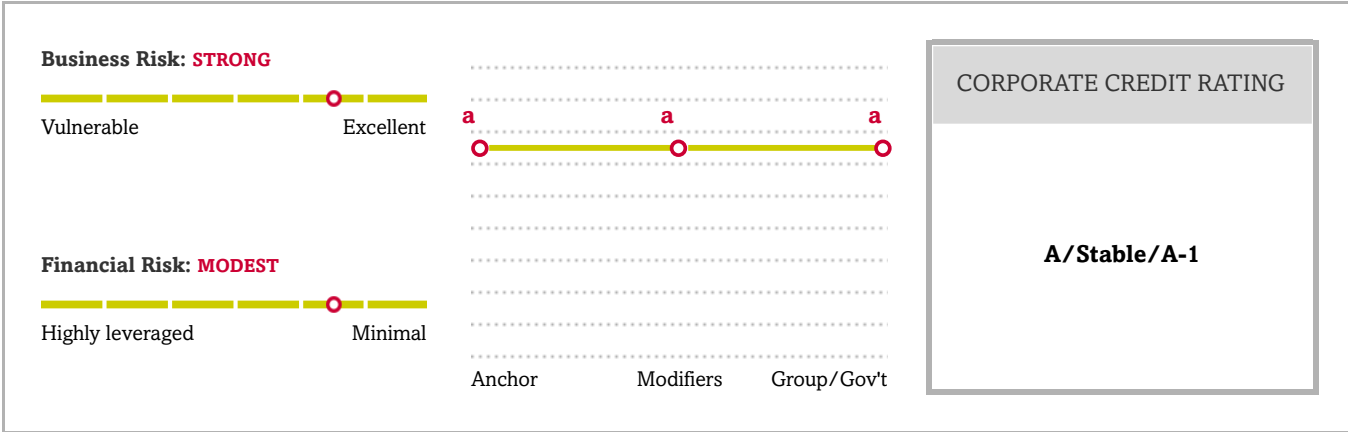
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Wuerth GmbH & Co. KG Adolf



Rationale

Business Risk: Strong	Financial Risk: Modest
<ul style="list-style-type: none"> • Leading provider of low ticket items for the global repair and construction industry, benefiting from a strong brand. • Wide product diversity and efficient distribution network, with limited dependence on individual customers and suppliers. • Strong bargaining power and low price transparency for customers, which supports stable margins. • Some exposure to the cyclical and seasonal construction industry. • High concentration in mature and fragmented Western European markets. 	<ul style="list-style-type: none"> • Moderate financial policy, despite risk of increased dividend requirement from owners. • Consistent cash flow generation. • Solid track record in preserving balance sheet strength and maintaining stable credit metrics. • Strong liquidity position.

Outlook: Stable

Our outlook on Germany-based Wuerth GmbH & Co. KG Adolf is stable, reflecting our view that credit metrics will remain broadly stable, as the group focuses on consolidating recent acquisitions and slows spending, while its key markets will likely remain tough with potential currency headwinds. The outlook assumes that S&P Global Ratings-adjusted ratio of debt to EBITDA will remain between 1.5x and 2.0x and funds from operations (FFO) to debt in the region of 45% over the next 12-24 months.

Downside scenario

We could lower the ratings over the next two years 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, so that FFO to debt was unlikely to recover to above 40%. A lasting deterioration in margins could also weigh on the ratings.

Upside scenario

The potential for an upgrade is limited over the near term, 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 targets such credit measures over the long term.

Base-Case Scenario

Under our base-case scenario, we anticipate that revenue growth will continue, but at the same time there will be some pressure on margins. We expect credit metrics will be broadly stable, and might gradually improve in 2016 and thereafter, supported by more restrained capital expenditure (capex) compared with 2015.

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Revenue growth of 6%-7% in 2016, reflecting contributions from bolt-on acquisitions made in 2015, and mixed developments, but overall positive organic growth in Wuerth's key markets. Broadly stable margins based on continued cost reductions, partly offset by some pricing pressures and negative currency effects. Adjusted capex reduced to little under €500 million in 2016 and limited acquisitions compared to 2015. 		2015A	2016F	2017F
	EBITDA margin (%)	10.0	9.8-10.5	10.0-10.5
	Debt/EBITDA (x)	1.9	1.8-1.9	1.7-1.9
	FFO/debt (%)	44.1	44.0-45.0	44.0-46.0
Fully S&P Global Ratings-adjusted. FFO--Funds from operations. A--Actual. F--Forecast.				

Company Description

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. Acquired entities that maintain their individual brand names are combined under allied companies, contributing about 43% of revenues.

Business Risk: Strong

As the world's largest player in a highly fragmented industry, Wuerth has proven relatively resilient in its trading performance, maintaining strong cash flows during past cyclical downturns. The group has a proven direct sales model and efficient distribution operations, and is highly diversified in terms of product areas, markets, and customers.

Most of Wuerth's products are not subject to significant price pressure, owing to customers' perception that the company's products are low ticket, and the related lack of pricing transparency in the market. This situation is slowly evolving through the penetration of e-commerce, but we believe Wuerth's strong operating efficiency and ongoing sales initiatives will allow it to sustain potential margin pressure over the next couple of years.

Wuerth is nevertheless exposed to industry cycles and is not immune to economic downturns in many of its key end markets. We also expect that its heavy exposure to the fairly consolidated Western Europe markets will only translate into moderate organic sales growth.

Peer comparison

Table 1

Wuerth GmbH & Co. KG Adolf -- Peer Comparison					
Industry Sector: Building Materials & Products					
	Wuerth GmbH & Co. KG Adolf	Compagnie de Saint-Gobain	Grainger (W.W.) Inc.	Legrand S.A.	Rexel S.A.
Rating as of May 19, 2016	A/Stable/A-1	BBB/Stable/A-2	AA-/Stable/A-1+	A-/Stable/A-2	BB/Stable/B
--Average of past three fiscal years--					
(Mil. €)					
Revenues	10,233.2	39,999.0	8,088.2	4,589.8	13,210.1
EBITDA	1,039.8	4,158.7	1,352.8	1,059.7	855.9
Funds from operations (FFO)	847.3	2,926.1	912.2	711.6	553.9
Net income from cont. oper.	358.9	481.7	649.6	537.6	165.5
Cash flow from operations	738.0	2,424.5	840.1	748.9	543.4
Capital expenditures	413.7	1,427.3	285.2	102.1	107.6
Free operating cash flow	324.3	997.1	554.9	646.8	435.8
Discretionary cash flow	250.6	274.8	319.8	364.5	365.8
Debt	1,859.1	11,843.4	884.0	1,330.1	3,223.7
Equity	3,623.0	18,563.6	2,639.3	3,537.3	4,307.0

Table 1

Wuerth GmbH & Co. KG Adolf -- Peer Comparison (cont.)					
Industry Sector: Building Materials & Products					
	Wuerth GmbH & Co. KG Adolf	Compagnie de Saint-Gobain	Grainger (W.W.) Inc.	Legrand S.A.	Rexel S.A.
Adjusted ratios					
EBITDA margin (%)	10.2	10.4	16.8	23.1	6.5
Return on capital (%)	11.2	5.3	31.6	16.2	7.5
EBITDA interest coverage (x)	7.4	5.3	43.2	10.1	3.9
FFO cash int. cov. (X)	17.9	7.4	55.7	11.2	4.9
Debt/EBITDA (x)	1.8	2.8	0.6	1.3	3.8
FFO/debt (%)	45.6	24.7	109.3	53.5	17.2
Cash flow from operations/debt (%)	39.7	20.5	100.8	56.3	16.9
Free operating cash flow/debt (%)	17.4	8.4	67.0	48.6	13.5
Discretionary cash flow/debt (%)	13.5	2.3	39.1	27.4	11.3

Financial Risk: Modest

For the year ended Dec. 31, 2015, the group's credit metrics were in line with our expectations for the rating level, despite a significant increase in capex and acquisitions. Adjusted FFO to debt stood at 44.1%, compared to 46.1% the previous year. We expect the ratio to be broadly stable over the medium term given our expectations of sustainable cash generation and the full consolidation of recent acquisitions, despite some potential margin pressure in difficult markets.

We anticipate that Wuerth will focus on consolidating its recent investments in 2016, with more limited capex and bolt-on acquisitions. Thereafter, we forecast the group's strong cash flow generation to be utilized through a moderate increase in discretionary investment levels, while maintaining the strength of the balance sheet. We therefore forecast broadly stable metrics over the next two-to-three years.

Base-Case Cash Flow And Capital Structure

We anticipate that Wuerth will continue to generate robust operating cash flows, which will primarily be used to fund its capex of about €450 million-€500 million per year. In our base-case scenario, we expect that Wuerth's FFO to debt and debt to EBITDA will be broadly stable, with some limited improvements in 2016 as the group consolidates recent acquisitions--after marginally declining metrics in 2015 due to increased debt-funded investments.

Financial summary

Table 2

Wuerth GmbH & Co. KG Adolf -- Financial Summary					
Industry Sector: Building Materials & Products					
--Fiscal year ended Dec. 31--					
	2015	2014	2013	2012	2011
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. €)					
Revenues	10,976.3	10,054.0	9,669.4	9,909.5	9,629.5
EBITDA	1,100.6	1,022.8	995.9	948.1	919.5
Funds from operations (FFO)	931.0	817.9	793.0	752.2	704.9
Net income from continuing operations	419.6	361.8	295.3	267.3	260.5
Cash flow from operations	761.8	729.6	722.7	739.4	660.8
Capital expenditures	500.6	334.0	406.5	431.1	434.3
Free operating cash flow	261.2	395.6	316.2	308.3	226.5
Discretionary cash flow	171.1	329.6	251.2	233.8	153.5
Debt	2,110.2	1,773.5	1,693.6	1,729.7	1,747.1
Equity	3,947.8	3,582.2	3,339.0	3,135.6	2,987.2
Adjusted ratios					
EBITDA margin (%)	10.0	10.2	10.3	9.6	9.5
Return on capital (%)	11.0	11.4	11.0	10.3	11.5
EBITDA interest coverage (x)	8.4	7.7	6.3	6.5	5.7
FFO cash int. cov. (x)	22.7	15.5	16.5	12.2	16.0
Debt/EBITDA (x)	1.9	1.7	1.7	1.8	1.9
FFO/debt (%)	44.1	46.1	46.8	43.5	40.3
Cash flow from operations/debt (%)	36.1	41.1	42.7	42.7	37.8
Free operating cash flow/debt (%)	12.4	22.3	18.7	17.8	13.0
Discretionary cash flow/debt (%)	8.1	18.6	14.8	13.5	8.8

Liquidity: Strong

The short-term rating on Wuerth is 'A-1'. We view Wuerth's liquidity position as strong. We estimate that the group's sources of liquidity will exceed its uses by more than 1.5x over the next 24 months. Wuerth benefits from large recurring cash balances, solid free cash flow generation, and modest near-term debt maturities.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • Unrestricted cash and short-term securities at parent level of about €592 million at year-end 2015; • Forecast unadjusted FFO of about €750 million-€800 million; and • An undrawn committed revolving credit facility of €200 million which matures in 2018. 	<ul style="list-style-type: none"> • About €125 million of short-term debt maturities; • Anticipated working capital outflows over 2016 of €100 million-€150 million and peak working capital requirements of about €70 million; • Capex of €450 million-€500 million; • Reduced acquisitions, compared to 2015, in the region of €60 million; and • Net dividends of about €100 million in 2016.

Debt maturities

2016: €99 million

2017: €9 million

2018: €517 million

2019: €13 million

2020: €514 million

Thereafter: €688 million

Covenant Analysis

Wuerth has financial covenants under its syndicated loan and U.S. private placement facility of maximum net debt to EBITDA of 4x. We anticipate that Wuerth will meet these covenants with significant headroom.

Other Credit Considerations

We assess Wuerth's management and governance as fair. Although management experience and operational oversight is strong, in our view, our assessment is constrained by the fact that the owner retains sole discretion to override many decisions on operations and shareholder returns. In our view, this controlling ownership constrains the governance assessment. As a result, we apply a one-notch downward adjustment for management and governance.

However, this rating impact is offset by the group's capital structure, which we assess as positive. This is based on our assessment of the potential positive impact of consolidated investments that do not contribute to adjusted earnings, but which are material enough to improve the cash flow to leverage assessment should they be monetized under a stress scenario. These include a substantial art collection and Internationales Bankhaus Bodensee AG--a small local bank, which we deconsolidate from Wuerth's accounts.

Issue Rating Analysis

The senior unsecured notes issued by Wuerth Finance International B.V. and guaranteed by Adolf Wuerth GmbH & Co. KG are rated 'A', in line with the corporate credit rating on the parent. We apply our structural subordination analysis to Wuerth's issuance and deem there to be limited prior-ranking liabilities to warrant notching down the ratings on the group's rated debt.

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:** Positive (+1 notch)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Fair (-1 notch)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

Reconciliation

Table 3

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

Wuerth GmbH & Co. KG Adolf reported amounts										
--Fiscal year ended Dec. 31, 2015--										
	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid	Capital expenditures
Reported	3,069.3	3,975.7	11,046.8	903.0	571.5	90.3	903.0	629.7	254.8	505.2
S&P Global Ratings adjustments										
Deconsolidation of bank group	(1,251.2)	(134.9)	(70.5)	(22.0)	(20.9)	(5.3)	(16.7)	--	--	--
FFO - deconsolidating tax at bank group	--	--	--	--	--	--	4.4	--	--	--
Interest expense (reported)	--	--	--	--	--	--	(90.3)	--	--	--
Interest income (reported)	--	--	--	--	--	--	48.4	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(92.6)	--	--	--
Operating leases	618.7	--	--	226.6	41.7	41.7	184.9	184.9	--	--
Postretirement benefit obligations/ deferred compensation	236.7	--	--	(2.4)	(2.4)	4.7	(5.5)	(7.4)	--	--
Surplus cash	(591.9)	--	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	--	(4.6)	2.1	--	(4.6)	(4.6)	--	(4.6)
Non-operating income (expense)	--	--	--	--	48.4	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(46.8)	--	--
Non-controlling Interest/Minority interest	--	107.0	--	--	--	--	--	--	--	--
Debt - Guarantees	28.7	--	--	--	--	--	--	--	--	--
Working capital - Other	--	--	--	--	--	--	--	6.0	--	--
Dividends - Capital contribution	--	--	--	--	--	--	--	--	(164.7)	--
Total adjustments	(959.1)	(27.9)	(70.5)	197.6	68.9	41.1	28.0	132.1	(164.7)	(4.6)
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	2,110.2	3,947.8	10,976.3	1,100.6	640.4	131.4	931.0	761.8	90.1	500.6

Related Criteria And Research

Related Criteria

- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Legal Criteria: Guarantee Criteria--Structured Finance, May 7, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 15, 2016)

Wuerth GmbH & Co. KG Adolf

Corporate Credit Rating A/Stable/A-1

Senior Unsecured A

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

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

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