S&P Global
Ratings

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Wuerth GmbH & Co. KG Adolf

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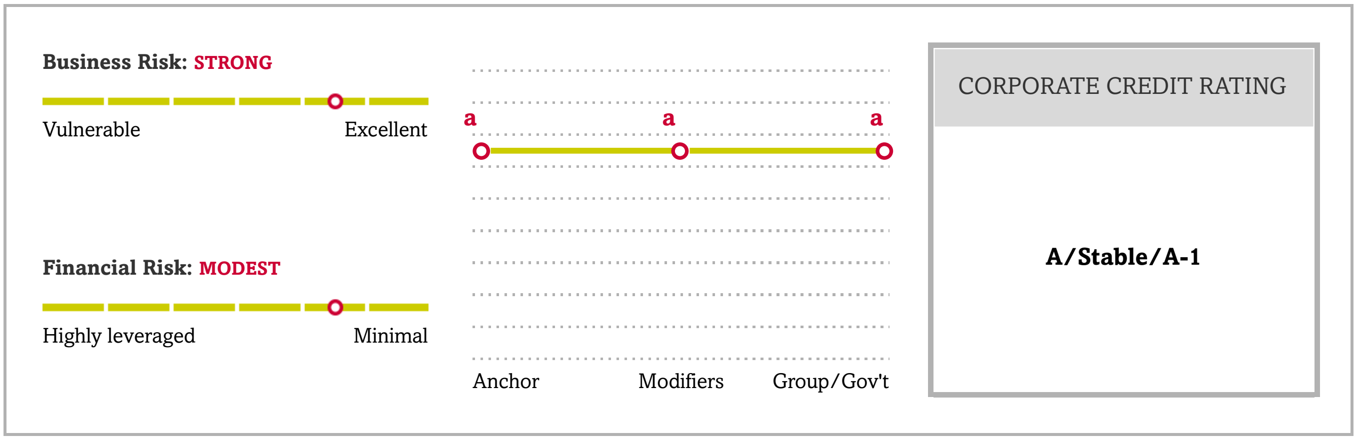
Wuerth GmbH & Co. KG Adolf



Rationale

Business Risk: Strong	Financial Risk: Modest
• Leading provider of low ticket items for the global repair and construction industry, 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.	• Cautious financial policy, with a solid track record in preserving balance sheet strength and maintaining stable credit metrics. • Strong cash flow generation. • Strong liquidity position.

Outlook: Stable

The stable outlook on Germany-based Wuerth GmbH & Co. KG Adolf (Wuerth or the group) reflects our view that Wuerth's profitability will remain at current levels, with an S&P Global Ratings-adjusted EBITDA margin of about 10%, underpinned by a continued focus on efficiency, and despite increasing raw material costs.

The stable outlook also reflects our view that management's cautious financial policy will see the group maintain modest leverage. We forecast that the group's adjusted ratio of debt to EBITDA will remain in the range of 1.5x-2.0x and funds from operations (FFO) to debt will stay around 45%. The outlook also assumes that the group's liquidity will remain strong over the next 24 months.

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 unlikely to recover above 40%. A lasting deterioration in margins could also weigh on the ratings.

Upside scenario

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

Our Base-Case Scenario

Assumptions

- Revenue growth of about 4.0% in 2017 and 3.0%-3.5% in 2018-2019, reflecting continued organic growth in the group's key markets and the integration of bolt-on acquisitions.
- An adjusted EBITDA margin of about 10%, reflecting some pressure from increasing raw material costs that will be offset by continued cost optimization and efficiency improvements.
- Capital expenditure (capex) of about 4% of annual sales, or €500 million.
- Bolt-on acquisitions in the range of €100 million-€200 million per year.

Key Metrics

	2016A	2017F	2018F
EBITDA margin* (%)	10.1	9.6-10.1	9.6-10.1
Debt/EBITDA* (x)	1.7	1.7-1.9	1.7-1.9
FFO/debt* (%)	46.5	45-47	47-49

A--Actual. F--S&P Global Ratings' base-case forecast. *Fully S&P Global Ratings-adjusted. FFO--Funds from operations.

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 around 45% of revenues.

Business Risk: Strong

Wuerth is one of the world's largest building materials distributors, with sales of more than €11.8 billion in 2016. It operates in a highly fragmented industry that is also subject to moderate cyclicality. However, Wuerth has proven relatively resilient in its trading performance due to its large size, broad geographic presence, end-customer and supplier diversification, and leading market positions in several countries, which help offset the risks inherent to the building materials industry.

The group mainly operates in developed countries and derives about 80% of revenues from Europe, with roughly 45% coming from Germany, as well as 15% from the Americas and 5% from Asia-Pacific. The mature markets in which Wuerth operates are subject to high competitive pressure, which limits the potential for organic sales growth and margin improvement. Therefore, the group is active in undertaking small and midsize acquisitions.

The group also benefits from a diverse customer and supplier base--it deals in more than 125,000 products, and serves more than three million customers in industries ranging across metal and wood processing, auto manufacturing, construction, and a wide range of industrial trades. The 10 largest customers are mainly large industrial corporations and account for less than 5% of the group's sales.

Most of Wuerth's products are not subject to significant price pressure owing to customers' perception that the company's products are low ticket, as well as the lack of price transparency in the market. Therefore, we expect that the group will be able to accommodate increasing raw materials costs by passing them on to customers, at least in part. We also believe that Wuerth's strong focus on operating efficiency and a gradual shift of its sales model from predominantly direct sales to a more balanced multi-channel approach should allow it to sustain profitability over the next couple of years broadly at the current levels.

Our Base-Case Operating Scenario

- Real GDP growth of about 1.5%-1.6% in Western Europe and 2.2%-2.3% in North America in 2017-2018.
- Organic revenue growth underpinned by positive market conditions in the U.S. and Eastern Europe, continued recovery in Southern Europe, and mid-single-digit growth in Germany.
- Profitability remaining broadly at current levels thanks to generally positive fundamentals in Wuerth's key markets.

Peer comparison

Table 1

Wuerth GmbH & Co. KG Adolf Peer Comparison

	Wuerth GmbH & Co. KG Adolf	Compagnie de Saint-Gobain	Grainger (W.W.) Inc.	Legrand S.A.	Rexel S.A.
(Mil. €)	**--Average of past three fiscal years--**				
Revenues	10,934.0	39,021.7	9,007.6	4,776.0	13,260.3
EBITDA	1,103.1	4,164.8	1,443.9	1,086.0	815.3
Funds from operations (FFO)	895.2	3,047.2	986.2	729.7	537.4
Net income from continuing operations	410.9	720.3	648.2	570.3	141.3
Cash flow from operations	849.6	2,475.9	921.7	797.2	508.5
Capital expenditures	437.4	1,449.0	308.8	109.5	116.1
Free operating cash flow	412.2	1,026.9	612.9	687.7	392.4
Discretionary cash flow	327.1	305.9	346.8	392.0	300.0
Cash and short-term investments	734.2	4,203.7	238.1	904.7	861.3
Debt	1,966.4	11,492.6	1,488.1	1,328.3	3,316.0
Equity	3,946.2	18,963.7	2,454.0	3,809.9	4,359.9
Adjusted ratios					
EBITDA margin (%)	10.1	10.7	16.0	22.7	6.1
Return on capital (%)	11.2	6.2	29.9	16.1	6.8
EBITDA interest coverage (x)	8.4	5.9	28.8	10.0	4.1
FFO cash interest coverage (x)	21.6	8.6	29.7	10.8	5.3
Debt/EBITDA (x)	1.8	2.8	1.0	1.2	4.1
FFO/debt (%)	45.5	26.5	66.3	54.9	16.2
Cash flow from operations/debt (%)	43.2	21.5	61.9	60.0	15.3
Free operating cash flow/debt (%)	21.0	8.9	41.2	51.8	11.8
Discretionary cash flow/debt (%)	16.6	2.7	23.3	29.5	9.0

Financial Risk: Modest

We expect that in 2017-2019, Wuerth will continue to implement a relatively conservative financial policy and will maintain modest leverage, which has remained broadly stable over the past five years. In 2016, leverage slightly reduced compared with 2015, owing to lower capex and acquisitions and stronger cash flows. Wuerth's adjusted debt to EBITDA decreased to 1.7x in 2016, from 1.9x the year before, and adjusted FFO to debt improved to 46.5% from 44.1% in the same period. We forecast that over the medium term, these ratios will remain broadly stable, given our expectation of sustainable cash generation, the group's cautious approach to investing in acquisitions, and its stable dividend policy.

Wuerth's owner approved an exceptional dividend in 2009, but it was not material enough to significantly worsen the group's credit measures. We also believe that this payout was a one-off, given the owner's aim to reinvest capital in business growth.

Our Base-Case Cash Flow And Capital Structure Scenario

- Cautious financial policy aimed at maintaining a strong balance sheet.
- Robust operating cash flows, which Wuerth will primarily use to fund its capex of about 4% of revenues, or about €500 million in 2017;
- Free operating cash flow (FOCF) of about €300 million-€450 million per year;
- Bolt-on acquisitions totaling up to €100 million-€200 million per year; and
- Broadly stable dividend payments.

Financial summary

Table 2

Wuerth GmbH & Co. KG Adolf Financial Summary

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenues	11,771.7	10,976.3	10,054.0	9,669.4	9,909.5
EBITDA	1,186.1	1,100.6	1,022.8	995.9	948.1
Funds from operations (FFO)	936.6	931.0	817.9	793.0	752.2
Net income from continuing operations	451.4	419.6	361.8	295.3	267.3
Cash flow from operations	1,057.3	761.8	729.6	722.7	739.4
Capital expenditures	477.5	500.6	334.0	406.5	431.1
Free operating cash flow	579.8	261.2	395.6	316.2	308.3
Discretionary cash flow	480.5	171.1	329.6	251.2	233.8
Cash and short-term investments	839.2	680.3	683.0	866.4	676.7
Debt	2,015.4	2,110.2	1,773.5	1,693.6	1,729.7
Equity	4,308.6	3,947.8	3,582.2	3,339.0	3,135.6
Adjusted ratios					
EBITDA margin (%)	10.1	10.0	10.2	10.3	9.6
Return on capital (%)	11.2	11.0	11.4	11.0	10.3
EBITDA interest coverage (x)	9.1	8.4	7.7	6.3	6.5
FFO cash interest coverage (x)	30.8	22.7	15.5	16.5	12.2
Debt/EBITDA (x)	1.7	1.9	1.7	1.7	1.8
FFO/debt (%)	46.5	44.1	46.1	46.8	43.5
Cash flow from operations/debt (%)	52.5	36.1	41.1	42.7	42.7
Free operating cash flow/debt (%)	28.8	12.4	22.3	18.7	17.8
Discretionary cash flow/debt (%)	23.8	8.1	18.6	14.8	13.5

Liquidity: Strong

The short-term rating on Wuerth is 'A-1'. We view Wuerth's liquidity position as strong, based on our forecast that the group's sources of liquidity will exceed its uses by more than 1.5x over the next 12 months.

The group's large recurring cash balances, solid FOCF generation, and the fully undrawn revolving credit facility (RCF) will be more than sufficient to cover seasonal working capital needs and upcoming debt maturities, including the €500 million bonds due to be repaid in May 2018.

The group also benefits from a cautious financial and liquidity management policy, and has a good standing in the credit markets and strong relationships with its key banks, which also supports our liquidity assessment.

Principal Liquidity Sources	Principal Liquidity Uses
Principal liquidity sources for the 12 months from March 31, 2017, are: • Unrestricted cash and short-term securities of about €710 million; • Our forecast of unadjusted FFO of about €830 million; and • An undrawn committed RCF of €200 million, maturing in July 2021.	Principal liquidity uses in the same period are: • About €98 million of debt maturities; • Working capital outflows of up to €180 million and peak working capital requirements of about €70 million; • Capex of up to €500 million; • Bolt-on acquisitions of about €100 million; and • Net dividends of around €120 million.

Debt maturities

- 2017: €91 million
- 2018: €512 million
- 2019: €13 million
- 2020: €512 million
- 2021: €202.1 million
- Thereafter: €512 million

Covenant Analysis

Wuerth has financial covenants under its syndicated loan 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.

Issue Rating Analysis

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 corporate credit rating on Wuerth. We estimate that 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.

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:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2016--									
Wuerth GmbH & Co. KG Adolf reported amounts										
(Mil. €)	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	3017.9	4362.3	11836.2	988.0	643.4	86.4	988.0	902.9	253.3	480.1
S&P Global Ratings' adjustments										
Interest expense (reported)	--	--	--	--	--	--	(86.4)	--	--	--
Interest income (reported)	--	--	--	--	--	--	36.7	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(158.6)	--	--	--
Operating leases	689.1	--	--	246.6	45.8	45.8	200.8	200.8	--	--
Postretirement benefit obligations/deferred compensation	256.5	--	--	0.1	0.1	5.0	(3.0)	(8.7)	--	--
Surplus cash	(754.7)	--	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	--	(2.6)	4.6	--	(2.6)	(2.6)	--	(2.6)

Table 3

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

Deconsolidation / consolidation	(1,220.2)	(160.9)	(64.5)	(46.0)	(20.7)	(6.7)	(39.3)	--	--	--
Non-operating income (expense)	--	--	--	--	36.4	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(34.7)	--	--
Non-controlling interest/minority interest	--	107.2	--	--	--	--	--	--	--	--
Debt--guarantees	26.8	--	--	--	--	--	--	--	--	--
FFO--other	--	--	--	--	--	--	1.0	--	--	--
Working capital--other	--	--	--	--	--	--	--	(0.4)	--	--
Dividends--other	--	--	--	--	--	--	--	--	(154.0)	--
Total adjustments	(1,002.5)	(53.7)	(64.5)	198.1	66.2	44.1	(51.4)	154.4	(154.0)	(2.6)
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	2,015.4	4,308.6	11,771.7	1,186.1	709.9	130.5	936.6	1,057.3	99.3	477.5

Related Criteria And Research

Related Criteria

- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Building Materials Industry, Dec. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 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 13, 2017)

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

*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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