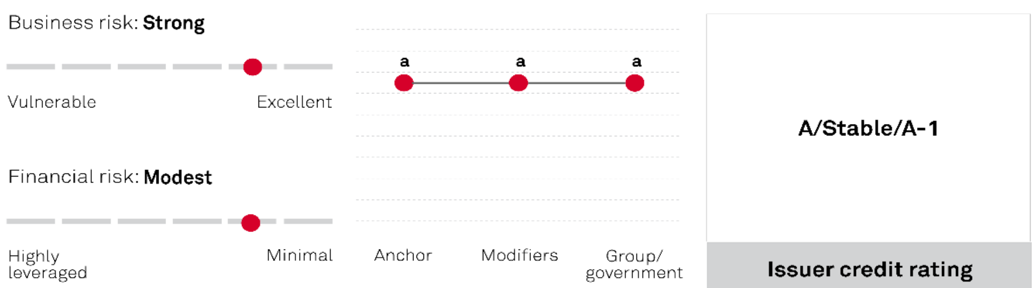
Adolf Wuerth GmbH & Co. KG

May 30, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

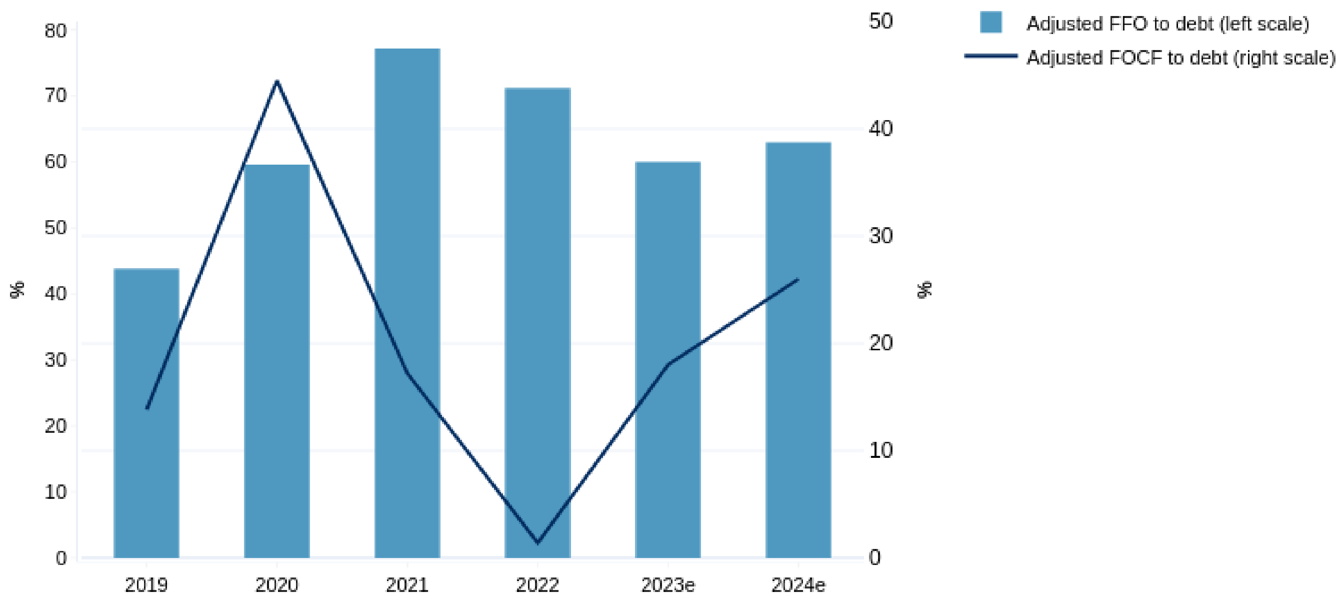
Key strengths	Key risks
Leading provider of low-ticket items for the global repair and construction industry, with a strong brand.	Some exposure to cyclical end markets like construction, auto, and electronics.
Wide product diversity and distribution network, with a diversified customer and supplier base.	High concentration in mature and fragmented western European markets (52.8% of 2022 sales, including Germany), where economic growth is more moderate than in emerging markets.
Cautious financial policy with a solid track record in preserving balance sheet strength.	The materials distribution industry is moderately exposed to raw material and freight price volatility, as well as to supply chain constraints, which may impair operating performance during times of imbalances.
Management proved ability to operate its business effectively through market downturns, with a prudent operational risk management.	

We anticipate broadly resilient operating performance in 2023 notwithstanding the weaker macroeconomic environment. In our view, the operating environment will likely remain challenging in next few quarters, given current rising interest rates ahead of continued elevated inflation, both of which weaken business and consumer confidence. As such, we anticipate lower business volume in the sector, though higher average selling prices should continue supporting Wuerth's top-line growth. That said, we believe Wuerth benefits from its superior end-market and customer diversification, and structural megatrends such as energy transition, increasing renewable energy scope, which both translate into resilient demand for company's electrical wholesale products. Furthermore, its operating profit should continue benefiting from productivity gains and economies of scale in costs, despite persistent pressure on margins.

In our view, the acquisition of TIM S.A. will consolidate Wuerth's position in Poland. In March 2023, Wuerth announced its intention to acquire TIM-a leading electrical wholesaler in Poland focused on business-to-business e-commerce with strong logistics expertise and a domestic market share of about 12%. Wuerth's market share in Poland will double when the acquisition is complete (expected by the end of 2023). Upon completion, it will become the leading electrical wholesaler in the domestic market, with an opportunity to achieve significant synergies in purchasing and logistics. Despite a consolidation trend, the Polish electrical wholesale market remains fragmented, which offers Wuerth opportunities for business development.

We anticipate rating headroom to remain comfortable, even after TIM acquisition. Wuerth has built solid rating headroom in 2021-2022. In 2022, a sizable €1.3 billion working capital cash-out, due to high cost inflation and build up in inventory to ensure service availability, as well as high capex of €800 million absorbed most group operating cash flow. Notwithstanding, our key credit metrics remained very solid due to a strong operating performance with support from high selling prices. Adjusted funds from operations (FFO) to debt was 71.2% and adjusted debt to EBITDA was 1.1x, only moderately weaker than record levels in 2021, and well above the minimum threshold commensurate with current ratings. In 2023-2024 we forecast Wuerth's credit metrics will weaken moderately, largely reflecting TIM acquisition and current challenging environment. Still, FFO to debt should be around 60% in the period, which offers financial flexibility to pursue additional midsize debt-financed acquisitions.

Wuerth's key credit metrics offer comfortable rating headroom



e--Estimate. FFO--Funds from operations. FOCF--Free operating cash flow. Source: S&P Global Ratings.

Wuerth's prudent financial policy is a key supporting factor for the rating. We anticipate Wuerth will remain highly disciplined in its discretionary spending to protect its credit metrics. We factor in the company's commitment to maintaining credit metrics in line with an 'A' long-term issuer credit rating. Our rating on Wuerth has remained unchanged since 2000, successfully overcoming all economic downturns in past two decades, among the most stable credit profiles in the global corporate arena.

Outlook

The stable outlook reflects our expectation that Wuerth will maintain its focus on operating efficiency and continue generating solid free operating cash flow (FOCF) through the cycle, with adjusted debt to EBITDA and adjusted FFO to debt remaining comfortably below 2x and above 45%, respectively. We expect Wuerth's financial policy will remain cautious, which will help the company maintain sufficient rating headroom in the next 12-18 months.

Downside scenario

We could lower the ratings if the group implements a more aggressive financial policy than we 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 exceeds 2x and FFO to debt is below 40%. A lasting deterioration in margins could also weigh on the ratings. We believe that the ample rating headroom built in 2021-2022 should protect Wuerth from the current weakening economic context and still offer room for moderate acquisition spending.

Upside scenario

We could raise the ratings if Wuerth builds a track record of stronger leverage metrics, with adjusted debt to EBITDA of about 1.5x and adjusted FFO to debt of at least 60%. In addition, an upgrade depends on a strong commitment from shareholders to maintain these credit measures over the long term.

Our Base-Case Scenario

Assumptions

- Modest GDP growth of 0.6% in Europe and no growth in Germany in 2023. Then we forecast growth of 1.8% and 0.9% in 2024, in Europe and Germany, respectively.
- Revenue growth of 8%-9% in 2023, after a solid 16.8% in 2022, driven by higher selling prices and contribution from TIM S.A. acquisition. We expect top-line growth to moderate to 2%-3% in 2024.
- Adjusted EBIDA margin of 10.5%-11.5% in 2023-2024, down from 11.7% in 2022, reflecting changing business mix, with increase in share of fast-growing electrical wholesale.
- A moderation of working capital cash absorption to about €400 million-€450 million in 2023, following a cash-out of €1.3 billion in 2022.
- Capital expenditure (capex) of €800 million-€850 million in 2023-2024.
- Acquisition of about €400 million in 2023.
- Yearly shareholder distributions of €220 million-€270 million in 2023-2024.

Key metrics

Adolf Wuerth GmbH & Co. KG--Key Metrics*

	--Fiscal year ended Dec.31--			
(Mil. €)	**2021a**	**2022a**	**2023e**	**2024f**
Revenue	16,969.1	19,821.1	21,300-21,800	21,700-22,200
EBITDA margin (%)	11.7	11.7	10.5-11.5	10.5-11.5
Capital expenditure	546.8	795.7	800-850	800-850
Free operating cash flow (FOCF)	385.5	37.2	520-570	750-800
Debt to EBITDA (x)	1.1	1.1	1.2-1.4	1.2-1.4
Funds from operations to debt (%)	77.2	71.2	60-65	60-65

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

We expect a slightly lower EBITDA margin in 2023-2024. We anticipate slightly lower volumes in 2023 given the weaker demand environment; at the same time, the price growth should progressively smooth in 2023-2024 compared with 2022 levels. The increase in share of fast-growing, slightly low margin electrical wholesale business is the main driver of near-term margin dilution.

FOCF should instead recover compared with 2022. A sizable working capital cash out, largely driven by high cost inflation and build up in inventory to ensure service availability, is the main driver behind the cyclically low FOCF reported in 2022. In 2023-2024 we anticipate FOCF to recover to levels average in the business cycle, as the gap between inventory and sales growth closes, which translates into lower working capital cash outs. Still capex should remain at similar levels in 2023-2024

Company Description

Headquartered in Kunzelsau, Germany, family trust owned Wuerth is the largest global distributor of assembly products in the maintenance, repair, and operations industry, mainly selling to small and midsize industrial companies. Th group sells more than one million own brand products in its core businesses to the auto aftermarket, metalworking, woodworking, craft, and manufacturing industries, which generated about 55% of group revenue in 2022. The remaining 45% of group sales came from allied companies, which are acquired or founded entities that maintain their individual brand names and operate in adjacent segments of the core business like electrical wholesale, manufacturing of chemical products, and distribution of stainless steel screws. In 2022, the Wuerth group generated sales of about €20 billion and adjusted EBITDA of €2.3 billion.

Peer Comparison

We included certain large industrial manufacturers and distributors in our peer comparison:

- U.S. distributor Grainger (W.W.) has better adjusted EBITDA margins compared with Wuerth, also due to a slightly different product mix and a comparable sized adjusted EBITDA base. Grainger's adjusted leverage tends to run slightly lower compared with Wuerth.
- Legrand is smaller but its EBITDA margin is almost double compared with Wuerth, due to its focus on producing high value-added electrical products. At the same time, Legrand's adjusted leverage is higher, reflecting its comparatively less conservative financial policy.
- Ferguson distributes plumbing and appliances to heating, HVAC, fire, fabrication and more, largely focused in the U.S. market. It displays a comparable adjusted EBITDA margin, but it has larger scale. Ferguson's financial risk profile is comparable to that of Wuerth.
- Rexel is a global business-to-business distributor of low- and ultra-low-voltage electrical products and supplies. Its size is comparable to that of Wuerth, but its EBITDA margin is lower, reflecting higher share of lower-margin electrical business. Our rating on Rexel is significantly below the other group peers, reflecting its higher tolerance for debt.

Adolf Wuerth GmbH & Co. KG--Peer Comparisons

	Adolf Wuerth GmbH & Co. KG	Grainger (W.W.) Inc.	Legrand S.A.	Ferguson PLC	Rexel S.A.
Foreign currency issuer credit rating	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/B
Local currency issuer credit rating	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/B
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-07-31	2022-12-31

Adolf Wuerth GmbH & Co. KG--Peer Comparisons

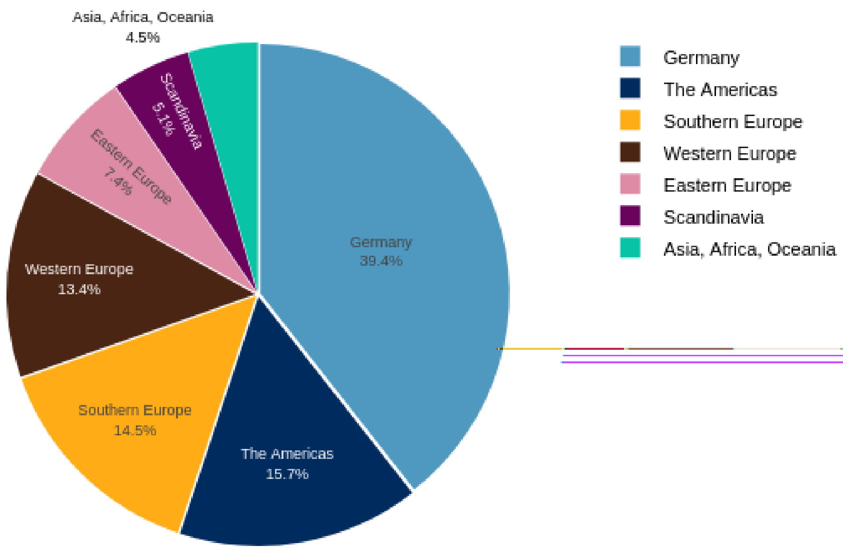
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	19,821	14,249	8,339	28,007	18,702
EBITDA	2,320	2,408	1,865	3,473	1,672
Funds from operations (FFO)	1,894	1,869	1,425	2,685	1,254
Interest	93	92	109	148	110
Cash interest paid	73	91	79	131	106
Operating cash flow (OCF)	833	1,329	1,214	1,430	814
Capital expenditure	796	240	178	284	131
Free operating cash flow (FOCF)	37	1,089	1,037	1,146	683
Discretionary cash flow (DCF)	(158)	157	553	(987)	386
Cash and short-term investments	1,110	304	2,333	756	895
Gross available cash	938	304	2,333	660	895
Debt	2,659	2,349	2,672	4,368	3,132
Equity	7,621	2,559	6,643	4,574	5,282
EBITDA margin (%)	11.7	16.9	22.4	12.4	8.9
Return on capital (%)	17.2	44.3	16.8	35.1	16.1
EBITDA interest coverage (x)	25.0	26.1	17.2	23.5	15.1
FFO cash interest coverage (x)	26.8	21.6	19.0	21.5	12.8
Debt/EBITDA (x)	1.1	1.0	1.4	1.3	1.9
FFO/debt (%)	71.2	79.6	53.3	61.5	40.1
OCF/debt (%)	31.3	56.6	45.4	32.7	26.0
FOCF/debt (%)	1.4	46.4	38.8	26.2	21.8
DCF/debt (%)	(5.9)	6.7	20.7	(22.6)	12.3

Business Risk

Wuerth's business risk profile assessment reflects: the company's large size, strong brand, and broad geographical presence; its leading market positions in highly fragmented assembly products distribution markets; an extensive, multichannel distribution network that is difficult to replicate; and substantial product diversity, coupled with well-diversified end-customer and supplier bases.

With sales of about €20 billion in 2022, Wuerth is among the world's largest building materials distributors. The group has high exposure to the mature markets of western Europe. In 2022, it derived 80% of revenue in Europe, including 39.4% in Germany (see chart 2). It mainly operates in developed countries with mature and highly competitive markets, which somewhat limits potential for organic sales growth and margin improvement. Wuerth has been gradually shifting its sales model from predominantly direct sales to a more balanced multichannel approach (through sales branch offices and e-commerce). The share of e-business has increased over the past few years and now contributes about 21% of total sales. In March 2023, group announced the acquisition of TIM, which will double Wuerth's market share in Poland, making it a leading electrical wholesaler in domestic market. Given the fragment nature of the industry, we expect that the group will continue undertaking small and midsize bolt-on acquisitions.

Wuerth 2022 revenue breakdown by region



Source: S&P Global Ratings.

Wuerth also benefits from a diverse customer and supplier base--it deals with more than 125,000 products and serves more than 4 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 4% of the group's sales.

Wuerth operates in a highly fragmented industry that is also subject to moderate cyclicality. We expect to see further moderate pressure on margins due to some negative mix effects from an increasing share of fast-growing, lower-margin electrical business, as well as competition in distribution markets. However, this is somewhat offset by customers' perception that the group's products are low ticket and most of them are premium in the craft segment, supporting the track record of healthy and resilient profit margins. We also believe Wuerth's strong focus on operating efficiency should help it at least partly mitigate potential pressure on margins over the next couple of years. Last, the materials distribution industry is moderately exposed to raw material and freight price volatility, as well as to supply chain constraints, which may impair operations during times of imbalances. Still, Wuerth's effective management allowed it to safeguard operating performance, as it proved in 2020-2022.

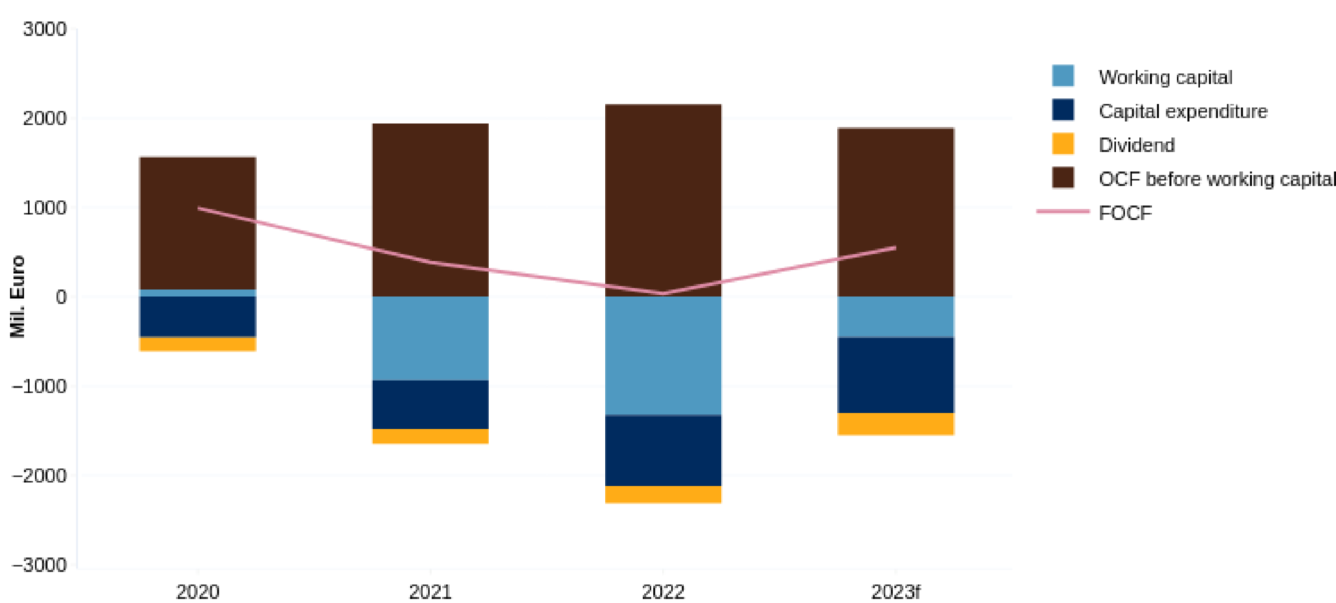
Financial Risk

Our financial risk profile assessment reflects the company's healthy cash balances, strong FOCF through the cycle, and a conservatively leveraged balance sheet. Wuerth's prudent financial policy is a key supporting factor for our 'A' long-term rating that has remained unchanged since 2000, successfully overcoming all economic downturns in past two decades

In our base case, we expect Wuerth's adjusted FFO to debt to stay around 60% and debt to EBITDA at 1.2x-1.4x in 2023-2024. This is slightly worse than 2022, and it reflects the debt-funded acquisition of TIM and the current challenging operating environment, with subdued business and consumer confidence impairing prospects of business growth in major economies. That said, we expect Wuerth's top-line will continue benefitting from increasing selling prices and its superior end-market and customer diversity.

We anticipate Wuerth's FOCF will recover in 2023 following the cyclically low level in 2022. This largely reflects resilient operating cash flow and reduced working capital cash out. Still, capex should remain sustained, also reflecting some catch-up effect from 2020-2021, when Wuerth was more reluctant to invest. Most capex relates to IT infrastructure and warehouse capacities to support sales, as well as production buildings, technical equipment, and machinery. In our base-case scenario, we assume no significant increase in net shareholder distributions and no large-scale acquisitions, which will help Wuerth maintain sufficient rating headroom in the next 12-18 months.

Evolution of Wuerth's cash flow generation

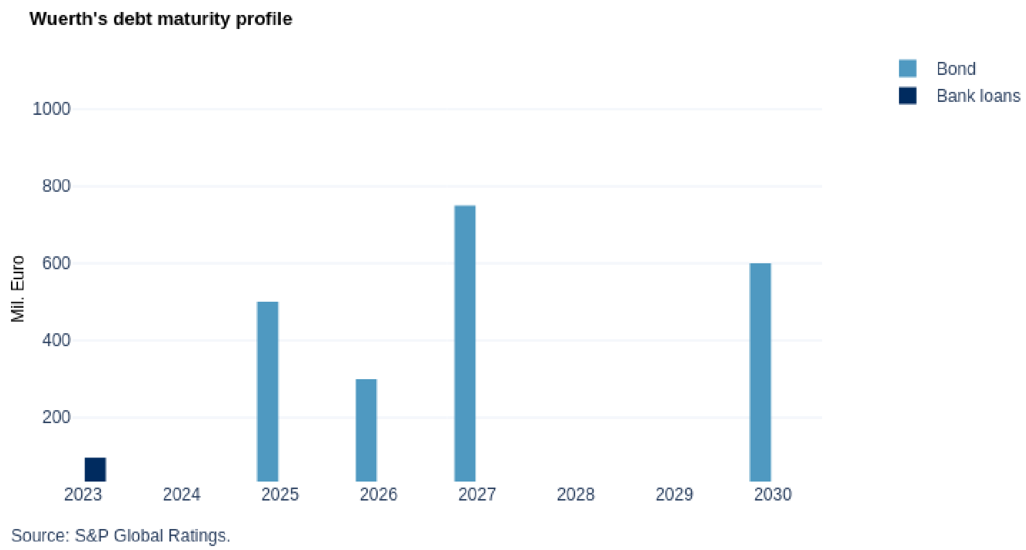


f--Forecast. OCF--Operating cash flow. Source: S&P Global Ratings.

In Wuerth's adjusted figures, we deconsolidate the bank and leasing activities, because we do not view these as core business for the group; and deconsolidation allows us to better understand, analyze, and reflect on Wuerth's credit quality.

Debt maturities

As of March 2023, the total debt outstanding is about €2.2 billion. This excludes debt at Internationales Bankhaus Bodensee AG.



Adolf Wuerth GmbH & Co. KG--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	12,653	13,548	14,188	14,323	16,969	19,821
EBITDA	1,410	1,500	1,459	1,549	1,992	2,320
Funds from operations (FFO)	1,174	1,250	1,228	1,327	1,735	1,894
Interest expense	118	109	69	75	36	93
Cash interest paid	88	87	52	54	42	73
Operating cash flow (OCF)	826	930	1,080	1,446	932	833
Capital expenditure	485	621	694	455	547	796
Free operating cash flow (FOCF)	341	309	386	992	386	37
Discretionary cash flow (DCF)	218	15	201	834	195	(158)
Cash and short-term investments	666	476	464	1,312	1,066	1,110
Gross available cash	581	392	374	1,218	957	938
Debt	2,320	2,506	2,802	2,229	2,247	2,659
Common equity	4,603	4,979	5,341	5,682	6,555	7,621
Adjusted ratios						
EBITDA margin (%)	11.1	11.1	10.3	10.8	11.7	11.7
Return on capital (%)	12.1	13.7	10.1	11.3	16.1	17.2
EBITDA interest coverage (x)	12.0	13.8	21.3	20.6	54.9	25.0
FFO cash interest coverage (x)	14.3	15.4	24.6	25.6	42.0	26.8

Adolf Wuerth GmbH & Co. KG--Financial Summary

Debt/EBITDA (x)	1.6	1.7	1.9	1.4	1.1	1.1
FFO/debt (%)	50.6	49.9	43.8	59.6	77.2	71.2
OCF/debt (%)	35.6	37.1	38.6	64.9	41.5	31.3
FOCF/debt (%)	14.7	12.3	13.8	44.5	17.2	1.4
DCF/debt (%)	9.4	0.6	7.2	37.4	8.7	(5.9)

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	4,653	7,826	19,933	2,379	1,575	93	2,320	867	369	810
Cash taxes paid	-	-	-	-	-	-	(360)	-	-	-
Cash interest paid	-	-	-	-	-	-	(61)	-	-	-
Cash interest paid: other	-	-	-	-	-	-	(14)	-	-	-
Lease liabilities	1,014	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	224	-	-	0	0	4	-	-	-	-
Accessible cash and liquid investments	(938)	-	-	-	-	-	-	-	-	-
Capitalized development costs	-	-	-	(2)	2	-	-	(2)	-	(2)
Deconsolid./ consolid.	(2,321)	(292)	(112)	(40)	(35)	(4)	9	7	-	(12)
Nonoperating income (expense)	-	-	-	-	76	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(38)	-	-
Noncontrolling/ minority interest	-	87	-	-	-	-	-	-	-	-
Debt: Guarantees	21	-	-	-	-	-	-	-	-	-
Debt: Contingent considerations	5	-	-	-	-	-	-	-	-	-

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(16)	(16)	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	44	-	-	-	-	-
Dividends: other	-	-	-	-	-	-	-	-	(174)	-
Total adjustments	(1,994)	(205)	(112)	(58)	71	(0)	(426)	(34)	(174)	(14)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,659	7,621	19,821	2,320	1,646	93	1,894	833	195	796

Liquidity

We view the group's liquidity position as strong, based on our forecast that its sources of liquidity will exceed its uses by more than 1.5x over the 12 months from April 1, 2023. In addition, the company's solid relationship with banks and good access to debt capital markets, as well as management's track record of prudent financial risk management, support the strong liquidity assessment.

Principal liquidity sources

- Unrestricted cash and short-term securities of about €931 million at March 31, 2023.
- An undrawn sustainability liked committed revolving credit facility of €500 million and other credit lines of €500 million, maturing in 2027.
- Cash FFO of €1,500 million-€1,530 million after deducting lease principal repayments.

Principal liquidity uses

- About €87 million of debt maturities.
- Annual working capital outflows of €400 million-€450 million for the next 12 months.
- Intra-year peak-to-trough working capital swing of about €100 million.
- Annual capex of €800 million-€850 million.
- Acquisition outflow of about €400 million.
- Net shareholder distributions of €220 million-€270 million in 2023.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	**G-1**	G-2	G-3	G-4	G-5

Environmental	Social	Governance
- N/A	- N/A	- Risk management, culture, and oversight

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.N/A--Not applicable.

Governance factors are a moderately positive consideration in our credit rating analysis of Wuerth. The company's more resilient performance than most industry peers during the pandemic proved management's ability to operate its business effectively through a market downturn and reflected its prudent risk management. The group is controlled by the Wuerth family, which remains heavily involved in development and strategic decisions. However, we think the governance structure is effective and will balance stakeholders' interests. Environmental factors have an overall neutral influence on our credit rating analysis. As the largest global distributor of assembly products, selling into diversified geographies and end markets, its business is not energy intensive, and it distributes products rather than developing them.

Issue Ratings--Subordination Risk Analysis

Capital structure

Wuerth's capital structure consisted of about €158 million of prior-ranked local bank loans at operating subsidiaries, and €2.1 billion senior unsecured notes issued by Wuerth Finance International B.V. as of Dec. 31, 2022.

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 the company. The amount of prior-ranking liabilities is limited and does not warrant notching down the ratings on the debt, given the group's low leverage, diversity, and the concentration of financial debt at the finance subsidiary (about 90%).

Rating Component Scores

Foreign currency issuer credit rating	**A/Stable/A-1**
Local currency issuer 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**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**a**

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Related Research

- Adolf Wuerth GmbH & Co. KG, June 6, 2022

Ratings Detail (as of May 30, 2023)*

Adolf Wuerth GmbH & Co. KG	
Issuer Credit Rating	A/Stable/A-1
Issuer 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.