S&P Global
Ratings

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Adolf Wuerth GmbH & Co. KG

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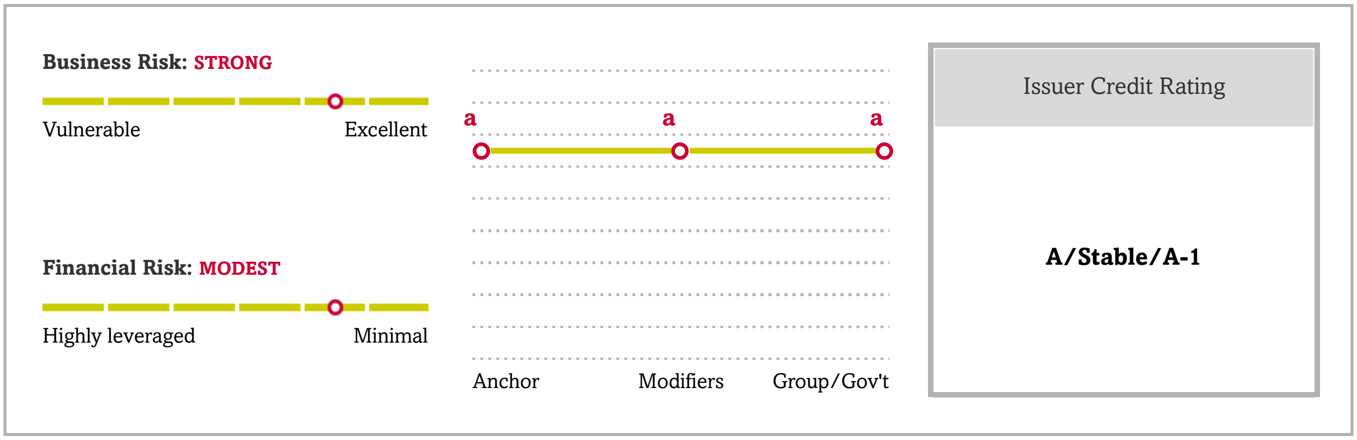
Adolf Wuerth GmbH & Co. KG



Credit Highlights

Overview

Key Strengths	Key Risks
Leading provider of low ticket items for the global repair and construction industry, with a strong brand.	High concentration in mature and fragmented Western European markets (57% of 2018 sales including Germany), where economic growth is slowing down.
Wide product diversity and extensive distribution network, with diversified customer and supplier base.	Some exposure to cyclical industries like construction, automotive, and electronics, the latter two of which are facing declining market demand.
Cautious financial policy, with a solid track record in preserving balance sheet strength and maintaining stable credit metrics with adjusted funds from operations (FFO) to debt around 50% (weighted five-year average).	Weakening free operating cash flow (FOCF) generation in past two years due to high capital expenditure (capex) and working capital outflow, which has led to a continued increase in net debt. However, the impact on leverage has been more than offset by higher earnings.

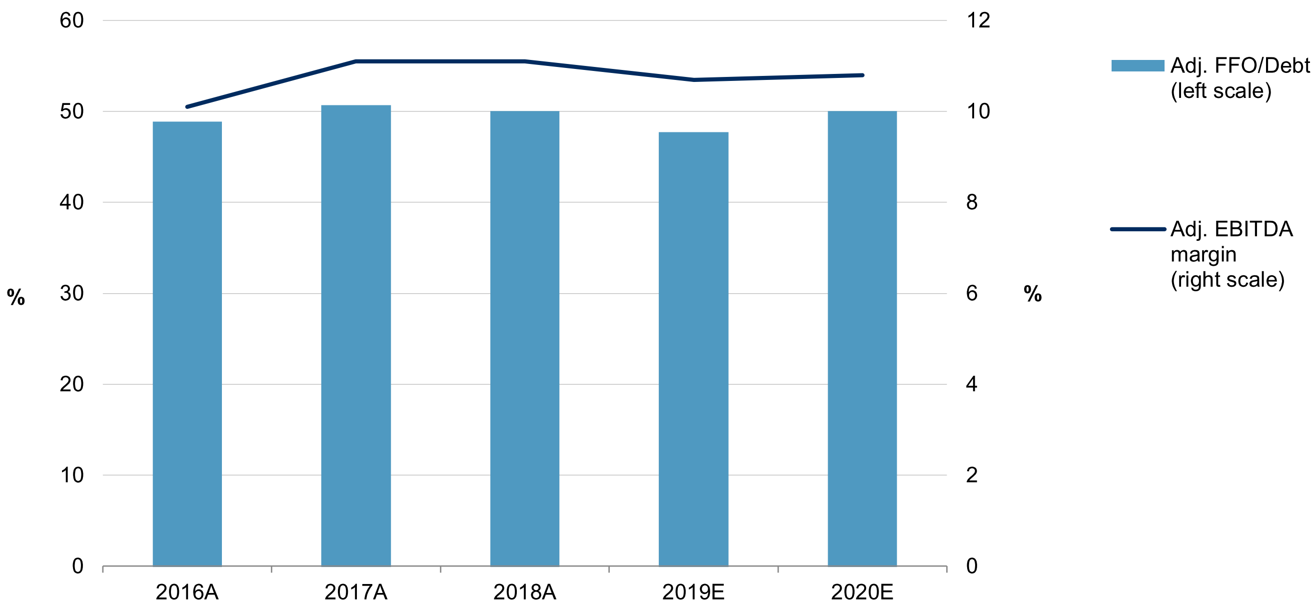
We expect revenue and EBITDA will continue to grow, but at a slower pace. Amid increased economic headwinds, especially declining market demand in the automotive and electronics sectors, Wuerth's revenue growth will slow down. Softening market conditions and intense competition in an inflationary cost environment will lead to slightly lower margins. As a result, we expect flat-to-modest growth in EBITDA in 2019.

FOCF generation is set to improve thanks to lower working capital outflows. Despite subdued earnings growth, FOCF will strengthen and net debt will remain on par with 2018 mainly because of much lower working capital outflows, in line with lower sales growth, and more-efficient inventory management.

Leverage ratios will remain reasonably stable. Wuerth's leverage ratios will be slightly weaker than the previous two years, but still reasonably stable with S&P Global Ratings-adjusted FFO to debt of 45%-50% and S&P Global Ratings-adjusted debt to EBITDA of 1.5x-1.8x in 2019-2020.

Chart 1

Resilience In Profitability And Leverage



Source: S&P Global Ratings.

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Outlook: Stable

The stable outlook on Germany-based Wuerth reflects our view that the group's profitability will remain at about current levels, with an S&P Global Ratings-adjusted EBITDA margin of 10.5%-11.0%, underpinned by a continued focus on efficiency. The stable outlook also reflects our view that management's cautious financial policy should enable the group to maintain modest leverage levels. We forecast that S&P Global Ratings-adjusted debt to EBITDA will remain 1.5x-2.0x and FFO to debt will stay 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%, with a financial policy that supports such credit measures over the long term.

Our Base-Case Scenario

Assumptions

- Revenue growth of 4%-5% in 2019-2020, after 7% growth in 2018, reflecting a slowdown of global economic growth, especially in Germany and Western Europe.
- A slight decrease in S&P Global Ratings-adjusted EBITDA margin to 10.5%-11.0% from 11.1% in 2018, reflecting weaker market conditions and intense competition in an inflationary cost environment.
- Working capital consumption decreasing to €150 million-€250 million in 2019-2020 from about €349 million in 2018, due to subdued revenue growth and reinforced focus on inventory management.
- Continued high capex of €600 million-€625 million in 2019-2020 (after €641 million in 2018 driven by some one-off effects) or about 4.2%-4.4% of annual sales.
- Bolt-on acquisitions of about €100 million per year.
- Net dividend in 2019 in line with 2018 (€175 million), then slightly higher in 2020 based on a stable payout ratio.

Key Metrics

	2018A	2019E	2020E
EBITDA margin* (%)	11.1%	10.5%-11.0%	10.5%-11.0%
Debt/EBITDA* (x)	1.7x	1.6x-1.8x	1.5x-1.7x
FFO/Debt* (%)	49.9%	45%-49%	47%-51%

*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 2018. Acquired entities that maintain their individual brand names are combined under allied companies, contributing around 44% of revenues. In 2018, the Wuerth group generated sales of about €13.6 billion and reported EBITDA of about €1.3 billion.

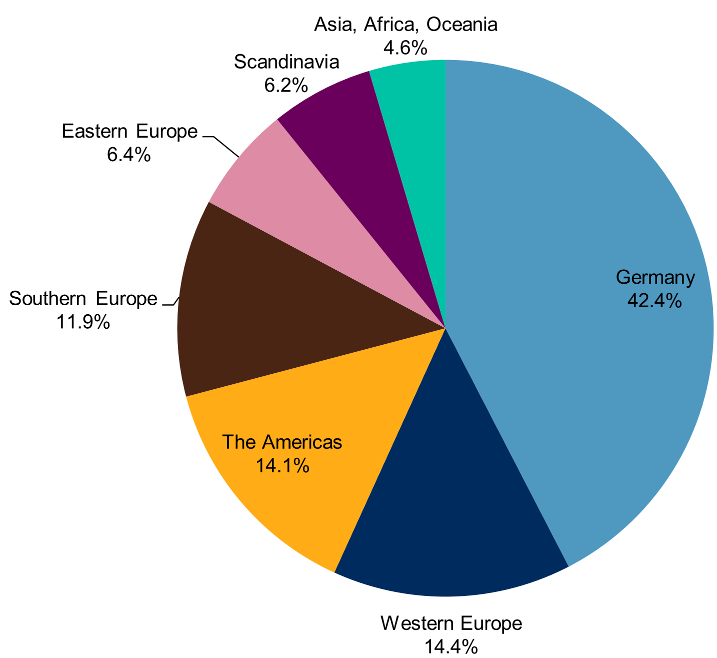
Business Risk: Strong

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

With sales of about €13.6 billion in 2018, Wuerth is one of the world's largest building materials distributors. The group has a broad geographic presence with high exposure to mature markets in Western Europe. In 2018, it derived 81.0% of revenues in Europe, of which 42.4% generated in Germany, followed by 14.4% in Western Europe. It mainly operates in developed countries with mature and highly competitive markets, which somewhat limits potential for organic sales growth and margin improvement. With this in mind, Wuerth has been gradually shifting its sales model from predominantly direct sales to a more balanced multi-channel approach (through sales branch offices and e-commerce). In addition, the group will continue undertaking small and midsize bolt-on acquisitions.

Chart 2

Wuerth 2018 Revenue Breakdown In Regions



Source: S&P Global Ratings.

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The group also benefits from a diverse customer and supplier base--it deals with 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 4% of the group's sales.

Wuerth operates in a highly fragmented industry that is also subject to moderate cyclicality. We expect to see continuous pressure on margins due to purchasing-costs inflation, high fragmentation, and competition in distribution markets, as well as some negative mix effects from an increasing share of lower-margin e-business. However, this will be somewhat offset by customers' perception that the group'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 should help it sustain potential pressure on margins over the next couple of years.

Peer comparison

Table 1

Adolf Wuerth GmbH & Co. KG -- Peer Comparison

Industry Sector: Building Materials & Products

	Adolf Wuerth GmbH & Co. KG	Grainger (W.W.) Inc.	Legrand S.A.	Ferguson PLC	Travis Perkins PLC
Ratings as of Aug. 12, 2019	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/--
	--Fiscal year ended Dec. 31, 2018--	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended July 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**
(Mil. €)					
Revenue	13,547.9	9,800.9	5,997.2	23,252.6	7,503.5
EBITDA	1,500.0	1,454.6	1,404.1	2,187.2	683.7
Funds from operations (FFO)	1,250.1	1,159.9	1,056.9	1,794.5	495.2
Interest expense	108.5	96.4	96.4	128.3	125.6
Cash interest paid	86.6	94.7	92.1	130.5	127.2
Cash flow from operations	930.4	959.8	911.9	1,440.4	406.0
Capital expenditure	621.1	200.0	150.6	335.0	213.0
Free operating cash flow (FOCF)	309.3	759.8	761.3	1,105.4	193.1
Discretionary cash flow (DCF)	14.7	102.1	372.1	(1,219.7)	15.5
Cash and short-term investments	476.0	469.9	1,020.4	933.4	284.3
Debt	2,505.7	1,739.5	2,848.7	2,207.1	1,766.6
Equity	4,979.0	1,828.1	4,597.1	4,545.9	3,025.3
Adjusted ratios					
EBITDA margin (%)	11.1	14.8	23.4	9.4	9.1
Return on capital (%)	13.7	32.0	16.2	27.0	8.0
EBITDA interest coverage (x)	13.8	15.1	14.6	17.0	5.4
FFO cash interest coverage (x)	15.4	13.3	12.5	14.7	4.9
Debt/EBITDA (x)	1.7	1.2	2.0	1.0	2.6
FFO/debt (%)	49.9	66.7	37.1	81.3	28.0
Cash flow from operations/debt (%)	37.1	55.2	32.0	65.3	23.0
FOCF/debt (%)	12.3	43.7	26.7	50.1	10.9
DCF/debt (%)	0.6	5.9	13.1	(55.3)	0.9

Financial Risk: Modest

Our financial risk assessment reflects our expectation that Wuerth's key credit metrics weaken slightly compared to the previous two years, but remain resilient, with adjusted FFO to debt of 45%-50% and adjusted debt to EBITDA of 1.5x-1.8x in 2019-2020. Due to increased economic headwinds, especially declining market demand in the automotive and electronics sectors, Wuerth's revenue growth will slow down to 4%-5% in 2019-2020 from above 7% in 2017-2018. Softening market conditions and intense competition in an inflationary cost environment will lead to slightly lower margin of 10.5%-11.0%, versus 11.1% S&P Global Ratings-adjusted EBITDA margin in the past two years. As a result, we anticipate flat to modest EBITDA growth in 2019.

Wuerth's operating performance in the first half of 2019 confirmed our expectation of a more difficult economic environment with a slowdown in topline growth and increasing margin pressure. In the first six months of 2019, sales growth moderated to 5.2% and the margin was lower than one year ago as the group could not fully pass rising purchasing prices on to customers due to market competition.

Despite the subdued growth in EBITDA, we expect FOCF generation will strengthen and net debt will remain stable compared to 2018, mainly driven by much lower working capital requirements in line with slower growth, and benefiting from more efficient inventory management. Capex will remain high at €600 million-€650 million in 2019-2020 to support expansion. And net dividend distribution will remain unchanged in 2019. We also anticipate management will remain committed to a cautious financial policy, and liquidity will remain at least adequate.

In 2018, Wuerth's operating performance remained strong and reported record sales and operating profits. Sales grew by 7.1% to €13.6 billion. Robust revenue growth is attributed to positive fundamentals across almost all key markets and business divisions, especially double-digit growth in Eastern and Southern Europe. It also reflects the group's implementation of its multi-channel strategy, with e-business sales growing by 24.6%. The high revenue growth coupled with a continuous focus on productivity and cost control has maintained profitability, with adjusted EBITDA margin remaining stable at 11.1%. However, net debt continued to increase in 2018 mainly due to increasing capex and high working capital outflows, driven by sales growth and high inventory levels (due to higher input costs and some one-off effects). As a result, debt to EBITDA weakened slightly to 1.7x in 2018 from 1.6x one year ago and FFO to debt to 49.9% from 50.6%.

In Wuerth's adjusted figures we deconsolidate the bank and leasing activities (for more details please see the reconciliation table), because we do not view these as core business for Wuerth and deconsolidation will allow us to better understand, analyze, and reflect the credit quality of Wuerth.

We expect the implementation of IFRS 16 will have a very limited impact on Wuerth's adjusted figures, given our estimate of only a small gap between our operating lease adjustments and the impact of IFRS 16 as expected by Wuerth.

Financial summary

Table 2

Adolf Wuerth GmbH & Co. KG -- Financial Summary

Industry Sector: Building Materials & Products

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. €)					
Revenue	13,547.9	12,653.1	11,771.7	10,976.3	10,054.0
EBITDA	1,500.0	1,409.9	1,186.1	1,100.6	1,022.8
Funds from operations (FFO)	1,250.1	1,174.3	983.6	897.7	832.9
Interest expense	108.5	118.0	130.5	131.4	133.3
Cash interest paid	86.6	88.1	80.5	88.5	100.6
Cash flow from operations	930.4	826.2	1,066.0	769.2	731.3
Capital expenditure	621.1	485.4	477.5	500.6	334.0
Free operating cash flow (FOCF)	309.3	340.8	588.5	268.6	397.3
Discretionary cash flow (DCF)	14.7	217.7	487.6	178.5	329.8
Cash and short-term investments	476.0	665.5	839.2	680.3	683.0
Gross available cash	392.0	581.3	754.7	591.9	598.0
Debt	2,505.7	2,320.4	2,015.4	2,110.2	1,765.0
Equity	4,979.0	4,603.1	4,308.6	3,947.8	3,579.5
Adjusted ratios					
EBITDA margin (%)	11.1	11.1	10.1	10.0	10.2
Return on capital (%)	13.7	12.1	11.5	11.2	11.7
EBITDA interest coverage (x)	13.8	12.0	9.1	8.4	7.7
FFO cash interest coverage (x)	15.4	14.3	13.2	11.1	9.3
Debt/EBITDA (x)	1.7	1.6	1.7	1.9	1.7
FFO/debt (%)	49.9	50.6	48.8	42.5	47.2
Cash flow from operations/debt (%)	37.1	35.6	52.9	36.5	41.4
FOCF/debt (%)	12.3	14.7	29.2	12.7	22.5
DCF/debt (%)	0.6	9.4	24.2	8.5	18.7

N.M.--Not meaningful

Liquidity: Adequate

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 from July 1, 2019. We note that a €500 million bond is maturing in May 2020--in less than 12 months. Given Wuerth's strong track record of refinancing and good standing in the capital market, we view the refinancing risk for the bond due 2020 as limited.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash and short-term securities of about €375 million as of June 30, 2019; • An undrawn committed revolving credit facility (RCF) of €400 million, maturing in July 2023; and • Cash FFO of about €1.1 billion.	• About €660 million of short-term debt maturities, including the €500 million bond due in 2020, which we expect to be refinanced before maturity; • Working capital outflows of about €200 million; • Capex of €600 million-€625 million, of which maintenance and committed capex with a long lead time is below €500 million. • Net dividends of €175 million.

Debt maturities

As of 30 June 2019*

- 2019: about €160 million
- 2020: €501 million
- 2021: €178 million
- 2022: €504 million
- Thereafter: €505 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.

Environmental, Social, And Governance

As a global distributor of assembly products in the building materials industry, Wuerth's exposure to environmental risks is lower than for heavy building materials and cement companies. Although the chemicals business unit accounts for only 3.9% of group sales in 2018, environmental issues could lead to supply bottlenecks and higher purchasing prices for some commodities. For example, Chinese authorities have considerably tightened their environmental controls in recent years, leading to shutdowns in some capacities. This has led to a tenser situation on the Chinese procurement market and pushed up prices accordingly. However, we expect the solid growth in sales will more than offset the increase in input costs.

We view governance as neutral to the rating. The Wuerth family remains heavily involved in the overall development of the group and continues to have a strong say in key strategic decisions, as reflected in the fact that supervisory board includes three family and two nonfamily members. However, we think the management structure is effective and will appropriately balance all stakeholders' interests.

Issue Ratings - Subordination Risk Analysis

Capital structure

Wuerth's capital structure consists of about €100 million of prior-ranked bank debt at operating subsidiaries, €175 million of unsecured U.S. private placement, and €1.6 billion senior unsecured notes issued by Wuerth Finance International B.V. as of March 31, 2019.

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 (about 85%).

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2018--									
Adolf Wuerth GmbH & Co. KG reported amounts										
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capita expenditur**
	3,395.4	5,115.2	13,620.4	1,278.1	903.0	58.9	1,500.0	750.9	308.5	641

Table 3

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

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capit expenditu
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(169.3)	--	--	
Cash taxes paid: Other	--	--	--	--	--	--	--	--	--	
Cash interest paid	--	--	--	--	--	--	(35.3)	--	--	
Operating leases	757.3	--	--	267.6	51.2	51.2	(51.2)	216.3	--	
Postretirement benefit obligations/deferred compensation	272.1	--	--	0.3	0.3	4.9	--	--	--	
Accessible cash and liquid investments	(392.0)	--	--	--	--	--	--	--	--	
Capitalized development costs	--	--	--	(3.1)	3.1	--	--	(3.1)	--	(3.
Deconsolidation/consolidation	(1,583.4)	(193.1)	(72.5)	(41.3)	(18.9)	(6.5)	6.0	1.6	20.0	(16.
Nonoperating income (expense)	--	--	--	--	52.1	--	--	--	--	
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(35.3)	--	
Noncontrolling interest/minority interest	--	56.9	--	--	--	--	--	--	--	
Debt: Guarantees	30.6	--	--	--	--	--	--	--	--	
Debt: Contingent considerations	25.8	--	--	--	--	--	--	--	--	
EBITDA: Gain/(loss) on disposals of PP&E	--	--	--	(1.6)	(1.6)	--	--	--	--	
Dividends: Other	--	--	--	--	--	--	--	--	(135.4)	
Total adjustments	(889.7)	(136.2)	(72.5)	221.9	86.2	49.6	(249.8)	179.5	(115.4)	(19.
S&P Global Ratings' adjusted amounts										
	2,505.7	4,979.0	13,547.9	1,500.0	989.2	108.5	1,250.1	930.4	193.1	621

Ratings Score Snapshot

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

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)

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

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 September 3, 2019)*	
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.

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