S&P Global
Ratings

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Adolf Wuerth GmbH & Co. KG

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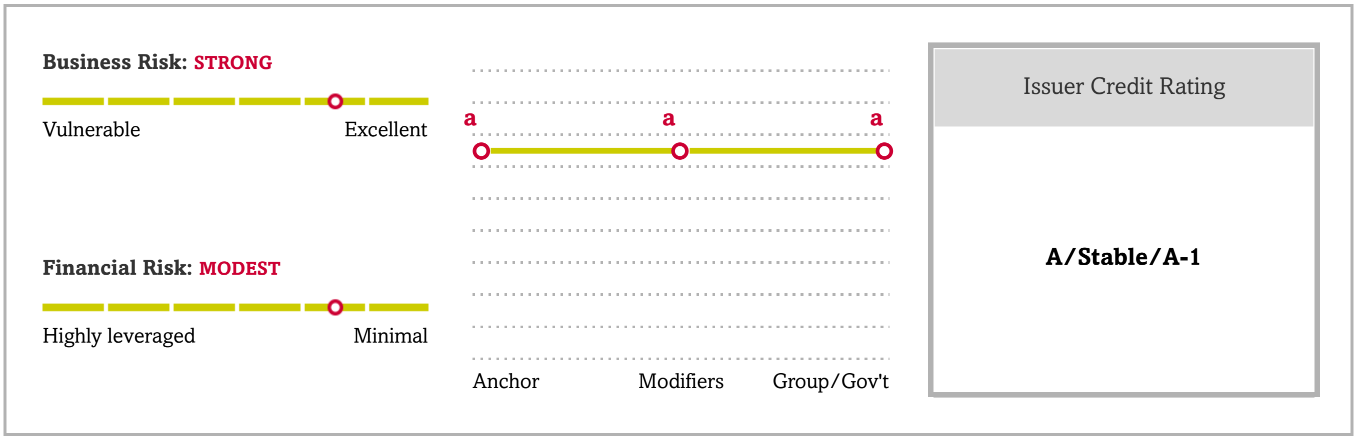
Adolf Wuerth GmbH & Co. KG



Credit Highlights

Overview

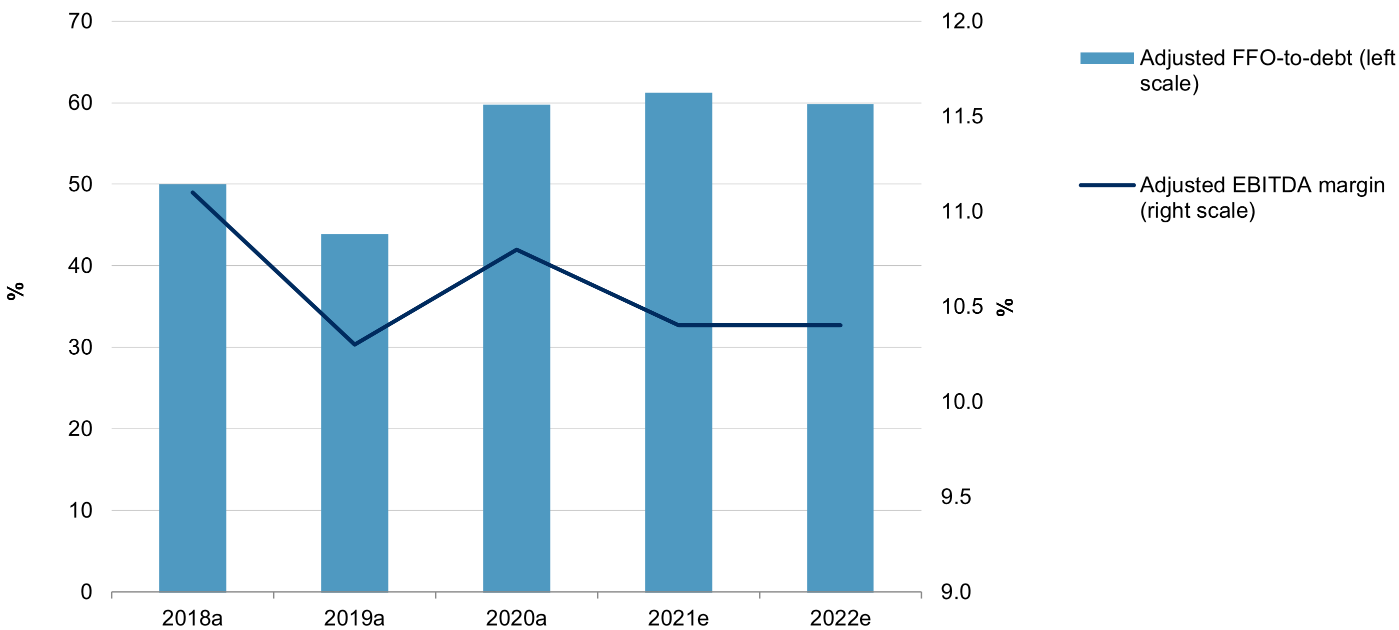
Key strengths	Key risks
Leading provider of low-ticket items for the global repair and construction industry, with a strong brand.	High concentration in mature and fragmented Western European markets (56% of 2020 sales, including Germany), where economic growth is more moderate than in emerging markets.
Wide product diversity and an extensive distribution network, with a diversified customer and supplier base, contributing to resilient performance in 2020.	Some exposure to cyclical industries like construction, auto, machinery, and plant engineering, of which the latter two suffered from lower market demand in 2020 due to COVID-19.
Cautious financial policy with a solid track record in preserving balance-sheet strength, as indicated by reduced capital expenditure (capex) and effective cost control measures in response to COVID-19.	

S&P Global Ratings expects Germany-based Adolf Wuerth GmbH & Co KG's revenue and EBITDA will continue to increase in 2021. In our base-case scenario, we assume revenue growth of 5%-6% and a modest increase in S&P Global Ratings-adjusted EBITDA to €1.55 billion-€1.60 billion this year. Despite COVID-19's impacts, Wuerth benefited from its superior end-market and customer diversification and delivered a very solid performance in 2020, with adjusted EBITDA up more than 6% to €1.55 billion. After being hard hit by the pandemic in the second quarter, the recovery trend since June 2020 accelerated in the fourth quarter and continued into 2021, resulting in record first-quarter sales--up more than 10% year on year to €4.0 billion. Besides rebound effects in markets affected by COVID-19, demand is also fueled by customers' inventory build-up, which supply shortages and increasing raw material prices further exacerbate. Although the very strong momentum in first-quarter 2021 is unlikely to be sustainable and rising raw material costs will negatively affect margin, we expect market demand to remain solid in 2021 and the company to maintain its focus on cost control.

We forecast sufficient rating headroom in the next 12-18 months. Solid operating performance has led to improved credit metrics, with adjusted debt to EBITDA down to 1.4x and FFO to debt up to 59.6% in 2020, from 1.9x and 44.2% in 2019, respectively (see chart 1). We expect debt to EBITDA to remain below 1.5x and FFO to debt above 60% in 2021, indicating very comfortable rating headroom, given the 1.5x-2.0x debt to EBITDA and 40%-60% FFO to debt that we view as commensurate with the rating. Nevertheless, we do not expect credit measures to remain at current levels because rating headroom will probably be partly used for growth opportunities, including acquisitions.

Chart 1

Continuous Improvement In 2021 Following A Strong 2020



a--Actual. E--Estimate. FFO--Funds from operations. Source: S&P Global Ratings.

The company's solid free operating cash flow (FOCF) supports a strong liquidity profile. In 2020, adjusted FOCF improved to above €990 million, compared with €386 million in 2019. This was driven by higher EBITDA, lower working capital thanks to more-efficient inventory management, and lower raw materials prices, as well as a more than 30% cut in adjusted capex to about €455 million. As a result, cash balance increased to above €1.2 billion at year-end 2020. Even without refinancing of the $200 million U.S. private placement due this year and the €500 million bond due 2022, liquidity will remain strong. We expect FOCF in 2021 to decline due to higher working capital, in line with topline growth and higher capex, although we expect it to be above €600 million.

Outlook: Stable

The stable outlook reflects our expectation that Wuerth will maintain its focus on efficiency and continue generating solid FOCF, 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.

Upside scenario

We could consider raising the ratings if we believe that the group could sustain stronger leverage metrics, with adjusted debt to EBITDA of about 1.5x and adjusted FFO to debt approaching 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

- Global GDP to rebound to 5.7% growth in 2021, following a 3.3% contraction in 2020. We forecast GDP growth of 4.2% and 3.2% this year in the eurozone and Germany, respectively.
- Revenue increase of 5%-6% in 2021, after modest growth of 1% in 2020, despite the global recessionary environment due to COVID-19.
- Working capital consumption increasing to €100 million-€150 million in 2021.
- Capex of about €650 million in 2021 from a low €455 million in 2020.
- Net shareholder distributions of about €140 million in 2021, slightly lower than the year before.

Key metrics

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

	--Fiscal year ended Dec. 31--			
(Mil. €)	**2019a**	**2020a**	**2021f**	**2022f**
Revenue	14,188.3	14,322.8	15,000-15,500	15,500-16,000
EBITDA margin (%)	10.3	10.8	10.0-10.5	10.0-10.5
Capital expenditure	694.2	454.6	~650	~650
Free operating cash flow (FOCF)	386.2	991.5	>600	>550
Debt to EBITDA (x)	1.9	1.4	1.4	1.4

Adolf Wuerth GmbH & Co. KG--Key Metrics* (cont.)

	--Fiscal year ended Dec. 31--			
(Mil. €)	**2019a**	**2020a**	**2021f**	**2022f**
FFO-to-debt (%)	43.8	59.6	60-62	~60

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. FFO--Funds from operations.

We expect a continuous recovery in the economy and market demand, but higher margin pressure. The slightly lower EBITDA margins from 2021 reflect significantly higher raw material costs this year and negative mix effects, which cost-control measures will only partly offset.

Lower, but still strong, FOCF supports continuous low leverage. We expect working capital to increase in line with revenue growth and rising raw material prices this year, despite the company's continuous focus on inventory management. Higher capex reflects a return to more normalized levels after management's efforts to cut or postpone nonessential capex last year as a reaction to COVID-19.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

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. The group sells more than 125,000 different own-brand products in its core business to the auto aftermarket, metalworking, woodworking, craft and manufacturing industries, which generated about 56% of group revenue in 2020. The remaining 44% 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 2020, the Wuerth group generated sales of about €14.4 billion and adjusted EBITDA of €1.55 billion.

Peer Comparison

Table 1

Adolf Wuerth GmbH & Co. KG--Peer Comparison

Industry sector: Building materials and products

	Adolf Wuerth GmbH & Co. KG	**Grainger (W.W.) Inc.**	**Legrand S.A.**	**Ferguson plc**	**Travis Perkins PLC**
Ratings as of June 2, 2021	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	BBB+/Stable/A-2	BB+/Negative/--
	--Fiscal year ended Dec. 31, 2020--				

Table 1

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

Industry sector: Building materials and products

	Adolf Wuerth GmbH & Co. KG	Grainger (W.W.) Inc.	Legrand S.A.	Ferguson plc	Travis Perkins PLC
(Mil. €)					
Revenue	14,322.8	9,643.8	6,099.5	18,442.9	6,872.4
EBITDA	1,548.6	1,308.0	1,376.0	1,737.9	474.1
Funds from operations (FFO)	1,327.4	1,077.1	1,057.1	1,406.5	325.7
Interest expense	75.1	82.9	99.3	136.1	107.1
Cash interest paid	54.0	83.7	78.9	141.2	98.8
Cash flow from operations	1,446.1	974.9	1,138.6	1,579.0	543.8
Capital expenditure	454.6	157.8	126.8	255.3	141.6
Free operating cash flow (FOCF)	991.5	817.2	1,011.8	1,323.7	402.1
Discretionary cash flow (DCF)	834.3	34.9	620.8	644.1	402.1
Cash and short-term investments	1,312.1	478.2	2,791.3	1,787.7	564.3
Debt	2,228.6	1,784.3	2,939.5	2,090.4	1,559.4
Equity	5,682.3	1,711.0	4,906.0	3,694.7	3,028.9
Adjusted ratios					
EBITDA margin (%)	10.8	13.6	22.6	9.4	6.9
Return on capital (%)	11.3	26.5	13.4	21.6	2.9
EBITDA interest coverage (x)	20.6	15.8	13.9	12.8	4.4
FFO cash interest coverage (x)	25.6	13.9	14.4	11.0	4.3
Debt/EBITDA (x)	1.4	1.4	2.1	1.2	3.3
FFO/debt (%)	59.6	60.4	36.0	67.3	20.9
Cash flow from operations/debt (%)	64.9	54.6	38.7	75.5	34.9
FOCF/debt (%)	44.5	45.8	34.4	63.3	25.8
DCF/debt (%)	37.4	2.0	21.1	30.8	25.8

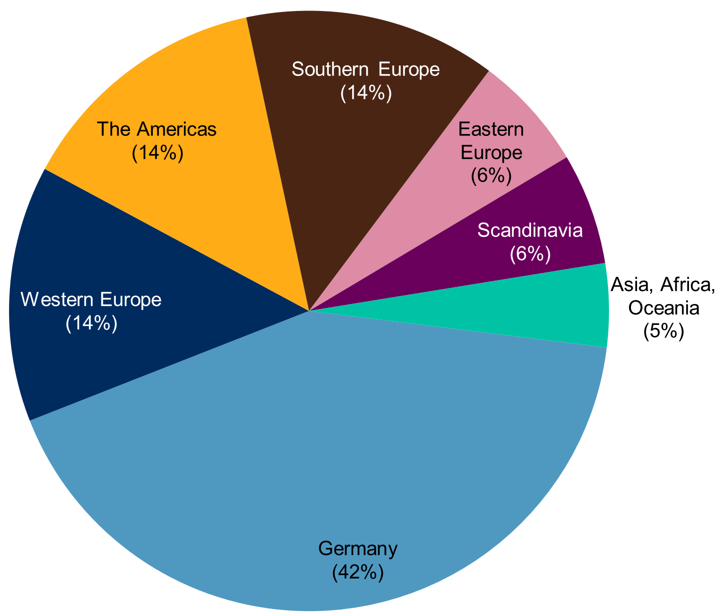
Business Risk: Strong

Wuerth's business risk reflects the company's large size, strong brand and broad geographic 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 €14.4 billion in 2020, Wuerth is the world's largest building materials distributor. The group has a broad geographic presence, with high exposure to mature markets in Western Europe. In 2020, it derived 81.0% of revenue in Europe, including 42.1% 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. With this in mind, 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 increasing share of e-business has helped compensate for losses in traditional channels during the pandemic. In addition, we expect the group will continue undertaking small and midsize bolt-on acquisitions.

Chart 2

Wuerth 2020 Revenue Breakdown In Regions



Source: S&P Global Ratings.

The company 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 continuous pressure on margins due to purchasing-cost inflation, high fragmentation, competition in distribution markets, and some negative mix effects from an increasing share of lower-margin e-business and a lower share of higher-margin products for the auto sector, which is still subject to a long recovery path. 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 at least partly mitigate potential pressure on margins over the next couple of years.

Financial Risk: Modest

Wuerth has withstood the global pandemic much better than we expected. Despite the COVID-19 pandemic, the group delivered stronger-than-expected performance in 2020. Although COVID-19 containment measures pushed the global economy into recession last year, Wuerth benefited from its superior end-market and customer diversity, as well as increasing e-business after previously implementing its multichannel strategy. Resilient market conditions in Germany, above 10% sales growth in some divisions including construction, as well as increasing e-business helped the group fully offset declines in COVID-19-hit cyclical end markets like auto, manufacturing, and mechanical engineering. As a result, adjusted sales increased slightly, by 1% to €14.3 billion and adjusted EBITDA was up more than 6% to €1.55 billion in 2020. This was much stronger than our previous expectation of a less than 5% revenue and 7%-12% adjusted EBITDA decline.

After the virus' outbreak, which led to double-digit sales declines in April and May 2020, management reacted quickly and took measures to cut operating costs and capex, reduce inventory levels, lower shareholder distribution, and maintain a sufficient liquidity buffer. This effectively reduced the hit from COVID-19 on operating profits and boosted cash flow and liquidity. We expect financial policy to remain cautious, reflected in continuous capex discipline, no significant increase in net shareholder distributions, and a temporary halt in large acquisitions this year, which will help Wuerth maintain sufficient rating headroom in the next 12-18 months.

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.

Financial summary

Table 2

Adolf Wuerth GmbH & Co. KG--Financial Summary

Industry sector: Building materials and products

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. €)					
Revenue	14,322.8	14,188.3	13,547.9	12,653.1	11,771.7
EBITDA	1,548.6	1,458.7	1,500.0	1,409.9	1,186.1
Funds from operations (FFO)	1,327.4	1,227.6	1,250.1	1,174.3	983.6
Interest expense	75.1	68.6	108.5	118.0	130.5
Cash interest paid	54.0	52.0	86.6	88.1	80.5
Cash flow from operations	1,446.1	1,080.4	930.4	826.2	1,066.0
Capital expenditure	454.6	694.2	621.1	485.4	477.5
Free operating cash flow (FOCF)	991.5	386.2	309.3	340.8	588.5

Table 2

Adolf Wuerth GmbH & Co. KG--Financial Summary (cont.)

Industry sector: Building materials and products					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
Discretionary cash flow (DCF)	834.3	200.7	14.7	217.7	487.6
Cash and short-term investments	1,312.1	464.0	476.0	665.5	839.2
Gross available cash	1,218.2	373.6	392.0	581.3	754.7
Debt	2,228.6	2,802.3	2,505.7	2,320.4	2,015.4
Equity	5,682.3	5,340.6	4,979.0	4,603.1	4,308.6
Adjusted ratios					
EBITDA margin (%)	10.8	10.3	11.1	11.1	10.1
Return on capital (%)	11.3	10.1	13.7	12.1	11.5
EBITDA interest coverage (x)	20.6	21.3	13.8	12.0	9.1
FFO cash interest coverage (x)	25.6	24.6	15.4	14.3	13.2
Debt/EBITDA (x)	1.4	1.9	1.7	1.6	1.7
FFO/debt (%)	59.6	43.8	49.9	50.6	48.8
Cash flow from operations/debt (%)	64.9	38.6	37.1	35.6	52.9
FOCF/debt (%)	44.5	13.8	12.3	14.7	29.2
DCF/debt (%)	37.4	7.2	0.6	9.4	24.2

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2020--									
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**	**Capital expenditure**
Reported	3,800.1	5,862.7	14,413.0	1,587.7	809.1	75.7	1,548.6	1,600.3	303.8	463.3
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(173.1)	--	--	--
Cash interest paid	--	--	--	--	--	--	(37.8)	--	--	--
Cash interest paid: Other	--	--	--	--	--	--	(15.8)	--	--	--
Reported lease liabilities	973.5	--	--	--	--	--	--	--	--	--
Postemployment benefit obligations/ deferred compensation	343.6	--	--	0.1	0.1	3.5	--	--	--	--

Table 3

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

Accessible cash and liquid investments	(1,218.2)	--	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	--	(2.6)	0.8	--	--	(2.6)	--	(2.6)
Deconsolidation/ consolidation	(1,693.1)	(238.1)	(90.2)	(35.0)	(30.5)	(4.1)	5.5	(113.8)	10.0	(6.1)
Nonoperating income (expense)	--	--	--	--	44.3	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(37.8)	--	--
Noncontrolling interest/minority interest	--	57.7	--	--	--	--	--	--	--	--
Debt: Guarantees	19.3	--	--	--	--	--	--	--	--	--
Debt: Contingent considerations	3.4	--	--	--	--	--	--	--	--	--
EBITDA: Gain (loss) on disposals of PP&E	--	--	--	(1.6)	(1.6)	--	--	--	--	--
Depreciation and amortization: Impairment charges (reversals)	--	--	--	--	83.8	--	--	--	--	--
Dividends: Other	--	--	--	--	--	--	--	--	(156.6)	--
Total adjustments	(1,571.5)	(180.4)	(90.2)	(39.1)	96.9	(0.6)	(221.2)	(154.2)	(146.6)	(8.7)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditure
Adjusted	2,228.6	5,682.3	14,322.8	1,548.6	906.0	75.1	1,327.4	1,446.1	157.2	454.6

PP&E--Plant, property, and equipment.

Liquidity: Strong

The short-term rating on Wuerth is 'A-1'. 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 2x over the 12 months from March 31, 2021. We expect that no refinancing will be required in 2021, given the large cash balance. In addition, the company's solid relationships with banks, its good access to debt capital markets, and management's track record of prudent risk management support the strong liquidity assessment.

Principal liquidity sources	Principal liquidity uses

- Unrestricted cash and short-term securities of about €1.29 billion at March 31, 2021
- An undrawn committed revolving credit facility of €400 million, maturing in July 2023
- Cash FFO of €1.0 billion-€1.1 billion after deducting lease principal repayments

- About €280 million of short-term debt maturities
- Annual working capital outflow of €150 million-€200 million with intrayear swings of about €100 million
- Annual capex of about €650 million
- Net shareholder distributions of about €140 million in 2021

Debt maturities

As of December 2020:

- 2021: €250 million
- 2022: €504 million
- 2023-2024: €2 million
- 2025: €507 million
- Thereafter: €746 million.

This excludes 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 the group will have ample headroom under these covenants over the next 24 months.

Environmental, Social, And Governance

Environmental risk is comparatively low for building materials distributors, because their business is not energy-intensive and it distributes products, rather than developing them. Accordingly, we view Wuerth's exposure to environmental risks as lower than for heavy and normal building materials, as well as cement producers. The group is committed to logistical optimization targeting less packaging, less filling material, and fewer trips, which also addresses customers' increasing demand for sustainable products and solutions. The company has strong governance. Wuerth's stronger and more resilient performance in 2020 than most industry peers proved management's ability to operate its business effectively through market downturn and reflects its execution of business strategy (for instance, multichannel sales and digitalization) and prudent risk management. The group is controlled by the Wuerth family, with a supervisory board comprising three family and two nonfamily members. The family remains heavily involved in the group's overall development and continues to have a strong say in key strategic decisions. However, we think the management and governance structure is effective and will balance stakeholders' interests.

Issue Ratings - Subordination Risk Analysis

Capital structure

Wuerth's capital structure consists of about €93 million of prior-ranked local bank loans at operating subsidiaries, $200 million (€164 million) of unsecured U.S. private placement, and €1.75 billion senior unsecured notes issued by Wuerth Finance International B.V. as of Dec. 31, 2020.

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, its diversity, and the concentration of financial debt at the finance subsidiary (about 90%).

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:** Strong (no impact)
- **Management and governance:** Strong (no impact)

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
- 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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 14, 2021)*

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.