S&P Global
Ratings

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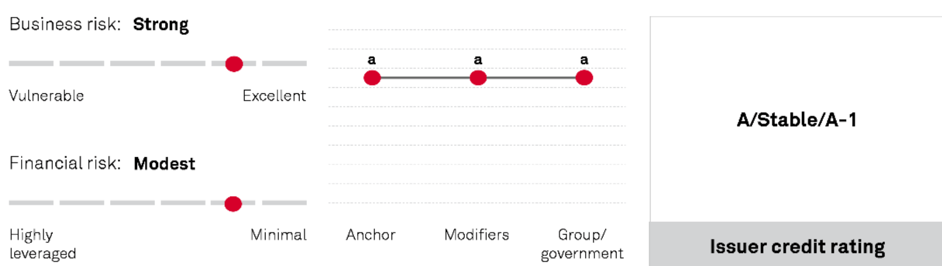
Adolf Wuerth GmbH & Co. KG

June 6, 2022

Ratings Score Snapshot



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Credit Highlights

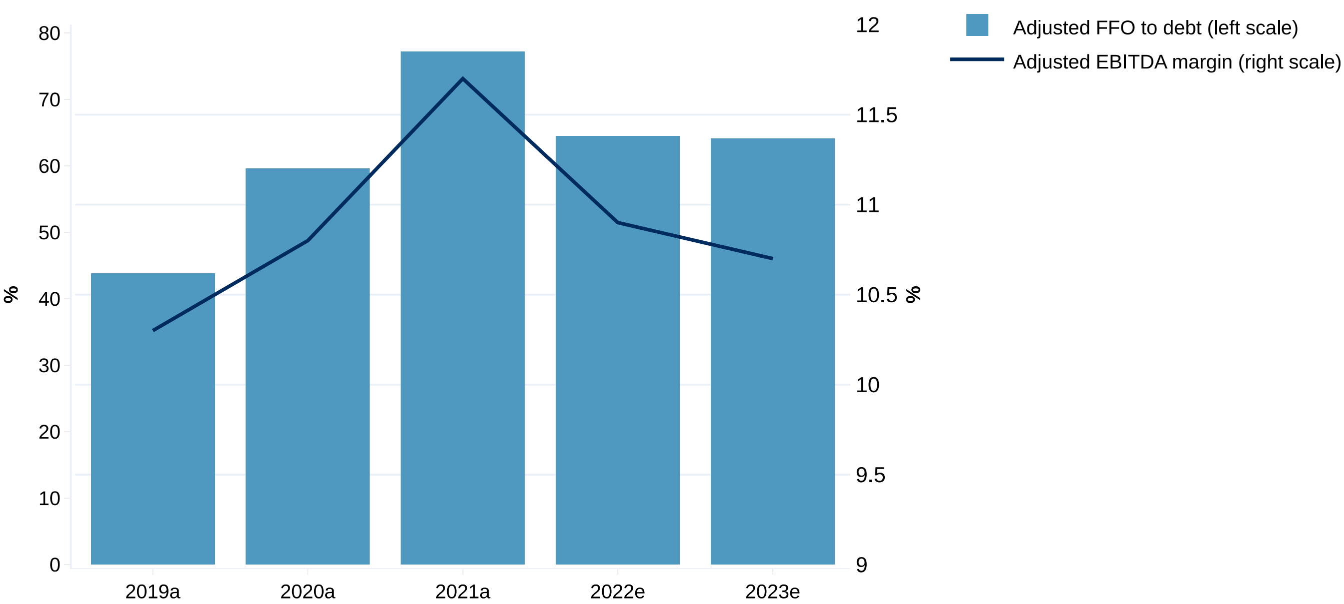
Overview

Key strengths	Key risks
Leading provider of low-ticket items for the global repair and construction industry, with a strong brand.	High concentration in mature and fragmented western European markets (54.5% of 2021 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.	Some exposure to cyclical industries like construction, auto, and electronics.
Cautious financial policy with a solid track record in preserving balance sheet strength.	The building material sector is exposed to current high raw material and energy cost inflation, and companies are tested on their ability to pass through costs at a time when demand may weaken

Adolf Wuerth GmbH & Co. KG (Wuerth)'s strong performance in 2021 leads to ample rating headroom. The company reported sales growth of 18.5% in 2021 and an S&P Global Ratings-adjusted EBITDA margin of 11.7%. It also generated strong cash flow even with higher working capital requirements to build up inventory in response of supply chain issues and to ensure smooth operations. Solid operating performance has led to improved credit metrics, with adjusted debt to EBITDA down to 1.1x and funds from operations

(FFO) to debt rising to 77% in 2021, from 1.4x and 59.6% in 2020 respectively. S&P Global Ratings forecasts comparatively weaker revenue growth of about 10%-12% in 2022, with end-market demand partially affected by the current inflationary environment. We expect debt to EBITDA to remain below 1.5x and FFO to debt modestly above 60% in 2022, indicating very comfortable rating headroom against 1.5x-2.0x debt to EBITDA and 40%-60% FFO to debt that we view as commensurate with the rating.

Comfortable Rating Headroom Even With Challenging Market Conditions



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

In our view, Wuerth has limited exposure to current geopolitical conflicts in Europe. We see very limited direct effects on Wuerth from the Russia-Ukraine conflict. However, we note indirect impacts in terms of supply chain disruptions and increasing raw material and energy costs. Current high inflation could weaken business and consumer confidence and reduce volume growth in 2022-2023. That said, we believe Wuerth is better positioned than peers thanks to its leading position, strong brand, and better product and customer diversity.

Outlook

The stable outlook reflects our expectation that Wuerth will maintain its focus on 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 should protect Wuerth from the current weakening economic and operating 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

- GDP growth of 2.7% and 1.9% in 2022 in the eurozone and Germany, respectively. Then we forecast growth of 2.2%-2.5% in 2023.
- Revenue growth of 10%-12% in 2022, after a solid 18.5% in 2021. The lower growth reflects the indirect consequences of the Russia-Ukraine conflict, namely higher inflation. We expect moderate growth of 2%-4% in 2023-2024.
- S&P Global Ratings-adjusted EBIDA margin of 10.5%-11.5% in 2022-2023, down from 11.7% in 2021, reflecting challenging market conditions and the inflationary cost environment.
- Working capital cash absorption remains high in 2022 at €800 million-€850 million, and then moderates starting 2023.
- Capital expenditure (capex) of €720 million-€760 million in 2022 and €650 million-€700 million in 2023-2024, which compares with €547 million in 2021.
- Yearly shareholder distributions of €180 million-€220 million in 2022-2024.

Key metrics

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

	--Fiscal year ended Dec.31--			
(Mil. €)	**2020a**	**2021a**	**2022e**	**2023f**
Revenue	14,322.8	16,969.1	18,500-19,300	19,100-19,900
EBITDA margin (%)	10.8	11.7	10.5-11.5	10.5-11.5
Capital expenditure	454.6	546.8	750-800	650-700
Free operating cash flow (FOCF)	991.5	385.5	320-370	650-700
Debt to EBITDA (x)	1.4	1.1	1.2-1.5	1.2-1.5
Funds from operations to debt (%)	59.6	77.2	60-65	60-65

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

We expect a slightly lower adjusted EBITDA margin in 2022-2023. The lower margins in 2022 reflect the effects of inflated raw material and other costs like energy and logistics, for which we assume some time lag to pass to clients.

Despite earnings pressure this year, we expect resilient FOCF. With expanding revenue and rising raw material/inventory costs, we expect working capital consumption of €800 million-€850 million this year. We project capex will slightly increase, following relatively low levels in 2020 and 2021. Even with that, we expect FOCF of about €400 million in 2022.

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 55% of group revenue in 2021. 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 2021, the Wuerth group generated sales of about €17 billion and adjusted EBITDA of €1.99 billion.

Peer Comparison

Adolf Wuerth GmbH & Co. KG--Peer Comparisons

	Adolf Wuerth GmbH & Co. KG	Grainger (W.W.) Inc.	Legrand S.A.	Ferguson PLC	Travis Perkins PLC
Foreign currency issuer credit rating	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/--
Local currency issuer credit rating	A/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	BBB+/Stable/A-2	BB+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-07-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	16,969	11,450	6,994	19,214	5,461
EBITDA	1,992	1,626	1,650	2,252	635
Funds from operations (FFO)	1,735	1,215	1,273	1,776	546
Interest	36	80	92	124	53
Cash interest paid	42	80	77	135	18
Operating cash flow (OCF)	932	886	1,098	1,299	396
Capital expenditure	547	223	140	207	196
Free operating cash flow (FOCF)	386	663	958	1,092	200
Discretionary cash flow (DCF)	195	(289)	489	(119)	(10)
Cash and short-term investments	1,066	212	2,781	1,125	547
Gross available cash	957	212	2,781	1,045	547
Debt	2,247	2,301	2,827	2,107	720
Equity	6,555	1,899	5,720	4,055	2,664
EBITDA margin (%)	11.7	14.2	23.6	11.7	11.6
Return on capital (%)	16.1	34.3	16.5	28.8	9.9

Adolf Wuerth GmbH & Co. KG--Peer Comparisons

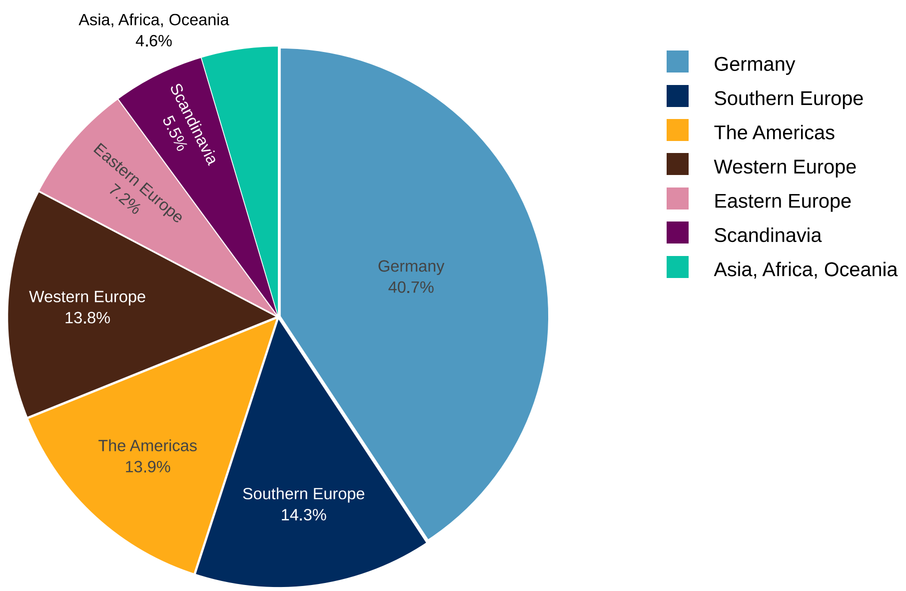
EBITDA interest coverage (x)	54.9	20.4	17.9	18.2	11.9
FFO cash interest coverage (x)	42.0	16.3	17.5	14.2	31.4
Debt/EBITDA (x)	1.1	1.4	1.7	0.9	1.1
FFO/debt (%)	77.2	52.8	45.0	84.3	75.8
OCF/debt (%)	41.5	38.5	38.9	61.7	55.0
FOCF/debt (%)	17.2	28.8	33.9	51.8	27.7
DCF/debt (%)	8.7	(12.6)	17.3	(5.6)	(1.4)

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 €17 billion in 2021, Wuerth is among the world's largest building materials distributors. The group has high exposure to the mature markets of western Europe. In 2021, it derived 81.5% of revenue in Europe, including 40.7% 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 increasing share of e-business has helped compensate for losses in traditional channels during the COVID-19 pandemic. In addition, we expect the group will continue undertaking small and midsize bolt-on acquisitions.

Wuerth 2021 Revenue Breakdown In Regions



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 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 many challenges and cyclicality. However, this will be 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 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

Our financial risk profile assessment reflects the company's healthy cash balances, with strong FOCF and a conservatively leveraged balance sheet. FFO to debt was above 60% and debt to EBITDA at 1.1x in 2021.

In our base case, we expect Wuerth's adjusted FFO to debt to stay modestly above 60% and debt to EBITDA at 1.2x-1.5x in 2022-2023, slightly worse than 2021. We take into consideration the current escalated geopolitical tensions and its cascading effects on economies, particularly in Europe, leading to margin pressures in the near term. That said, we expect Wuerth to benefit from its superior end-market and customer diversity, as well as increasing share of e-business.

We expect financial policy to remain cautious, reflected in continuous capex discipline, 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.

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 2022:

- 2022: €475 million
- 2023-2024: €2 million
- 2025: €499 million
- Thereafter: €747 million

This excludes debt at Internationales Bankhaus Bodensee AG.

Adolf Wuerth GmbH & Co. KG--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	11,772	12,653	13,548	14,188	14,323	16,969
EBITDA	1,186	1,410	1,500	1,459	1,549	1,992
Funds from operations (FFO)	984	1,174	1,250	1,228	1,327	1,735
Interest expense	130	118	109	69	75	36
Cash interest paid	80	88	87	52	54	42
Operating cash flow (OCF)	1,066	826	930	1,080	1,446	932
Capital expenditure	478	485	621	694	455	547
Free operating cash flow (FOCF)	588	341	309	386	992	386
Discretionary cash flow (DCF)	488	218	15	201	834	195
Cash and short-term investments	839	666	476	464	1,312	1,066
Gross available cash	755	581	392	374	1,218	957
Debt	2,015	2,320	2,506	2,802	2,229	2,247
Common equity	4,309	4,603	4,979	5,341	5,682	6,555
Adjusted ratios						
EBITDA margin (%)	10.1	11.1	11.1	10.3	10.8	11.7
Return on capital (%)	11.5	12.1	13.7	10.1	11.3	16.1
EBITDA interest coverage (x)	9.1	12.0	13.8	21.3	20.6	54.9
FFO cash interest coverage (x)	13.2	14.3	15.4	24.6	25.6	42.0
Debt/EBITDA (x)	1.7	1.6	1.7	1.9	1.4	1.1
FFO/debt (%)	48.8	50.6	49.9	43.8	59.6	77.2
OCF/debt (%)	52.9	35.6	37.1	38.6	64.9	41.5
FOCF/debt (%)	29.2	14.7	12.3	13.8	44.5	17.2
DCF/debt (%)	24.2	9.4	0.6	7.2	37.4	8.7

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-31-2021									
Company reported amounts	3,942	6,751	17,060	2,037	1,261	35	1,992	1,034	326	553
Cash taxes paid	-	-	-	-	-	-	(221)	-	-	-
Cash interest paid	-	-	-	-	-	-	(28)	-	-	-
Cash interest paid: other	-	-	-	-	-	-	(13)	-	-	-
Lease liabilities	978	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	308	-	-	(1)	(1)	3	-	-	-	-
Accessible cash and liquid investments	(957)	-	-	-	-	-	-	-	-	-
Capitalized development costs	-	-	-	(3)	1	-	-	(3)	-	(3)
Deconsolid./ consolid.	(2,048)	(270)	(91)	(35)	(31)	(2)	6	(71)	10	(3)
Nonoperating income (expense)	-	-	-	-	54	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(28)	-	-
Noncontrolling/ minority interest	-	73	-	-	-	-	-	-	-	-
Debt: Guarantees	19	-	-	-	-	-	-	-	-	-
Debt: Contingent considerations	4	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(6)	(6)	-	-	-	-	-

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
D&A: Impairment charges/ (reversals)	-	-	-	-	68	-	-	-	-	-
Dividends: other	-	-	-	-	-	-	-	-	(169)	-
Total adjustments	(1,695)	(197)	(91)	(45)	85	1	(257)	(102)	(160)	(6)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,247	6,555	16,969	1,992	1,346	36	1,735	932	166	547

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, 2022. Wuerth has just refinanced its maturing €500 million bond with a new €600 million bond issuance maturing in 2030. In addition, the company's solid relationships with banks and good access to debt capital markets, as well as management's track record of prudent risk management, support the strong liquidity assessment.

Principal liquidity sources

- Unrestricted cash and short-term securities of about €718 million at March 31, 2022.
- An undrawn committed revolving credit facility of €400 million, maturing in July 2023.
- Cash FFO of €1,530 million-€1,560 million after deducting lease principal repayments.

Principal liquidity uses

- About €476 million of debt maturities.
- Annual working capital outflows of €650 million-€700 million for the next 12 months.
- Annual capex of €730 million-€760 million.
- Net shareholder distributions of €180 million-€190 million in 2022.

Covenant Analysis

Requirements

Wuerth has financial covenants under its syndicated credit line 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

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. In 2020, the company's stronger and more resilient performance than most industry peers 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 €78 million of prior-ranked local bank loans at operating subsidiaries, and €1.75 billion senior unsecured notes issued by Wuerth Finance International B.V. as of Dec. 31, 2021.

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

Ratings Detail (as of June 06, 2022)*

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

Ratings Detail (as of June 06, 2022)*

*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.