S&P Global Ratings

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Tear Sheet:

Adolf Wuerth GmbH & Co. KG

June 3, 2024

We anticipate Wuerth will post a moderate profit decline in 2024 as markets remain challenging. Delayed purchases amid high interest rates and inflation continue to affect volume development; we expect that operating conditions in Wuerth's most relevant local markets will remain challenging, especially in the first half of 2024. Positively, we note that some European economies might have reached the trough in the cycle and look set to recover gradually in second-half 2024, particularly if the monetary policy eases. We anticipate a moderate revenue decline of 1%-2% in 2024, while the S&P Global Ratings-adjusted EBITDA margin will likely decline to 10.0%-10.5%, from 11.5% in 2023, due to normalizing selling prices and lower volumes. As the market recovers, we believe Wuerth will benefit from its superior diversification and industry megatrends, such as the energy transition and increasing renewable energy scope, driving demand for the company's electrical wholesale products. Wuerth's performance in 2023 was very resilient, with reported sales up by 2% to €20.2 billion, largely driven by higher average selling prices; at the same time, cost inflation and higher wages resulted in a slight decline in the adjusted EBITDA margin to 11.4% from 11.7% in 2022.

We view positively Wuerth's strengthened presence in European electrical distribution, as it should support higher sales in the medium term. In December 2023, Wuerth announced the acquisition of 80% of shares in IDG 01 S.p.A., a leading electrical wholesale distributor in Northern Italy. This is in addition of the acquisition of TIM S.A., 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%, announced in March 2023 and completed in January 2024. Overall, we anticipate that total acquisition spending will be about €550 million-€600 million in 2024.

We anticipate rating headroom will remain comfortable in 2024-2025. This is even after incorporating a lower EBITDA and cash disbursement related to acquisitions. Assuming broadly stable capital expenditure (capex) of €800 million-€850 million and modest cash absorption related to working capital, we forecast adjusted funds from operations (FFO) to debt of 55%-60%, which is well above the minimum of 40% that is commensurate with current rating.

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 not changed since 2000, with the company overcoming all economic downturns in the past two decades. This is among the most stable credit profiles in the global corporate arena.

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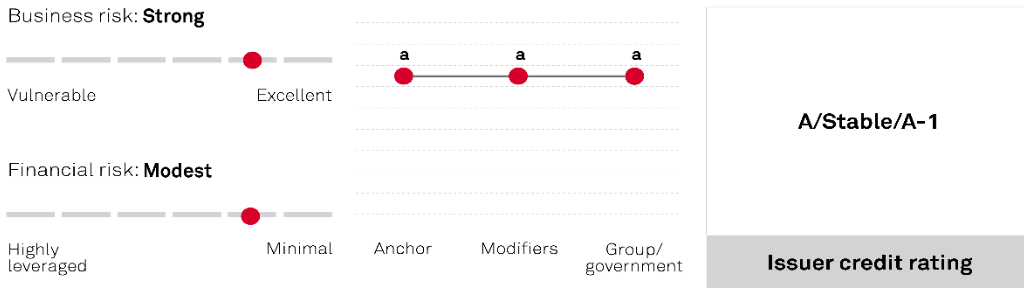
Ratings Score Snapshot



Recent Research

- Credit FAQ: European Building Materials, March 19, 2024
- Industry Credit Outlook 2024: Building Materials, Jan. 9, 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. Wuerth sells 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 2023. The remaining 45% of group sales came from allied companies, which have been acquired, or founded entities that maintain their individual brand names and operate in adjacent segments of the core business like electrical wholesale, the manufacturing of chemical products, and the distribution of stainless steel screws. In 2023, the Wuerth group generated sales of about €20.2 billion and S&P Global Ratings-adjusted EBITDA of €2.3 billion.

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 2021-2023 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 metrics over the long term.

Key Metrics

Period ending	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**
(Mil. EUR)	2022a	2023a	2024e	2025f	2026f
Revenue	19,821	20,218	19,800-20,100	20,000-20,400	20,500-20,800
Capital expenditure (capex)	796	898	800-850	800-850	800-850
Free operating cash flow (FOCF)	37	1,070	700-750	650-750	650-750
Adjusted ratios					
Debt/EBITDA (x)	1.1	0.9	1.2-1.5	1.2-1.5	1.2-1.5
FFO/debt (%)	71.2	85.8	55-60	55-60	55-60
EBITDA margin (%)	11.7	11.5	10-10.5	10-10.5	10-10.5

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

Financial Summary

Adolf Wuerth GmbH & Co. KG--Financial Summary

Period ending	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	13,548	14,188	14,323	16,969	19,821	20,218
EBITDA	1,500	1,459	1,549	1,992	2,320	2,319
Funds from operations (FFO)	1,250	1,228	1,327	1,735	1,894	1,842
Interest expense	109	69	75	36	93	168
Cash interest paid	87	52	54	42	73	101
Operating cash flow (OCF)	930	1,080	1,446	932	833	1,968
Capital expenditure	621	694	455	547	796	898
Free operating cash flow (FOCF)	309	386	992	386	37	1,070
Discretionary cash flow (DCF)	15	201	834	195	(158)	830
Cash and short-term investments	476	464	1,312	1,066	1,110	1,638
Gross available cash	392	374	1,218	957	938	1,467
Debt	2,506	2,802	2,229	2,247	2,659	2,148

Adolf Wuerth GmbH & Co. KG--Financial Summary

Common equity	4,979	5,341	5,682	6,555	7,621	8,455
Adjusted ratios						
EBITDA margin (%)	11.1	10.3	10.8	11.7	11.7	11.5
Return on capital (%)	13.7	10.1	11.3	16.1	17.2	15.5
EBITDA interest coverage (x)	13.8	21.3	20.6	54.9	25.0	13.8
FFO cash interest coverage (x)	15.4	24.6	25.6	42.0	26.8	19.3
Debt/EBITDA (x)	1.7	1.9	1.4	1.1	1.1	0.9
FFO/debt (%)	49.9	43.8	59.6	77.2	71.2	85.8
OCF/debt (%)	37.1	38.6	64.9	41.5	31.3	91.6
FOCF/debt (%)	12.3	13.8	44.5	17.2	1.4	49.8
DCF/debt (%)	0.6	7.2	37.4	8.7	(5.9)	38.6

Peer Comparison

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	2023-12-31	2023-12-31	2023-12-31	2023-07-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	20,218	14,908	8,417	26,981	19,153
EBITDA	2,319	2,659	2,019	3,218	1,634
Funds from operations (FFO)	1,842	1,996	1,490	2,408	1,150
Interest	168	92	121	218	170
Cash interest paid	101	107	66	214	157
Operating cash flow (OCF)	1,968	1,921	1,801	2,780	1,025
Capital expenditure	898	403	223	400	158
Free operating cash flow (FOCF)	1,070	1,519	1,578	2,379	867
Discretionary cash flow (DCF)	830	362	635	910	373
Cash and short-term investments	1,638	597	2,782	545	913
Gross available cash	1,467	597	2,782	545	913
Debt	2,148	2,028	2,326	4,226	3,693
Equity	8,455	3,113	6,735	4,571	5,531
EBITDA margin (%)	11.5	17.8	24.0	11.9	8.5
Return on capital (%)	15.5	47.3	18.9	30.2	14.0
EBITDA interest coverage (x)	13.8	28.8	16.7	14.8	9.6
FFO cash interest coverage (x)	19.3	19.7	23.5	12.3	8.3
Debt/EBITDA (x)	0.9	0.8	1.2	1.3	2.3

Adolf Wuerth GmbH & Co. KG--Peer Comparisons

FFO/debt (%)	85.8	98.4	64.1	57.0	31.1
OCF/debt (%)	91.6	94.7	77.4	65.8	27.8
FOCF/debt (%)	49.8	74.9	67.9	56.3	23.5
DCF/debt (%)	38.6	17.8	27.3	21.5	10.1

Environmental, Social, And Governance

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 COVID-19 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 balances all 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.

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	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	a

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011