INVESTORS SERVICE

Rating Action: **Moody's assigns Baa2 long term issuer rating to Wendel SE, outlook stable**

05 Sep 2018

Frankfurt am Main, September 05, 2018 -- Moody's Investors Service ("Moody's") has today assigned a long term issuer rating of Baa2 to Wendel SE, the parent company of the Wendel group. Concurrently the agency has also assigned a P-2 short term issuer rating to Wendel SE. The outlook is stable. This is the first time Moody's has assigned public ratings to Wendel SE.

RATINGS RATIONALE

Wendel SE's (Wendel) Baa2 long term issuer rating reflects the company's consistent and prudent investment strategy as well as its conservative financial policy as exemplified by a very low point-in-time market value leverage and a commitment to maintain a low market value leverage through market cycles.

Wendel's conservative investment strategy is focused on a buy & built approach, whereby Wendel buys majority stakes in companies to support the development of their business model over a long term holding period of close to 15 years on average. The company has established a strong track record of developing companies with Bureau Veritas being a flagship example of Wendel's ability to identify sound business models and to successfully develop them over time. Wendel has also a proven track record of generating consistent high returns for its shareholders with a 14% average return per annum over the period 2002-2018, a more palatable evidence of Wendel's successful investment strategy through market cycles.

Wendel's portfolio of investments is well diversified across business sectors and geographies. The split between listed and unlisted assets of around 50% ensures sufficient liquidity to the portfolio and a good level of transparency on valuation multiples. We also note that several of Wendel's portfolio assets are currently rated or have been rated by Moody's in the past. In addition Wendel provides a good level of disclosure on valuation methodologies and historical development of multiples for private assets, offering a satisfactory level of transparency on the overall valuation of the investment portfolio. The value of Wendel's portfolio is somewhat concentrated on Bureau Veritas (slightly more than 40% of the overall value), which is however mitigated by the resilience of this business through macroeconomic cycles, the track record of strong and profitable growth of this business and the public listing of the company. The current rating is supported by our expectation that Bureau Veritas will remain an anchor investment of Wendel in the foreseeable future.

Despite a strong general track record of value creation through various market cycles, Wendel has not been immune to investment errors such as the late cycle debt financed purchase of Compagnie de Saint-Gobain and Materis at the end of the construction cycle prior to the global financial crisis. However we recognise Wendel's ability to strongly mitigate those errors by the successful implementation of an action plan, which has restored its asset quality and reduced the loss in value to shareholders of Wendel.

Wendel's underlying portfolio of investments is slightly more levered than rated peers such as Criteria Caixa or JAB Holding with a weighted average rating level in the mid to low Ba. The leverage used at portfolio companies in order to optimise the return on equity of Wendel is mitigated by a conservative market value leverage at the investment holding level and by the strength of the underlying assets, which enable them to carry relatively high leverage.

Lastly Wendel's rating is constrained by a relatively low and irregular interest cover. However the low interest cover reflects to a large extent the fact that a large portion of Wendel's portfolio companies are growing companies, which have opportunities to reinvest their free cash flows into the business to grow both organically and externally rather than to pay dividends to Wendel. The value accretion from reinvesting generated cash flows into the businesses by far exceeds the return that shareholders of Wendel would obtain through dividend upstreams. In addition Wendel has a healthy cash position, which covers several years of interest and debt maturities and mitigates the structurally low interest cover.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook assigned to the rating reflects our expectation that Wendel will maintain a conservative leverage profile through the cycle with an MVL below 20%. The stable outlook is also predicated on Wendel refraining from making highly priced investments at the top of the market cycle and not using its €3 billion investment envelop presented to the capital markets for the period 2017-2020 if they cannot identify fairly priced assets, a challenge under current market conditions. The stable outlook also reflects our expectation that Wendel portfolio will remain broadly stable with a continued commitment to the stake in Bureau Veritas.

LIQUIDITY

The liquidity profile of Wendel is solid. Wendel had around €1.7 billion of cash and marketable securities on balance sheet at 31st December 2017 and access to an undrawn revolving credit facility of €750 million maturing in 2022 (including two 1-year extension options at the discretion of the banks).

Wendel has a well spread maturity profile with an average maturity of its debt of 4.2 years. The group's year-end 2017 cash position covers approximately 5 years of debt maturities. The 2019 maturities include €500 million of exchangeable bonds for Saint-Gobain shares. The bonds are however currently out the money with a strike price of €51.96 per share versus a current Saint-Gobain share price of around €37 per share.

As a back-up form of liquidity, Wendel's proportion of listed assets (50% of the gross asset value of the portfolio of investments) provides it with the flexibility to more quickly monetize its investments.

WHAT COULD CHANGE THE RATING UP / DOWN

Positive rating pressure is not anticipated in the short term. Longer term an increased portfolio diversification coupled with a continued track record of shareholder return through the cycle coupled with conservative financial policies could lead to a higher rating. Positive rating pressure would also build if Wendel's net MVL would stay sustainably below 15% through the market cycle and interest cover sustainably above 2.0x.

Conversely negative pressure on the rating would build if Wendel's net MVL would increase sustainably above 20%, the group's portfolio composition would materially change including shift in listed / unlisted assets, a reduction in the stake in Bureau Veritas with a reinvestment of the cash proceeds in more volatile assets. Lastly a deterioration in Wendel's liquidity profile especially in light of Wendel's weak interest cover could exert negative pressure on the current rating.

CORPORATE PROFILE

Wendel SE, domiciled in Paris (France), is the parent company of the Wendel group, a leading investment holding company in Europe with a portfolio of investments worth €9.3 billion as at 31 December 2017. The Wendel group was founded in 1704 and the 1148 family shareholders grouped under Wendel-Participations still own 37.6% of Wendel's share capital. Wendel is listed on the Paris Stock Exchange and has a current market capitalisation of €5.9 billion.

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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