

Wendel

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Major Rating Factors

Strengths:

- Generally good creditworthiness of key listed investments.
- Improving debt maturity structure and adequate liquidity position.
- Financial flexibility provided by listed shareholdings.
- Improved corporate governance and less aggressive risk tolerance.

Corporate Credit Rating

BB-/Stable/B

Weaknesses:

- Still high financial gearing.
- Dependence of portfolio values on volatile and unpredictable stock markets.
- Margin call exposure on banking debt related to Saint-Gobain.
- Slightly reduced portfolio diversification following the recent disposal of Stallergenes.

Rationale

The ratings on France-based investment holding company Wendel reflect Standard & Poor's Ratings Services' assessment of its financial risk profile as "aggressive" and of its business risk profile as "satisfactory."

Wendel's investment portfolio was worth about €8.3 billion on Nov. 23, 2010 net of the Saint-Gobain shares protected by puts. The group's investment portfolio mainly includes three listed assets representing almost 90% of the group's portfolio value: Compagnie de Saint-Gobain (Saint-Gobain, BBB/Stable/A-2), in which Wendel holds a 17.5% interest; Bureau Veritas (not rated), 52% owned; and Legrand S.A. (Legrand; BBB/Stable/A-2), 19.4% owned. Majority stakes in three much smaller and highly leveraged unlisted corporate entities--Materis, Stahl, and Deutsch--round out Wendel's portfolio.

High gearing and an aggressive financial risk profile remain the main rating constraints for Wendel, in our view. A substantial portion of the shares held in Saint-Gobain, Legrand, and Bureau Veritas (worth about €4.0 billion on Nov. 30, 2010, according to our calculations) are still pledged to secure €3.7 billion bank debt. The group originally raised the debt in 2007, to finance the acquisition of the Saint-Gobain stake at historically high share prices. This debt continues to weigh on Wendel's financial profile and constrains the group's financial flexibility.

Key business and profitability developments

In 2010, Wendel concluded sizable disposals and pursued its efforts to streamline its capital structure. In September, Wendel sold a 5.5% stake in Legrand for €346 million in cash proceeds and in November the group received €359 million from its full disposal of Stallergenes, in which it had a 46% stake.

The strong ability to generate cash in 2010 and the generally sound and stable creditworthiness of Saint-Gobain, Bureau Veritas, and Legrand support the quality of Wendel's portfolio. All three companies are listed, and Wendel's only controlling stake is in Bureau Veritas. We consequently view the portfolio's liquidity as adequate.

Low diversity remains the main weakness of Wendel's portfolio, in our opinion, Wendel's three main stakes amounting to nearly 90% of our estimated value of its holdings on Nov. 23, 2010. Wendel's other assets are

majority equity interests in its unlisted subsidiaries, namely Materis, Stahl, and Deutsch. All three are still highly leveraged, albeit to varying degrees, and each company underwent debt restructuring plans in late 2009-early 2010, including equity injections or other means of shareholder support. They also represent relatively small net equity value for Wendel. The three companies reported improved underlying operating performance in 2010.

On a consolidated basis (Materis, Stahl, Deutsch, Stallergenes, and Bureau Veritas are fully consolidated; Legrand and Saint-Gobain are accounted under the equity method), Wendel generated a €123 million net profit from business sectors attributable to the group, excluding nonrecurring items, in the first half of 2010. This compares with a €11 million net loss for the same period in 2009.

A continuation of this performance upturn, if confirmed in 2011, may provide a basis for some upward value adjustments for Wendel's unlisted assets.

Key cash flow and capital-structure developments

At holding company level, relative to the estimated value of the asset portfolio, Wendel's loan-to-value (LTV) ratio was 43.7% on Nov. 23, 2010, by our calculations. This is below the 50% maximum that we think is appropriate for the current rating. We note the improved LTV ratio in recent months, primarily thanks to share price increases in Wendel's listed assets and recent asset disposals, against 52.9% on June 30, 2010.

Because part of the debt that Wendel used to finance the acquisition of its stake in Saint-Gobain is subject to margin calls (about €2.7 billion gross debt), we consolidate this debt in our LTV computation although it is technically nonrecourse to Wendel. We do not, however, consolidate the €970 million Saint-Gobain acquisition-related debt that is economically hedged through put options. This is because it is contractually nonrecourse to Wendel, not subject to margin calls, and most significantly, protected by put options. To ensure consistency, the retained asset base is net of the Saint-Gobain shares protected through the puts.

Liquidity

The short-term rating is 'B'. We consider Wendel's liquidity to be adequate, based on the medium- to long-term nature of the group's debt, in particular unsecured debt, and sizable cash balances. On Nov. 30, 2010, Wendel had €1.9 billion of cash, of which €1.3 billion was unpledged.

The next bond maturity (€336 million, net of buybacks and exchange offer) is due in February 2011 and is more than fully covered by available cash. Other senior unsecured debt matures from November 2014 and beyond.

In October 2010, Wendel extended its debt maturity profile through a €300 million tap issue of an unsecured bond maturing in 2016. We understand it used the proceeds to repay part of its debt related to Saint-Gobain.

Outstanding bonds are free of financial covenants, cross-defaults with Wendel's subsidiaries' debt, and rating triggers. They do not benefit from any negative pledge however. Wendel has an undrawn €1.2 billion committed bank facility maturing in 2013. Covenants related to the market value of its portfolio restrict the use of this facility. Wendel has been in compliance with these covenants for over a year.

The group's €3.7 billion gross debt relating to the Saint-Gobain transaction is split between €2.7 billion gross debt subject to margin calls, carrying maturities stretching over 2013-2015 and €970 million nonmargin call debt, partly protected by puts, maturing over 2011-2012. The group has already significantly reduced nonmargin call debt of €544 million due before December 2011, down from €850 million by June 30, 2010. It could be partly self-liquidating (the debt is secured by the pledge of Saint-Gobain shares and economic risk is covered by puts). In

addition, Wendel has €900 million available under the Saint-Gobain bank financing agreements containing margin call mechanisms maturing over 2013-2015, which the group could use to refinance or manage its Saint-Gobain exposure.

Outlook

The stable outlook reflects our view that Wendel will continue to focus on gradual debt reduction and keep its LTV ratio below 50% throughout 2011.

Sizable disposals associated with redeeming existing debt and an increase in asset value effectively led to an improvement in Wendel's financial risk profile by Dec. 31, 2010. Only a material deterioration in the share prices of Wendel's key listed investments or a financial policy more aggressive than we currently expect could lead us to consider a negative rating action. We believe improved corporate governance, less aggressive risk tolerance, and reduced complexity in the financing structure will continue to be driving factors for the ratings on Wendel in the future. A positive rating action would be possible if Wendel maintains an LTV ratio well below 45% on a sustainable basis and it simplifies its debt structure, and we continue to see strong operating performance for its listed investments, and a track record of improving profitability measures for weaker unlisted subsidiaries.

Business Description

Wendel is a France-based publicly listed investment company, tracing its history back to the eighteenth century and the steel industry. Wendel Participations, a family holding representing the individual interests of some 950 Wendel family members, holds the largest interest in the group, 34.7% on Dec. 31, 2009.

Wendel's portfolio mainly consists of:

- Three listed assets representing almost 90% of the group's portfolio value: Compagnie de Saint-Gobain, in which Wendel holds a 17.5% interest; inspection and certification company Bureau Veritas (not rated), 52% owned; and Legrand S.A., 19.4% owned.
- Majority stakes in three much smaller and unlisted corporate entities, Materis, Stahl, and Deutsch. All three are highly leveraged, albeit to varying degrees.

Table 1 displays Wendel's investment portfolio. Values are based on market prices for listed assets and for unlisted assets, they are derived from earnings multiples of comparable listed companies.

Table 1

Wendel SA Investment Portfolio			
Industry Sector: Investment and operating holding companies			
--Nov. 23, 2010--			
(Mil. €)	Wendel stake (%)	Value (spot prices)	Current rating
LISTED ASSETS		7,316	
Saint-Gobain*	17.5	2,706	BBB/Stable/A-2
Legrand	19.4	1,480	BBB/Stable/A-2
Bureau Veritas	52.0	3,130	
UNLISTED ASSETS		780	

Table 1

Wendel SA Investment Portfolio (cont.)	
OTHER (puts, commitments)	197
TOTAL PORTFOLIO	8,293
Gross debt [¶]	5,568
Cash	(1,944)
Net debt	3,624
Loan-to-value (%)	43.7
Net debt to listed assets (%)	49.5

*Value shown net of Saint-Gobain shares protected through puts. [¶]Excluding €970 million Saint-Gobain related debt without margin call protected through puts.

Rating Methodology: Focus On Financial Flexibility

We classify Wendel as an operating holding company because its business is largely to hold and manage financial investments in listed, or unlisted, equity stakes. In our opinion, equity investments such as ordinary shares are generally high risk. The main risk is that an underlying company could become insolvent, which would lead to a total loss on the equity investment. We understand equity instruments also fluctuate widely in value, as a function of company performance, investor appetite, stock liquidity, and macroeconomic factors, such as interest rates and the global economic outlook. We believe this leads to sometimes highly volatile swings in asset values, as seen in global stock markets over recent years.

As a result, our business risk profile on an operating holding company is based primarily on an assessment of its portfolio characteristics:

- Portfolio quality. We generally measure this by assessing the creditworthiness of companies in the portfolio;
- Portfolio liquidity. We assess this according to the ease with which the group could liquidate assets in a very short time period without significant discounts to asset value; and
- Portfolio diversification. When analyzing a portfolio's diversity, we take into account the number of stocks, size of individual holdings, companies operating in different industries, and geographic exposure.

We consider other important factors to be a company's willingness to sell assets, if needed, and its ability to extract ongoing profit from its portfolio. (For more information about our methodology for rating investment holding companies like Wendel, see "Rating Methodology for European Investment Holding and Operating Holding Companies," published May 28, 2004.)

Business Risk Profile: Satisfactory, Based On Adequate Investment Portfolio Characteristics

Supporting Wendel's satisfactory business risk profile are:

- The sound and stable creditworthiness of Saint-Gobain, Bureau Veritas, and Legrand, and all three companies' strong ability to generate free cashflow in 2010.
- The listed nature of its three main investments. Saint-Gobain, Bureau Veritas, and Legrand are publicly listed on the French stock exchange and Wendel's only controlling stake is in Bureau Veritas. We consequently view the portfolio's liquidity as adequate. Wendel's willingness and ability to sell is tested with sizable disposals concluded

in 2010. In September, Wendel sold a 5.5% stake in Legrand for €346 million in cash proceeds and in November the group received €359 million from its full disposal of Stallergenes, in which it had a 46% stake.

- The improving operating performance of its majority-owned subsidiaries in the first half of 2010 (see table 2). On a consolidated basis (Materis, Stahl, Deutsch, Stallergenes, and Bureau Veritas are fully consolidated; Legrand and Saint-Gobain are accounted under the equity method). Wendel generated a €123 million net profit from business sectors attributable to the group, excluding nonrecurring items, in the first half of 2010, compared with a €11 million net loss for the same period in 2009.

Constraining the group's business profile are:

- Concentration of assets. In market value terms, Wendel's majority stake in Bureau Veritas represented some 38% of its portfolio on Nov. 23, 2010; the three largest investments represented almost 90% of the group's portfolio on that same date. Portfolio diversity has slightly reduced since the disposal in full of Stallergenes in late 2010.
- Exposure to volatile equity markets. The market value of Wendel's listed assets has recovered gradually in the past quarters, because equity markets have strengthened. However, we continue to believe that the future direction of stock markets is most uncertain given the current global macroeconomic outlook.
- Weak financial profile for Wendel's smaller unlisted assets, namely Materis, Stahl, and Deutsch. All three are still highly leveraged, albeit to varying degrees (see table 2), and each company underwent debt restructuring plans in late 2009-early 2010, including equity injections or other means of shareholder support. They also represent relatively small net equity value for Wendel. The three companies reported improved underlying operating performance in 2010.

Table 2

Wendel -- Main Subsidiaries' Operating Performance											
(Mil. €)	Wendel stake (%)	--First half 2010--					--Full year 2009--				
		Revenues	Operating income	Operating income margin (%)	Net income	Net debt (cash)	Revenues	Operating income	Operating income margin (%)	Net income	Net debt (cash)
Fully consolidated											
Bureau Veritas	52	1,349	226	17	153	713	2,648	433	16	279	679
Materis	76	925	102	11	15	1,832	1,704	185	11	0	1,757
Stahl	92	169	28	16	9	205	254	30	12	0	335
Deutsch	89	204	42	21	32	487	321	37	12	(8)	483
Equity consolidated											
Saint-Gobain	18	19,529	1,445	7	102	9,081	37,786	2,216	6	115	8,554
Legrand	19	1,910	400	21	63	1,299	3,578	630	18	116	1,340

Financial Risk Profile: Aggressive, However The Group Has Adequate Liquidity And An Extended Debt Maturity Schedule

Wendel's "aggressive" financial risk profile reflects:

- High gearing and an aggressive financial risk profile. At the holding company level, relative to our estimation of the value of the asset portfolio, Wendel's net debt represented a 43.7% LTV ratio on Nov. 23, 2010.

- A high level of encumbered assets. A substantial portion of the shares held in Saint-Gobain, Legrand, and Bureau Veritas (worth about €4.0 billion on Nov. 30, 2010, according to our calculations) are still pledged to secure €3.7 billion bank debt. The group originally raised the debt in 2007 to finance the acquisition of the Saint-Gobain stake at historically high share prices. This debt continues to weigh on Wendel's financial profile and constrains the group's financial flexibility.

These weaknesses are moderated by:

- Improved corporate governance since the CEO change in early 2009 and a stricter risk tolerance policy. We anticipate that Wendel's financial policy will continue to focus on steady deleveraging at the holding company level and extension of its debt maturity profile. We fully factor in the fact that debt at operating subsidiaries will remain nonrecourse to and will not be cross defaulted with Wendel's debt.
- The steady flow of upstreamed dividends observed in 2009 (about €210 million with Saint-Gobain contributing €90 million and Legrand €56 million), which we expect to remain stable for full-year 2010. In 2009, dividends received were insufficient to cover the sum of operating expenses (about €40 million), dividends outflow (€50 million), and interest expenses (over €300 million), which are uncommonly substantial for a holding company, due to Wendel's high leverage. In 2009, total coverage ratio was a relatively low 0.5x and we expect limited improvement for full-year 2010. Standard & Poor's expects the group to maintain dividend outflows compatible with dividends received. On an annualized basis, we generally view 100% coverage as commensurate with an investment-grade rating.
- Additional flexibility from the availability of undrawn committed bank facilities, cash, and sizable liquid financial assets.

Financial Statistics/Accounting

Wendel reports under International Financial Reporting Standards and is audited by Ernst & Young and PwC.

On Dec. 31, 2009, Wendel was fully consolidating those companies in which it held majority stakes, Bureau Veritas, Materis, Deutsch, and Stallergenes, fully disposed of in October 2010. Saint-Gobain and Legrand were accounted for under the equity method. Wendel reported its share of the two companies' earnings. Equity method investments are subject to an annual impairment test: Any impairment loss flows through Wendel's consolidated net income, as occurred in relation to Saint-Gobain in 2009.

Wendel, like other investment holding companies, has an asset structure largely made up of shareholdings in several operating companies. We understand that Wendel cannot be held liable for any of its operating subsidiaries' debt, which is issued on a nonrecourse basis. Wendel does not provide the creditors of its operating subsidiaries or affiliates with any guarantee. In addition, Wendel's debt instruments are not cross defaulted with any of its subsidiaries, except pure financial subholding companies.

Our analysis of Wendel's cash flow and debt is based on separate holding figures, and the market or appraised value of its investment portfolio.

Consolidated figures are not used for debt ratios but are most useful to assess the underlying operating performance of Wendel's subsidiaries.

Some litigation continues over the group's communication and public disclosures in relation to its investment in Saint-Gobain in 2007, but related risks are minimal: a €1.5 million first-instance penalty that the French market authority imposed on Wendel in early 2011 is currently under appeal.

Table 3

Wendel SA Peer Comparison					
	Wendel	Exor SpA	CIR SpA	Franz Haniel & Cie GmbH	Industrivarden AB
	France	Italy	Italy	Germany	Sweden
Rating on Jan. 18, 2011	BB-/Stable/B	BBB+/Negative/A-2	BB/Negative/B	BBB-/Negative/A-3	A/Stable/A-1
	Nov. 30, 2010	--Sept 30, 2010--			
(Mil. €)					
Portfolio risk	Adequate	Adequate	Weak	Adequate/Weak	Strong
Estimated portfolio value (PV)	8,294	7,921	1,684	8,619	6,911
Number of core holdings	6	11	7	5	8
Three largest assets/PV (%)	88	69	65	83	49
Core assets/PV (%)	99	84	80	100	100
Market value of listed assets	7,316	5,672	480	7,311	6,911
Listed stocks/PV (%)	88	72	29	85	100
Portfolio quality	Strong	Adequate	Weak	Adequate	Excellent
Portfolio diversification	Weak	Adequate	Weak	Weak	Adequate
Portfolio liquidity	Adequate	Adequate	Weak	Adequate/Weak	Excellent
Cross default with operating subsidiaries	None	None	None	None	None
Financial profile	Aggressive	Modest	Intermediate	Intermediate	Modest
Total gross debt	5,568	1,419	445	2,599	
Cash and equivalents	1944	333	187	2	
Net debt	3624	1086	278	2597	1415
Net debt/port value (%)	44	14	17	30	21
Net debt/listed assets (%)	50	19	58	36	21
Net debt ceiling as % of investment portfolio	50	20	20	35	30
Cash flow at holding level	Full-year 2009	Full-year 2009	Full-year 2009	Full-year 2009	Full-year 2009
Dividends received	210	40	39	208	181
Dividends paid out	50	82	0	70	169
Operating charge cover (x)*	5.2	1.6	2.1	4.6	21.8
Interest cover (x)¶	0.6	1.2	0.8	1.4	3.6
Total cover (x)§	0.5	0.3	0.8	0.9	0.8

*Dividends received plus tax credits/operating expenditure at holding level. ¶Dividends received plus tax credits/operating expenditure plus net interest paid. §Dividends received plus tax credits/operating expenditures plus net interest paid plus dividends paid.

Related Criteria And Research

Rating Methodology for European Investment Holding and Operating Holding Companies, May 28, 2004

Ratings Detail (As Of January 18, 2011)***Wendel**

Corporate Credit Rating	BB-/Stable/B
Senior Unsecured (6 Issues)	BB-

Corporate Credit Ratings History

19-Jul-2010	BB-/Stable/B
12-Feb-2009	BB/Negative/B
09-Oct-2008	BB+/Watch Neg/B
13-Aug-2008	BBB-/Negative/A-3
25-Jun-2008	BBB-/Watch Neg/A-3
17-Apr-2008	BBB-/Negative/A-3
25-Jan-2008	BBB-/Watch Neg/A-3
21-Jan-2008	BBB/Watch Neg/A-2
08-Nov-2007	BBB/Stable/A-2
27-Sep-2007	BBB+/Watch Neg/A-2

Business Risk Profile	Satisfactory
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Financial Risk Profile	Aggressive
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Debt Maturities

On Nov. 30, 2010:
 2011: €881 mil. (of which €545 mil. no margin call Saint-Gobain debt)
 2012: €425 mil. (of which €425 mil. no margin call Saint-Gobain debt)
 2013: €431 mil.
 2014: €1,694 mil.
 2015: €1,660 mil.
 2016: €700 mil.
 2017: €700 mil.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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