MOODY'S
INVESTORS SERVICE

CREDIT OPINION
2 October 2020

Update

Rate this Research

RATINGS

Wendel SE

Domicile	France
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Wendel SE

Update to credit analysis

Summary

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, reflected by its very low point-in-time market value leverage (MVL) and our expectation that Wendel will maintain a low MVL through market cycles.

Wendel's conservative investment strategy is focused on a buy-and-build approach, whereby Wendel buys majority stakes in companies to support the development of their business models 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 S.A. (Bureau Veritas) being a flagship example of Wendel's ability to identify sound business models and to successfully develop them over time. Wendel also has a proven track record of generating high returns for its shareholders on a sustained basis, with an annualized total shareholder return (including dividends) of around 8.5% between June 2002 to March 2020, which reflects 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 48% as of June 2020 ensures sufficient liquidity to the portfolio and a good level of transparency on valuation metrics. Several of Wendel's portfolio assets are currently rated or have been rated by us in the past, which increases the portfolio transparency. In addition, Wendel provides a good level of disclosure on valuation metrics and historical development of valuation metrics 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 (around 40% of the overall value including cash as of June 2020), which is 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.

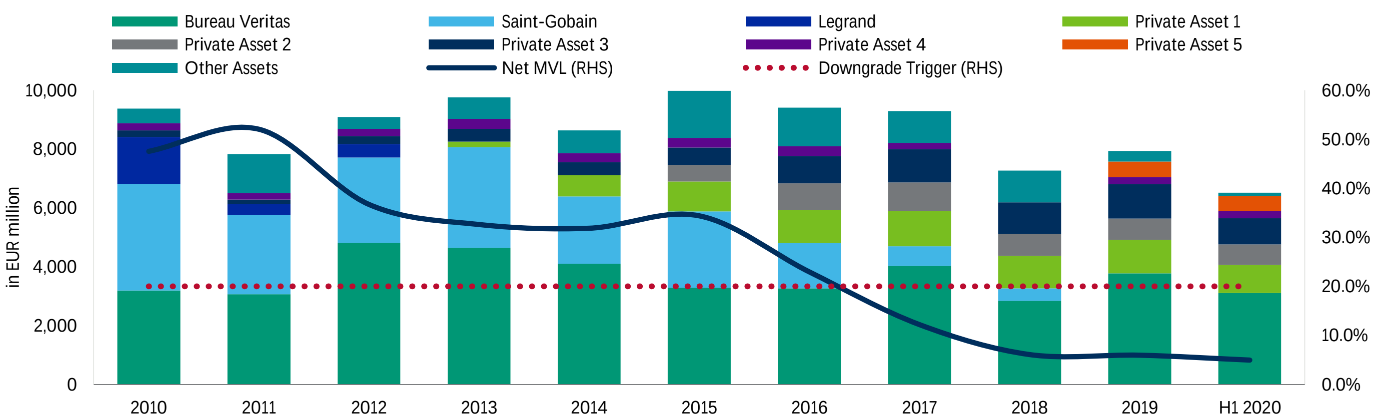
Despite a strong general track record of value creation through various market cycles, Wendel has not been immune to investment errors such as the late cycle debt financed purchase of Compagnie de Saint-Gobain SA (Saint-Gobain, Baa2 stable) and Materis Group at the end of the construction cycle before the global financial crisis. However, we recognize 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. In addition, Wendel stated that such oversized and / or overleveraged investments will not happen again and has a more conservative financial policy since then.

Wendel's underlying portfolio of investments is slightly more leveraged than its peers we rate, such as [Criteria Caixa, S.A., Sociedad Unipersonal] (Baa2 stable) or [JAB Holding Company S.a r.l.] (JAB, Baa2 stable) with a weighted average rating level in the mid-to-low Ba range notwithstanding that Wendel has focused on deleveraging the balance sheet of its portfolio companies recently. The leverage used at portfolio companies to optimize the return on equity of Wendel is also mitigated by a conservative MVL at the investment holding level and by the strength of the underlying assets, which enable them to carry relatively high leverage.

Wendel's rating is constrained by a relatively low and irregular interest cover. However, the low interest cover reflects the fact that a large portion of Wendel's portfolio companies are growing companies that have opportunities to reinvest their free cash flow into the business to grow both organically and externally rather than to pay dividends to Wendel. The value accretion from reinvesting the generated cash flow 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.

Wendel managed well the fallout of the coronavirus pandemic. Despite a decline of 16.7% in net asset value YTD June 2020 (up 17.3% sequentially between March 2020 and June 2020), Wendel maintained a very robust balance sheet structure and liquidity profile at holding level. Wendel's net MVL was around 5% at 30 June 2020 and the issuer held €2 billion of available liquidity at the end of June 2020 (€1.3 billion cash and €750 million availability under committed undrawn credit facilities). This position offers more than enough cushion to navigate through the volatile market environment and reflects the strong preparedness of Wendel in the late cycle conditions that preceeded the coronavirus pandemic.

Exhibit 1
Wendel's net MVL has reduced substantially in recent years



Sources: Wendel SE, Moody's Investors Service

Credit strengths

- Consistent and prudent investment strategy
- Conservative financial policy, reflected by our expectation that Wendel will maintain a net MVL of below 20% on a sustained basis
- Strong track record of developing assets through organic and external growth as well as generating strong shareholder returns through market cycles
- Good end industry and geographic diversity
- Well spread maturity profile with an average maturity of close to 5 years

Credit challenges

- Some asset concentration, with the top-three assets accounting for a material portion of the gross asset value of the investment portfolio
- Some historical investment errors, which have been well mitigated
- Weaker weighted average rating of the underlying investment portfolio than its peers
- Relatively low interest cover

Rating outlook

The stable outlook assigned to the rating reflects our expectation that Wendel will maintain a conservative leverage profile through the cycle with a net 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 annual €750 million investment objective linked to its 2017-2020 strategy presented to the capital markets if they cannot identify fairly priced assets, a challenge under the current market conditions. The stable outlook also reflects our expectation that Wendel's portfolio will remain broadly stable, with a continued commitment to its stake in Bureau Veritas.

Factors that could lead to an upgrade

- Increased portfolio diversification
- Continued track record of shareholder return through the cycle, coupled with conservative financial policies
- Net MVL below 15% through market cycles and interest cover of above 2.0x, both on a sustained basis

Factors that could lead to a downgrade

- Net MVL above 20% on a sustained basis
- Material changes in the portfolio composition, including significant shift in listed /unlisted assets, reduction of its stake in Bureau Veritas and reinvestment in more volatile assets
- Deterioration in liquidity, especially in light of Wendel's weak interest cover

Key indicators

Exhibit 2
Wendel SE

	2014	2015	2016	2017	2018	2019	H1 2020
Total Net Assets (in EUR million)	8,640	9,978	9,405	9,292	7,264	7,939	6,513
Net MVL	31.9%	34.4%	22.9%	12.2%	6.1%	6.0%	5.0%
Interest Coverage	1.2x	1.1x	0.8x	3.0x	0.8x	0.4x	N.A.

Note: MVL as of June 2020 is before the payment of dividend that took place on July 9, 2020.
Source: Wendel SE, Moody's Investors Service

Profile

Wendel SE (Wendel), based in Paris, France, is the parent company of the Wendel group, a leading investment holding company in Europe with a portfolio of investments worth €6.5 billion (excluding cash) as of 30 June 2020. The Wendel group was founded in 1704 and the 1,169 family shareholders grouped under Wendel-Participations still own 39.1% of Wendel's share capital. Wendel is listed on the Paris Stock Exchange and has a current market capitalization of €3.3 billion as of September 2020.

Detailed credit considerations

Clearly defined and conservative investment strategy

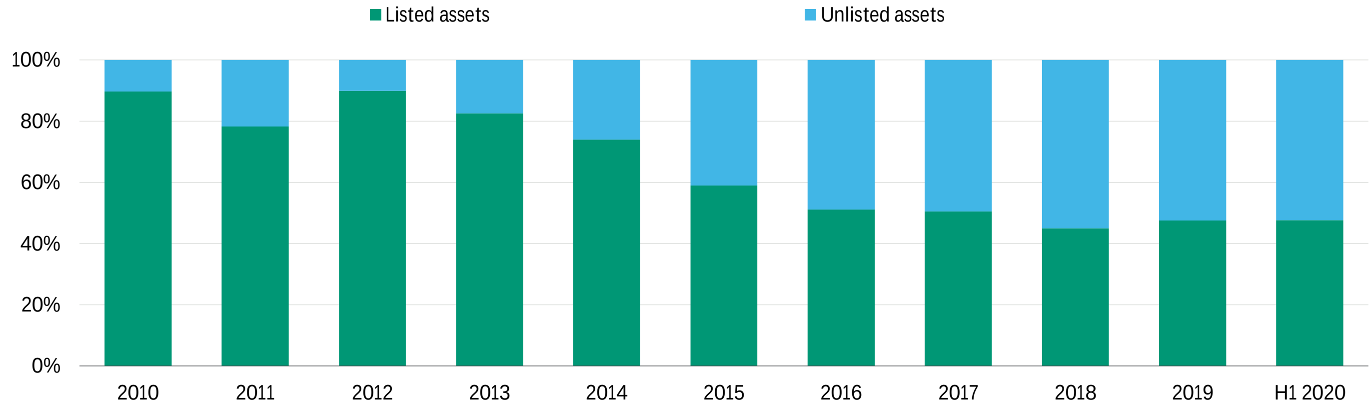
Wendel's investment strategy is clearly defined and well articulated to shareholders and creditors of the group. The management team of Wendel is focused on a buy-and-build approach, which is centered on buying majority stakes in companies to support the development of their business model over a long-term holding period of close to 15 years on average. The importance of obtaining majority stakes is critical to the company's buy-and-build strategy as it is much more difficult to drive the strategy of an investment through a minority stake. In such instances, Wendel would aim to have at least a veto right, especially with regard to having the contractual optionality to trigger a divestment.

The ideal investment size is between €200 million and €700 million in public and private assets, but Wendel has occasionally used co-investors in the past to stem larger investments. This model has been successful and could well be replicated in the future. Co-investors can also sometimes be used for their specific knowledge or expertise of a business sector. However, Wendel does not entertain the idea of establishing a private equity fund to invest alongside shareholders of Wendel (as JAB has done). This model is seen as too complicated and could put undue strain on the management team to invest the collected funds under a specific deadline.

Wendel targets a double digit total shareholder return, with asset price appreciation being the main contributor to shareholder return and dividends paying a minor role. The ambitious return target implies the need to generate a return of 15%-20% on average at the portfolio companies and the use of leverage at the individual investment level to optimize the return on equity at Wendel. However, we view positively the sustainability of the balance sheet structure of the largest public and private assets, with the more leveraged assets in the portfolio contributing only a very small portion of the gross asset value of the total portfolio value.

Wendel is also committed to maintaining a good balance between listed and unlisted assets. The current split is around 48%-52%, and Wendel would not reduce its share of listed assets significantly since the company aims to remain the controlling shareholder of Bureau Veritas. In this respect the current rating is supported by Wendel's stake in Bureau Veritas, a creditworthy business with a strong track record of value creation and a strong earnings and value resilience through the market cycle.

Exhibit 3
Good balance between listed and unlisted assets



Sources: Wendel SE, Moody's Investors Service

Wendel has a maximum annual investment objective of €750 million linked to its 2017-2020 strategy. This indicative investment objective needs to be read in connection with Wendel's assessment of current market conditions where stretched valuations are more supportive of the crystallization of value through the disposal of existing assets rather than through new investments. Our current rating is predicated upon Wendel navigating very conservatively this late market cycle environment. However, we do not exclude bolt-on acquisitions at portfolio companies, which would not require Wendel's equity capital and where industrial synergies could mitigate lofty valuations.

Strong track record of developing assets through organic and external growth and generating strong shareholder returns through market cycles

Wendel has established a strong track record of developing companies through both organic and external growth, of which Bureau Veritas is a flagship example. Wendel acquired a majority stake in Bureau Veritas in 1995 at a time when the company was generating an annual turnover of €400 million. Bureau Veritas generated close to €5.1 billion of sales in 2019 and is a profitable company with a reported operating margin of around 16%. The consolidation of a historically difficult leather chemicals market under the leadership of Stahl Group is another example of a successful execution of a strategic vision. The values of Bureau Veritas and Stahl have increased materially between 2010 and year-end 2019, reflecting Wendel's ability to identify sound business models and to successfully develop them over time.

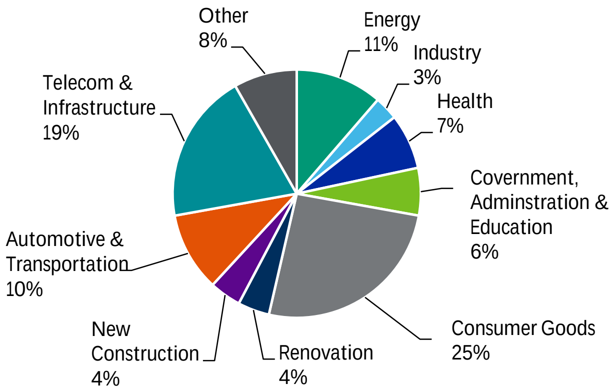
Wendel also has a proven track record of generating consistent high returns to its shareholders, with an annualized total shareholder return of 8.5% since June 2002, which reflects Wendel's successful investment strategy through market cycles. This compares quite favorably with the return of the Euro Stoxx 50, which has generated a net return of 3% over the same period. The total shareholder return has been hit in the past by investment errors such as Saint-Gobain or Materis Group.

Wendel's asset portfolio is well diversified across end industries and geographies

Wendel's asset portfolio is well diversified across business sectors and geographies. The slight concentration on business services (around 40%, 46% pro forma of the acquisition of Crisis Prevention) is clearly mitigated by the strong resilience of Bureau Veritas' earnings through the macroeconomic cycle. We also note the strong geographic diversity of revenue generated by Wendel's portfolio companies, with a good mix of developed and emerging economies.

Exhibit 4

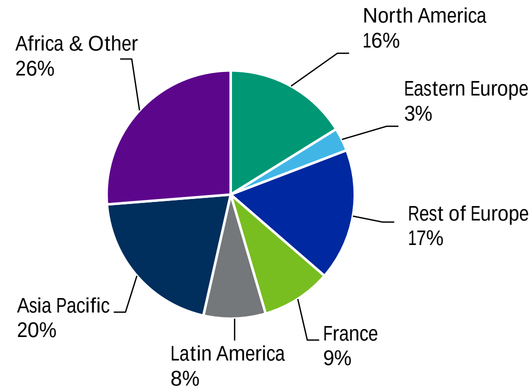
Enterprise value exposure of the Wendel group companies
(According to the revenue breakdown of 2019)



Enterprise values are based on Net Asset Value calculations as of 30 December 2019.
Sources: Wendel SE, Moody's Investors Service

Exhibit 5

Breakdown of revenue by regions of assets



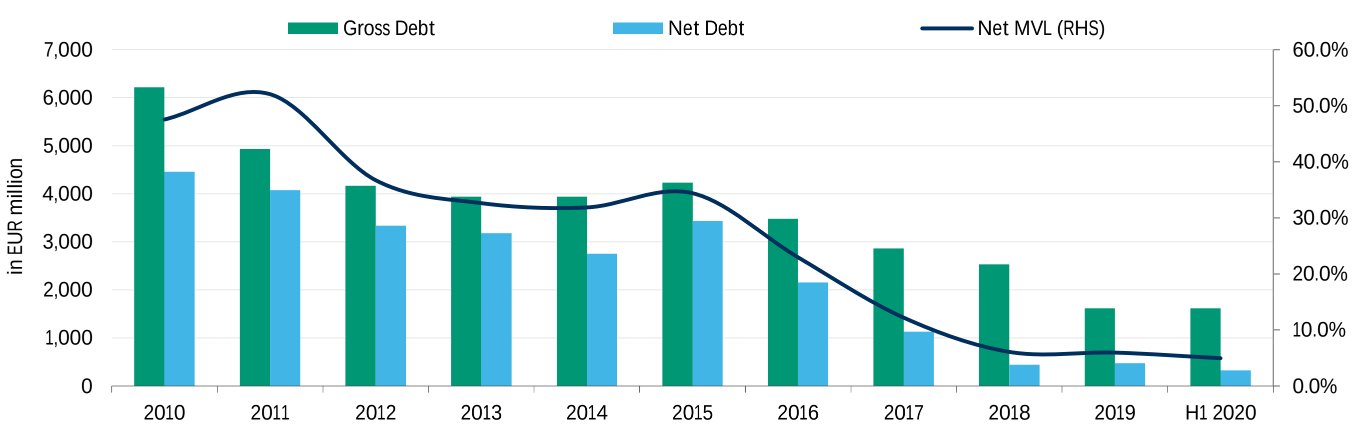
Sources: Wendel SE, Moody's Investors Service

Conservative financial policy and expectation that Wendel will maintain a net MVL of below 20% on a sustained basis

Wendel is currently very lowly levered at the investment holding company level, with a net MVL of around 5% as per June 2020. While the company's net debt ceiling of €2.5 billion would add net debt capacity of around €2.0 billion and an increase in leverage to around 25% (assuming that asset value increases by at least the same amount as the incremental net debt), we believe that Wendel would refrain from using its full debt capacity in light of the volatile market conditions in the equity capital markets. We expect Wendel to maintain a net MVL of not materially above 20% on a sustained basis through market cycles. Wendel also has a strong track record of deleveraging through the global financial crisis when it was caught with a very high MVL at the trough of the cycle in 2009.

Exhibit 6

Strong track record of deleveraging since 2009

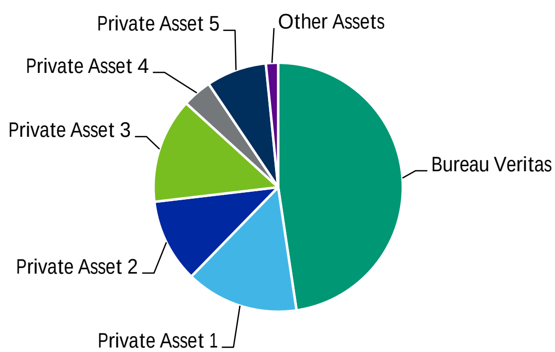


Sources: Wendel SE, Moody's Investors Service

Some asset concentration, with the top-three assets accounting for around 63% of the gross asset value of the investment portfolio

Wendel's strategy is focused on the diversity of its portfolio of assets, notwithstanding that Wendel believes that too much diversity or a very broad portfolio would be detrimental to their objective of generating a double-digit return in percentage terms to shareholders and would increase the credit risk at the Wendel level. The current portfolio is slightly concentrated, with the top-three assets of the group accounting for around 63% of its gross asset value, including cash. We expect Wendel's asset concentration to reduce in the medium term as the issuer will invest the current liquidity available into new assets over time in a disciplined manner. This concentration is largely mitigated by the share of Bureau Veritas to the overall gross asset value of the group (40% of gross asset value including cash) and the defensive nature of this business. As discussed above, the current rating is strongly supported by Wendel's investment in Bureau Veritas as an anchor asset, which provides stable earnings through the cycle and a strong support to the credit quality of the overall portfolio of investments.

Exhibit 7
Wendel's portfolio composition
As of June 2020



Sources: Wendel SE, Moody's Investors Service

Some historical investment errors, which have been well mitigated

While Wendel has a strong long-term track record of generating high total shareholder return, the company has not been immune to investment errors. In general we would highlight the purchase of two building materials-related investments in 2006 and 2007 (Materis and Saint-Gobain, respectively), which has led to a strong exposure to the cyclical building materials industry late in the cycle and a leveraging up of Wendel's balance sheet just before a collapse in market valuation.

From our interaction with the senior management of Wendel, we sense that the company has learned from these errors and has implemented the necessary changes in corporate governance to avoid such mistakes in the future. We sense that the management of Wendel is navigating very cautiously what we consider as the late stage of the current market cycle and is certainly not inclined to execute material debt financed concentrated investments that would expose their shareholders to an abrupt turn in the cycle.

Wendel has largely mitigated the negative impact of these transactions on the group's credit profile by swiftly deleveraging the holding company's balance sheet and by successfully reducing its exposure to both Materis and Saint-Gobain. Wendel has achieved an average annualized total shareholder return of 8.5% since June 2002, despite its two investment errors.

Relatively low interest cover

Wendel's interest cover has been historically relatively weak. The low interest cover reflects the relatively high share of private assets in the portfolio of investments and Wendel's deliberate choice to use the financial flexibility of private portfolio companies to reinvest into their businesses to generate incremental value rather than to upstream cash to the holding through dividends. The value accretion from reinvesting generated cash flow into the businesses by far exceeds the return that shareholders of Wendel would obtain through dividend upstreams. However, Stahl Group has paid €243 million of dividends to Wendel in 2017. The relatively weak interest cover is also mitigated by the very low net MVL of Wendel and by the group's healthy cash position on balance sheet at a time when interest income on excess cash is very low. We note that Wendel received €87.5 million dividends in shares from Bureau Veritas in 2020 despite the impact of the coronavirus pandemic.

Wendel navigated the coronavirus pandemic successful thank to a strong preparedness

Wendel entered the coronavirus pandemic in a very strong financial position. The issuer had already adapted to a late cycle market environment prior to the outbreak by divesting some assets at healthy book gains and by strengthening its financial metrics. Despite a 16.7% decline in net asset values in H1 2020, Wendel finished the second quarter 2020 with a net MVL of 5% and a liquidity position of around €2 billion (€1.3 billion cash and €750 million undrawn committed credit facilities). We view Wendel as very well prepared to continue navigating a volatile market environment at least over the short term.

Environmental, social and governance considerations

In early 2020, Wendel introduced a new ESG roadmap focused on both risk management and growth opportunities for portfolio companies. Wendel collaborates with each controlled company in the elaboration of its ESG strategy, setting clear objectives and KPIs to make ESG a lever for operational excellence and value creation while mitigating ESG risks.

The environmental risks for Wendel SE are mainly centered on its underlying assets. Two key private assets of the group are exposed to environmental risks. Stahl Group is a leather chemicals business. The treatment of leather chemicals is a polluting process although Stahl Group has been working on using leather treatment techniques that reduces the environmental impact. Stahl also levered on the increasing demand and regulation for sustainable chemical products to develop innovative solutions over 85% of Stahl's products are water based, providing a competitive advantage over competitors in the long.

The company Constantia Flexibles produces amongst other plastic packaging and could suffer from a shift toward non-plastic packaging. In 2018, Constantia Flexibles pledged that 100% of its consumer and pharma packaging will be recyclable by 2025. In 2019, 60% of the product portfolio already achieved this set objective. During the same year Constantia was awarded a high CDP Climate score rating, ranking among the top 2% of evaluated companies.

Other investments in Wendel's portfolio have low exposure to environmental risks. Still, Wendel remains highly attentive to the environmental and climate impact of its portfolio and conducts regular sectoral benchmarks and risk assessments.

Wendel has established a strong framework to ensure limited social risks including good labor relations, strong gender diversity and health and safety management both at the holding company level and amongst its portfolio companies. Given that the majority of Wendel's portfolio companies belongs to the industrial sector, Wendel pays specific attention to the progression of Health & Safety indicators, with noteworthy results.

Wendel SE has a good corporate governance despite the Wendel family holding a 39.1% stake in the company. Stakeholders' interest are protected by an independent board of directors and by conservative financial policies.

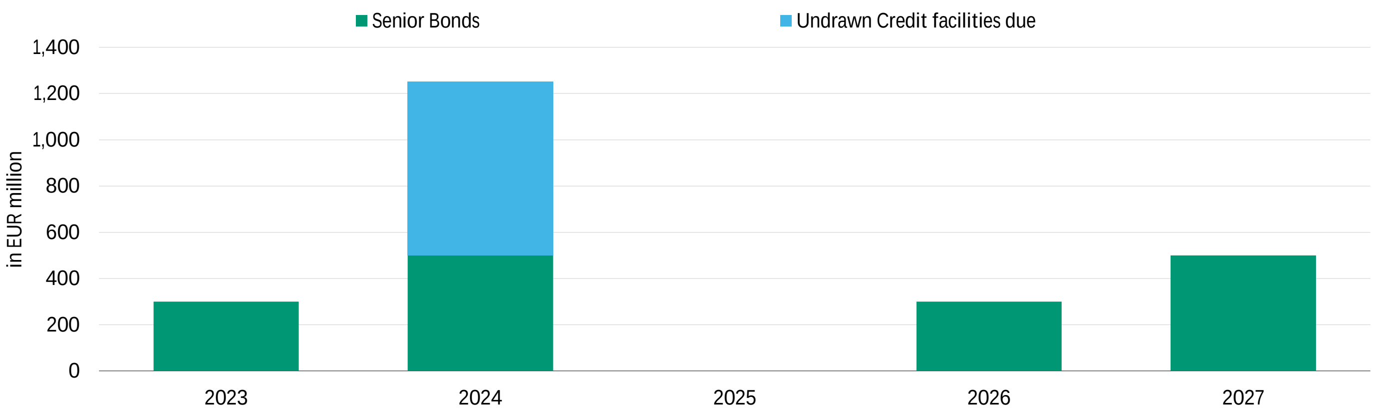
Liquidity analysis

Wendel's liquidity is solid. Wendel had around €1.3 billion of cash and marketable securities on balance sheet as of 30 June 2020 and has access to an undrawn revolving credit facility of €750 million maturing in October 2024. The availability of the revolving credit facility is subject to compliance with two financial covenants, which are tested semiannually: (1) net MVL below 50%, and (2) (unsecured debt + off balance sheet commitment akin to debt - cash)/(75% of value of listed assets + 50% of value of unlisted assets) below 1.0x. Wendel had good headroom under its financial covenants as of year-end 2019. The group's senior unsecured bonds are not subject to maintenance financial covenants.

Wendel has a well-spread maturity profile, with an average maturity of its debt of 5 years. The Wendel group's cash position as of June 2020 covers around seven years of debt maturities. Following the extension of the average debt maturity (€300 million 7-year bond issuance in April 2019 coupled with the early repayment in whole of the 2020 and 2021 bonds) Wendel's liquidity score in our scorecard has improved to 'A' from 'Baa'.

Exhibit 8

Wendel's debt maturity profile is well spread, with an average maturity of five years
As of June 2020



Source: Wendel SE, Moody's Investors Service

As a backup form of liquidity, Wendel's proportion of listed assets (48% of the gross asset value of the portfolio of investments) provides it with the flexibility to more quickly monetize its investments.

Wendel also has the flexibility to reduce dividends paid to its shareholders, although we expect Wendel to revert to such measures only in a very severe scenario. A growing dividend is part of the value proposition Wendel is offering to its shareholders even if dividends are only contributing a marginal portion to the overall shareholder return.

Rating methodology and scorecard factors

The principal rating methodology used in this rating was the Investment Holding Companies and Conglomerates methodology, published in July 2018.

The point-in-time scorecard-indicated rating is Baa1, one notch above the assigned rating. The scorecard-indicated rating is supported by Wendel's very strong MVL and strong liquidity.

The 1-notch differential between the scorecard indicated rating and the assigned rating reflects Moody's expectation that Wendel will use some of its financial flexibility under the current rating category to pursue acquisitions once valuation multiples will have come down. However we would expect Wendel to sustain a net MVL of below 20% on a sustainable basis during the market cycle to maintain its current rating. We also note that any acquisitions might have positive implications on the asset quality of Wendel's portfolio, which is however difficult to assess before a life transaction is being announced.

Exhibit 9
Rating factor

Investment Holding Companies Industry [1]	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of 10/1/2020 [2]	
Factor 1 : Investment Strategy (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Investment Strategy	Baa	Baa	Baa	Baa
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	B	B	Ba	Ba
b) Geographic Diversity	A	A	A	A
c) Business Diversity	Baa	Baa	Baa	Baa
d) Investment Portfolio Transparency	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Aaa	Aaa	Aaa	Aaa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	0.4x	Caa	0x - 1x	Caa
b) Liquidity	A	A	A	A
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				Baa2

[1] As of 12/31/2019;
[2] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Appendix

Exhibit 10

Peer comparison

INVESTMENT HOLDING COMPANIES PEER GROUP					
	Wendel SE	Investor AB	Groupe Bruxelles Lambert	JAB Holding Company S.a.r.l	CaixaCriteria
Rating & Outlook	**Baa2 Stable**	**Aa3 Stable**	**A1 Stable**	**Baa2 Stable**	**Baa2 Stable**
Country of Domicile	France	Sweden	Belgium	Luxembourg	Spain
	As at June 2020	**As at June 2020**	**As at June 2020**	**As at Dec 2019**	**As at June 2020**
Total Portfolio Value (in €m)	6,513	42,979	18,796	25,163	16,831
Cash (in €m)	1,293	1,290	1,564	2,585	945
Asset Concentration (Top 3 Assets)	63%	40%	45%	86%	54%
Proportion of Listed Assets	48%	77%	79%	55%	78%
Company Guidance / Financial Target	€2.5 billion of net debt	MVL in the range of 5% - 10%	MVL below 10%	MVL in the range of 15% - 20% in mid/long term	Target MVL ~20%
Net Market Value Leverage (MVL)	5%	5%	7%	17%	23%
(FFO + Interest Expense) / Interest Expense	0.4x	6.9x	26.7x	2.0x	7.8x

Note: Interest coverage for Wendel SE, Investor AB and CaixaCriteria are as of December 2019.
Sources: Company information, Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
WENDEL SE	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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