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Wendel

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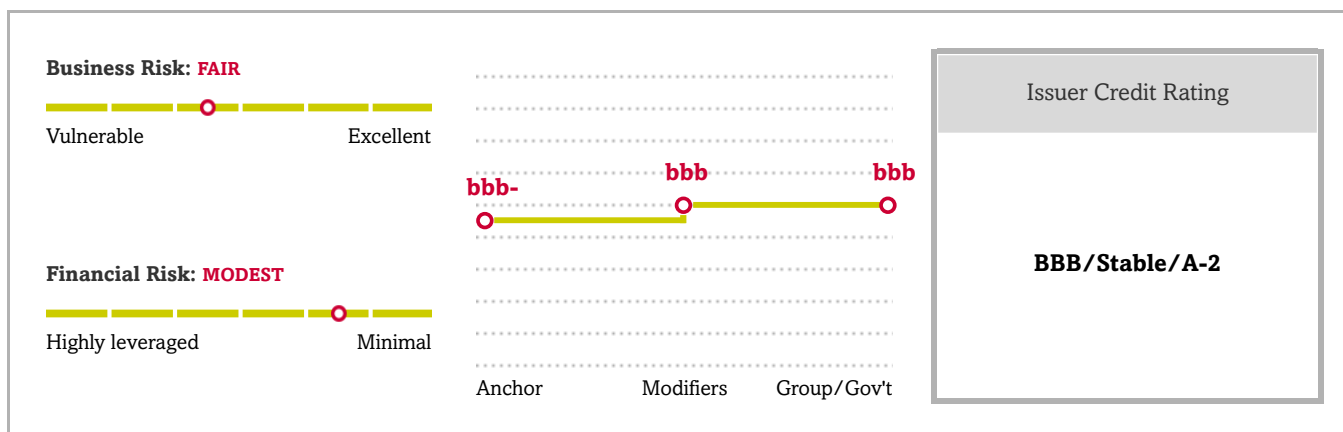
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Credit Highlights

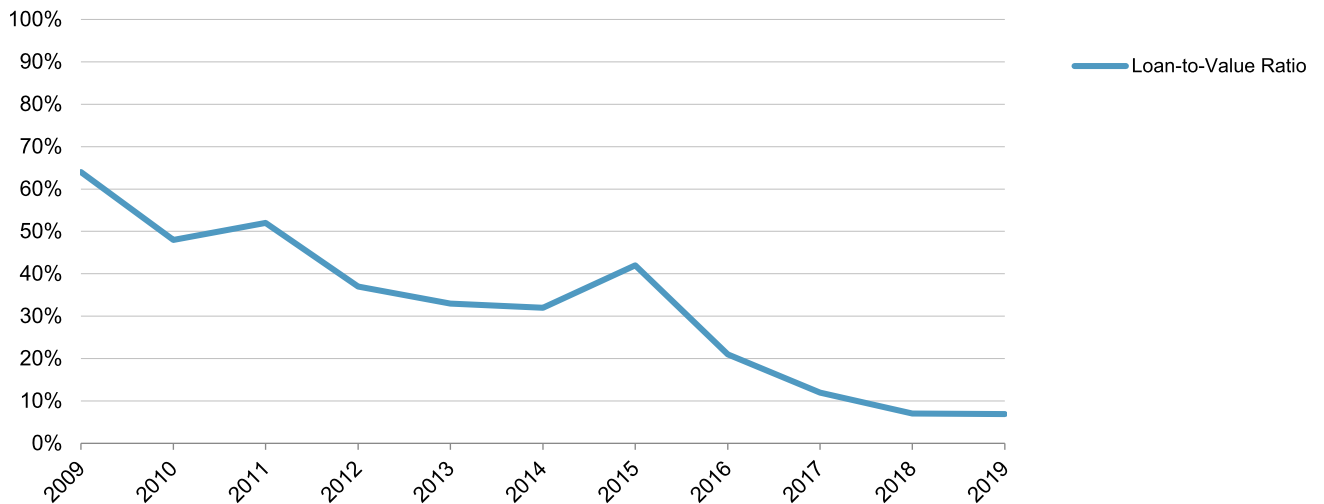
Overview

Key strengths	Key risks
Dynamic portfolio rotation during 2019 away from small investments into larger single investments, namely the U.S.-based Crisis Prevention Institute (CPI).	Portfolio concentrated around one listed asset, Bureau Veritas, accounting for more than 40% of gross asset value (net of cash).
Steadily low loan-to-value (LTV) ratio despite reinvestment and share buy-backs.	Weak cash flow adequacy ratios compared to peers, coupled with low likelihood of cash dividends in 2020, as a result of a strategic choice by Wendel to support the growth of investee companies.
Comfortable liquidity and sustainable debt maturity profile.	Mixed performance of investee companies with Bureau Veritas, IHS, and Allied Universal enjoying solid organic growth while Stahl, Constantia Flexibles, and Tsebo were penalized by tough end-markets during 2019.
Rebalanced geographic exposure of new investments in favor of North America and Europe.	

Despite dynamic portfolio rotation in 2019, LTV remains below 10%. Over 2019 Wendel disposed its full stake in Saint Gobain for €468 million, and a 80% stake in Allied Universal for approximately US\$720 million (which leaves it with about 6% of the capital). The French holding company also disposed PlaYce, an African developer and operator of shopping centers in Africa. The proceeds of these transactions went into the recapitalization of Cromology (€125 million), a share buy-back worth €200 million launched in 2019, and new investments, namely the US\$569 million acquisition of U.S.-based Crisis Prevention Institute (CPI). Pro forma net debt was below €500 million at year-end 2019 as Wendel repaid the €500 million zero coupon exchangeable bond in Saint Gobain shares, a €212 million senior unsecured note in September, and repaid early part of its debt maturing in 2020 and 2021, resulting in an LTV of approximately 6%. This is stable versus the previous year and well below the 20% threshold that we deem commensurate with the rating on Wendel. We estimate Wendel's residual investment capacity at approximately €1 billion, which would be compatible with an LTV below 20%.

Chart 1

Wendel's LTV Ratio

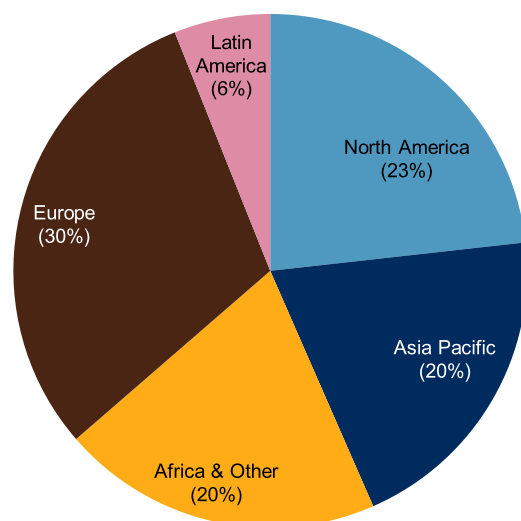


LTV--Loan to value. Source: S&P Global Ratings.

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New criteria for new investments are supported by a reshuffled top management team. The changes at Wendel's executive board, which now includes new deputy CEO David Darmon, supplemented by the appointment of three new VPs, including group CFO Jérôme Michiels, coincides with a strategic reorientation of new investment toward North America and Europe. Eligible assets for investment include those that could increase exposure to growing end-markets with upside or consolidation potential, with low exposure to the cycle and robust cash flow generation. The recent acquisition of U.S.-based CPI is a good fit with the above change in investment strategy.

Chart 2
Geographic Exposure Of Investments



Source: Wendel. Enterprise value (EV) exposure of group companies according to the breakdown of 2018 revenues. EV is based on NAV calculation as of Sept. 30, 2019.

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Cash flow coverage ratios are weaker than peers, and there's low visibility on dividend distribution from investee companies to cover Wendel's operating costs. Over 2019, cash dividends from Wendel's investee companies were nil. Wendel opted for a scrip dividend scheme worth €87.5 million at Bureau Veritas to support the latter's ongoing growth. Visibility on the investee companies' capacity to generate cash dividends is limited as Wendel stated it intends to support the growth of its investee companies. We therefore assume cash dividends from assets are less of a priority for Wendel at this stage. Over the longer term, however, prolonged weak cash flow ratios compared to European peers may weigh on Wendel's rating.

Outlook: Stable

The stable outlook on France-based investment holding company Wendel reflects S&P Global Ratings' expectation that Wendel's LTV ratio, which was about 7% at year-end 2019 (in line with year-end 2018), will not exceed 20% over the next 12 months. Residual investment capacity in line with the aforementioned LTV target is about €1 billion. As expected, Wendel's management was successful in redeploying capital without any impact on leverage.

Downside scenario

We could consider a negative rating action if the LTV ratio increases beyond 20% over a prolonged period. Pressure on the rating could also build if Wendel's below-average cash flow adequacy ratio became permanent.

Upside scenario

We believe that any potential positive rating action would need to reflect a consistent reduction in portfolio concentration. We view a substantial improvement in asset credit quality and liquidity as unlikely. We therefore regard an upgrade as remote over the next 12 months.

Our Base-Case Scenario

Assumptions	Key Metrics												
<ul style="list-style-type: none"> We do not have visibility on Wendel's investment pipeline in 2020 but we estimate investment capacity at around €1 billion is in line with maintaining LTV below 20%. We do not expect a new share buyback program at least not to the extent of the €200 million executed in 2019. 	<table border="1"> <thead> <tr> <th></th> <th>2018A</th> <th>2019E</th> <th>2020F</th> </tr> </thead> <tbody> <tr> <td>Cash flow adequacy (x)</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>LTV (%)</td> <td>6.4%</td> <td>7%</td> <td><20%</td> </tr> </tbody> </table> <p>A--Actual. E--Estimate. F--Forecast. LTV--Loan to value.</p>		2018A	2019E	2020F	Cash flow adequacy (x)	2	0	0	LTV (%)	6.4%	7%	<20%
	2018A	2019E	2020F										
Cash flow adequacy (x)	2	0	0										
LTV (%)	6.4%	7%	<20%										

Base-case projections

We expect Wendel to redeploy capital in North America and Europe, targeting initial equity commitments of €200 million-€700 million. Furthermore, we foresee Wendel maintaining its commitment to a balanced share of listed versus unlisted assets in the portfolio.

We expect Wendel's LTV ratio to remain below 10% in 2020. In our base case for Wendel, we do not expect material new investments in 2020 and so we forecast LTV well below 20%.

Cash flow adequacy ratios will remain marginal in 2020. We expect no cash dividends from Wendel's investee companies to accrue in 2020 and 2021 as we see the holding continuing to support its investee companies' growth traded against cash proceeds.

Company Description

Wendel is a France-based, publicly-listed investment holding company, tracing its history back to the eighteenth century steel industry. Wendel-Participations SE, a family vehicle representing the individual interests of more than 1,140 Wendel family members, holds the largest stake in the company, 39.53% as of April 25, 2019.

Wendel's investment portfolio was worth €7.7 billion (excluding cash) on Sept. 30, 2019. Slightly less than 45% of value is represented by a 35.8% stake in listed testing, inspection, and certification business Bureau Veritas (BV; not rated), which represents its largest single asset. Stahl, market leader in leather chemicals and performance coatings; IHS, Africa-based provider of telecom tower infrastructure for mobile operators; and Constantia Flexible, the world's fourth-largest flexible packaging and labels supplier make up another 40% of the value. After the partial sale of its stake (6% post transaction) in Allied Universal, the largest security service company in the U.S., this no longer represents a significant investment for Wendel. The transaction reduces the holding's exposure to a comparatively highly leveraged asset when compared to fellow investee companies.

In the second half of 2019, Wendel announced the acquisition of CPI in the U.S. for an equity contribution worth US\$569 million. CPI is the leader in the provision of behavior management and crisis prevention training programs. The company teaches and certifies individuals to instruct staff at their organization to assess, manage, and safely resolve high risk, disruptive, or aggressive behavior in the workplace. CPI's end-markets include education and health care mainly in the U.S. with a potential to develop beyond its captive market. The transaction was finalized in December 2019. S&P Global Ratings estimates the portfolio's three-largest assets represent slightly more than 75% of the gross asset value net of cash.

Performance at Wendel's investee companies was mixed in the first nine months of 2019: BV and IHS experienced positive momentum in sales with, respectively, 4.0% and 9.9% organic growth. Stahl (in which Wendel holds a 67.5% stake) faced challenging market conditions in Asia due to volume declines but succeeded in keeping EBITDA margins stable. After ongoing average yearly growth of 8% of its topline since 2014, Austria-based Constantia Flexibles is now experiencing tougher market conditions globally, to which it has responded with swift cost cuts by rationalizing its production footprint and its portfolio of businesses.

Business Risk: Fair

Low liquidity and high concentration are partly offset by reorientation toward a larger single investment in noncyclical assets. Our view of Wendel's business risk profile mostly reflects its concentration in one listed asset. This undermines its asset diversity and, less so, its asset liquidity compared with European peers Exor, JAB, Lundbergs, and Industrievæden. Following its residual divestment of Saint Gobain shares in 2019, Wendel's 46% share of listed assets is the lowest among comparable holdings rated by S&P Global Ratings.

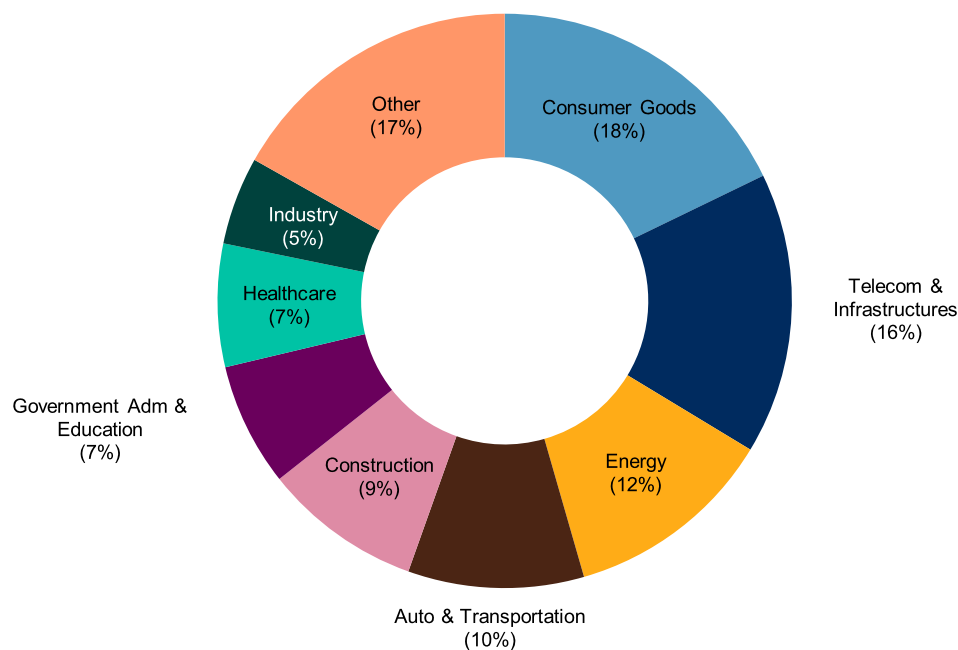
Positively, the rating is supported by Wendel's proven capacity to sell down unlisted assets in almost any market circumstances, which mitigates the above-mentioned weaknesses. Unlisted asset disposals over the last two years closed with a double-digit internal rate of return, including Nippon Oil Pump, Mecatherm, CSP Technologies, and Allied Universal. Furthermore, the strategic reorientation of the portfolio away from very small investments into larger

single assets, combined with a lower exposure to global manufacturing and to the cycle, as in the case of the CPI acquisition, reduces the portfolio polarization and increases resilience to a rather bleak economic outlook.

Chart 3

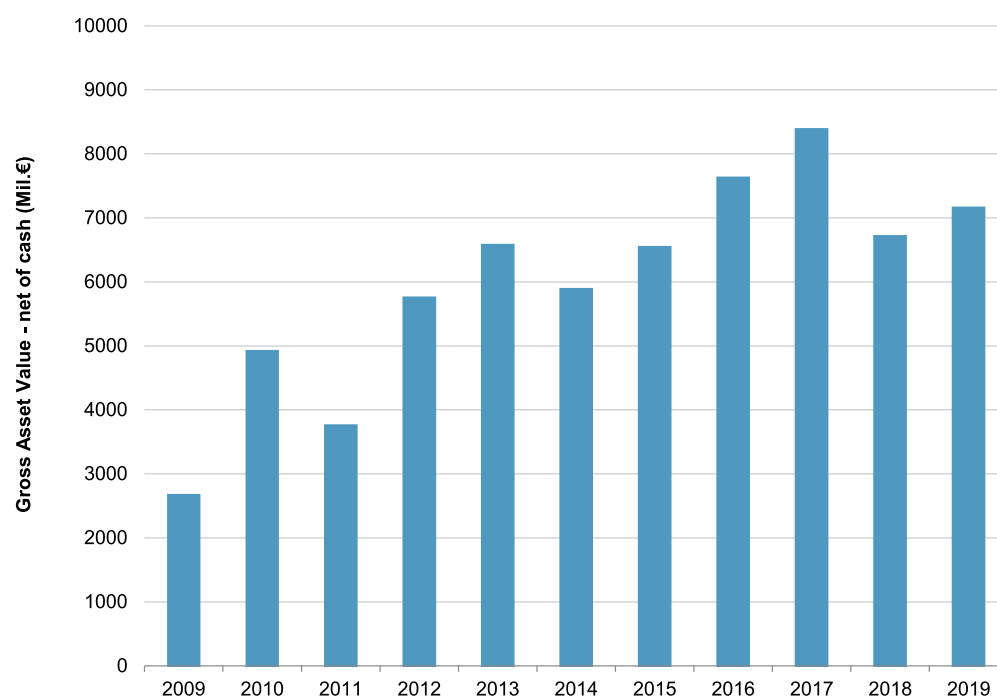
Sector Exposure Of Wendel's Investment

Pro forma of Allied Universal and CPI



CPI--Consumer price index. Source: S&P Global Ratings. Enterprise value (EV) exposure of group companies according to the breakdown of 2018 revenues. EV is based on NAV calculation as of Sept. 30, 2019. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Conversely, the portfolio's asset quality receives strong support from BV, which mitigates lower credit quality at IHS, Constantia, Stahl, Cromology, and Allied Universal. We anticipate that a new investment focus on Europe and North America, and undertaking low-capital-intensive non-cyclical investments, would gradually boost the portfolio's credit quality. We estimate average portfolio quality at the higher end of our 'bb' category.

Chart 4**Gross Asset Value (Net Of Cash)**

Source: S&P Global Ratings.

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Key Portfolio Developments

Over the last two years, Wendel has been refocusing its portfolio away from small unlisted investments. Wendel disposed of its stakes in Nippon Oil Pump, Saham, Mechatherm, and CSP Technologies in 2018. The bulk of these transactions closed with an internal double-digit return. During 2019, Wendel sold assets for about €1 billion including its residual stake in Saint Gobain for €296 million and its investment in PlaYce (formerly SGI Africa) for net proceeds of €32.2 million (compared to an initial investment of €25.3 million in July 2016). Wendel reduced its stake in U.S. security services leader Allied Universal to 6% (down from 33%) for US\$720 million in cash, thereby diminishing its exposure to a comparatively highly leveraged asset.

The proceeds were used to recapitalize Cromology, Europe's leader in decorative paints, in a transaction involving the renegotiation of debt with maturities extended to five years and financial covenants eased considerably. Wendel now holds 100% of Cromology (before management coinvestment). In the second half of 2019, Wendel also announced the acquisition of U.S.-based CPI for €590 million, an asset characterized by organic growth potential and steady cash flow generation.

We estimate that Wendel's additional investment capacity is around €1 billion if it targets keeping LTV below 20%.

Peer comparison

Table 1

Wendel--Peer Comparison				
	Wendel	JAB Holding Company S.a r.l.		EXOR N.V.
	--Fiscal year ended 2019--			
Rating as of Feb. 11, 2020	BBB/Stable/A-2	A-/Positive/--		BBB+/Positive/A-2
Business profile	Fair	Satisfactory		Satisfactory
Portfolio data as of	30-Sept.	01-Dec		30-Sept.
Portfolio size (adjusted; Mil. \$)	8,262	29,819		26,766
Weight of listed assets (%)	46.6	53.7		68.4
Largest asset (% of portfolio)	46.6	53.7		30.2
Three largest assets (% of potfolio)	75.7	89.1		77.0
Three largest assets	Bureau Veritas, Stahl, IHS	KDP, JDE, Coty	PartnerRE (A-/Stable/--) FCA (BB+/CW Pos/--) CNH (BBB/Stable/A-2)	
Cash flow leverage	Modest	Modest		Modest
Net financial debt (Mil. \$)	550	5,288		2,937
Loan to value (%)	7.0	18.0		11.0
Loan to value ceiling (%)	20.0	20.0		20.0

Financial Risk: Modest

Material deleveraging despite dynamic portfolio turnaround

Our assessment of Wendel's financial risk profile reflects management's fairly conservative stance on leverage at both the holding level and its investee companies. The LTV headroom commensurate with the current rating provides additional investment capacity of €1 billion. Compared to previously, the new investment policy guidance gives us more comfort about new investments when it comes to market exposure and cash flow stability. The strong financial risk profile partly offsets a fairly supportive shareholder policy.

The company's track record of rotating assets amid hectic market conditions, alongside prudent liquidity management--with the early refinancing of all debentures--further supports the financial risk profile.

With gradual balance-sheet deleveraging (to net debt of below €500 million in 2018 and 2019), combined with access to capital markets under attractive market conditions (average cost of bond debt reduced to 2.0% in 2019 from 4.3% as of Dec. 31, 2015), the cash-burn rate improved. Yet, Wendel underperforms other investment holding companies such as JAB Holding Co. and Exor N.V., in terms of cash flow ratios. Cash flow coverage, ample in 2017, came down to below average in 2019. Visibility on the recovery of cash flow ratios is limited. While this is not a major issue if isolated, the recurrence of weak cash flow ratios could pressure the rating in a relative comparison with peers.

We continue to factor in that debt at operating subsidiaries will have no recourse or cross default with Wendel.

Financial summary

Table 2

Wendel Financial Summary				
	--Fiscal year ended--			
	2019**	2018**	2017	2016
(Mil. €)				
Portfolio as adjusted*	7,587	7,180	9,292	9,403
Net debt as adjusted	505	463	1133	2158
Loan to value (%)	6.7	6.4%	12%	23%
Dividend & fees income	0	137.6	368.5	182
Operating charges and tax expenses	61.8	71.4	71.4	51
Net interest expenses/ (income)	59.3	91.4	109	136
Cash flow cover (x)	0	0.8	2	1
Dividend paid	129	123	107	99
Share buybacks	200.0	36.8	49.3	49.9

* net of cash held. ** November Asset Valuation.

Liquidity: Strong

Our assessment of Wendel's liquidity as strong reflects our expectation that its sources of liquidity will likely exceed liquidity uses by more than 2.4x in the next 12 months despite the absence of dividend inflow from our investee companies. Wendel's generally good access to the bond market, solid relations with banking counterparties, and comfortable headroom under covenants, supports our assessment.

Principal Liquidity Sources	Principal Liquidity Uses
<p>We calculate the following liquidity sources for the 12 months started Sept. 30, 2019:</p> <ul style="list-style-type: none"> • Net cash and cash equivalents of €1.1 billion; and • €750 million available on a revolving credit facility (RCF) expiring in 2024. 	<p>We estimate the following liquidity uses for the same period:</p> <ul style="list-style-type: none"> • No debt maturities until 2023; • Operating expenses of €60 million-€70 million; • Interest expenses in the €50 million-€60 million; • Dividends likely to exceed €120 million; and • The closing of the CPI acquisition (Dec. 23, 2019).

Covenant Analysis

Wendel's €750 million RCF bears two LTV covenants, tested semiannually but only if the line is drawn down. As the line is undrawn, there is no obligation of covenant headroom reporting but headroom would be comfortable.

Issue Ratings - Subordination Risk Analysis

We rate Wendel's senior unsecured debt in line with its issuer rating and we don't have any concerns about structural subordination.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Fair

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Fair

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb-

Modifiers

- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb

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 | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of February 11, 2020)*

Wendel

Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB

Issuer Credit Ratings History

25-Jan-2019	BBB/Stable/A-2
07-Jul-2014	BBB-/Stable/A-3
24-Apr-2013	BB+/Stable/B

*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.

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