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Wendel

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Rationale

Corporate Credit Rating

BBB-/Stable/A-3

Business Risk	Financial Risk
<ul style="list-style-type: none">• Asset credit quality and liquidity progressively impaired by the portfolio reshaping toward unlisted assets.• Lower, but still significant, asset concentration on Bureau Veritas and Saint-Gobain.• Modest liquidity of Bureau Veritas, given Wendel's controlling ownership in this company, which we view as being its most valuable asset.• Good creditworthiness of key listed investments.• Robust track record of asset rotation.	<ul style="list-style-type: none">• Despite a sustained appetite for acquisitions, the financial policy at the holding level has proved to be more conservative.• Financial flexibility following an optimization of its ownership in listed shareholdings.• Strong liquidity and enhanced debt maturity profile.• Continued sizable operating cash burn at parent company level.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, over the next 12 months, Wendel's management will show discipline toward its revised commitment of a loan-to-value (LTV) ratio sustainably below 30%.

In our view, equity market conditions are likely to remain particularly volatile in the near term. As such, we expect management's commitment will translate into appropriate actions, if need be. We also believe that the current cash pile should provide sufficient room to maneuver, while being partly earmarked for new lines in the portfolio.

Our stable outlook also factors in that while the cash flow ratio could be impaired in the near term by lower dividend inflows, we expect it will remain at about 0.8x-1.0x on average in 2016-2017, on a normalized basis, given the lower average cost of debt.

Upside scenario

We could consider a positive rating action if Wendel achieved and committed itself to an LTV ratio sustainably below 25% while improving its asset liquidity and quality. In addition, this would likely require a stabilization of cash uses at the holding company level and a slowdown in current investment activity, unless any acquisitions were largely financed by disposals.

However, given the company's investment strategy to focus on unlisted assets that are smaller in size than its listed assets, and with more aggressive capital structures, we view such a scenario as unlikely within the next 12 months.

Downside scenario

A negative rating action could come from further deterioration of Wendel's business risk profile, leading us to reconsider our assessment of the comparable ratings analysis. A negative rating action could also occur in case of a more aggressive financial policy than we currently expect, which could lead to an LTV ratio higher than 30%.

Our Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Approximately €130 million in dividends from Wendel's main shareholdings, Bureau Veritas and Saint-Gobain, to be received over the next 12 months. This amount is well below the historical level of €200 million given the successive block disposals undertaken on these equity stakes over the last 18 months. Nevertheless, we consider that Stahl and/or other core unlisted assets could provide some additional upside. Broadly stable operating expenses at the parent company level as the group seems to have established its offices in geographic areas deemed as strategic for its investment strategy. Interest expenses that will decrease from their current level of €180 million-€190 million as the tap in capital markets under attractive terms should be mitigated by a persistent negative carry, given Wendel's sound cash position. Capital redeployment within the unlisted arena and potential fresh capital injection in existing lines unlikely to exceed an aggregate €800 million—excluding proceeds yielded from further divestments—in the near term given the current cash position. This envelope takes into account the recently announced acquisition of business services company Tsebo for an injection that could reach €200 million. 	2015A	2016E	2017E	
	Cash flow adequacy (x)	0.8	0.8-1.0	0.8-1.0
	Loan-to-value (%)*	34.5	Less than 30%	Less than 30%
<p>*Fully adjusted, i.e. based on spot prices for listed assets while net debt accounts for the €15 million guarantee granted to Mecatherm. A--Actual. E--Estimate. For 2016E and 2017E, we show our loan-to-value threshold for the current rating.</p>				

Company Description

Wendel is a France-based publicly listed investment holding company, tracing its history back to the eighteenth century in the steel industry. Wendel Participations, a family vehicle representing the individual interests of more than 1,000 Wendel family members, holds the largest stake in the company, broadly 36% on Dec. 31, 2015. Wendel's investment portfolio was worth just less than €9 billion on Sept. 26, 2016, largely made up of an ownership recently halved to 6.5% in building materials designer, manufacturer, and distributor Compagnie de Saint-Gobain (15% of assets) and a 40.6% stake in testing, inspection and certification business Bureau Veritas (40% of assets). From an initial investment of \$276 million in 2013, Wendel participated in successive capital increases in IHS for an aggregate \$826 million and it now makes up the third-largest asset in the company's portfolio (26% ownership). IHS is an African provider of telecom tower infrastructure for mobile operators. Wendel's portfolio also contains midsize to large players operating in niche markets such as:

- Stahl—a leading actor in the high-performance coatings and leather-finishing products that generated €628 million in revenues in 2015 and reported EBITDA of €129 million;
- Austrian Constantia Flexibles—reported to be the world's fourth-largest flexible packaging and labels supplier, with revenues hitting just less than €2 billion versus EBITDA of around €260 million in 2015; and
- Allied Barton, recently merged with Universal to form Allied Universal, the largest manned security services company in the U.S. with combined revenues of about \$4.5 billion and combined EBITDA of \$440 million (including anticipated synergies of \$100 million).

Stakes in smaller, typically more leveraged and unlisted corporate entities, round out the company's portfolio.

Business Risk

A rebalancing toward the unlisted area that weighs on the portfolio's key features

Our view of Wendel's business risk profile is mostly reflective of the investment policy shift toward unlisted assets initiated four years ago, with clear acceleration over the past 18 months. In our view, this rebalancing weighs on the asset portfolio's liquidity and quality, despite some diversification benefits. The weight of listed assets has been decreasing by 10%-15% on a yearly basis from broadly 90% in November 2012. With the complete optimization of its stake in Saint-Gobain—through another accelerated book-building on Saint-Gobain in early May 2016—listed assets now account for less than 60% of the portfolio. Given the sizable cash the company currently enjoys, alongside the existing €500 million exchangeables, we think the proportion of listed assets will continue to decline. While the disposal of Parcour, in a timely manner and under turbulent market conditions, indicates management's ability to extract a price in excess of its reported value, we still consider the company's increasing exposure to unlisted assets as negative, given their lower marketability and concerns over their fair value assessment.

In our opinion, the ongoing reshaping of the investment portfolio also affects asset quality, since the solid creditworthiness of its two dominant assets Saint-Gobain (BBB/Stable/A-2) and Bureau Veritas (not rated) is offset by the relatively weaker credit profile of the remaining portion of the portfolio, namely smaller assets featuring more aggressive capital structures.

We consider that further weakening has come from its exposure to Nigeria, for which we recently revised the country risk to very high from high. The tower telecommunications provider IHS (preliminary group credit profile: 'b+'), the portfolio's largest unlisted asset, derives the bulk of its revenues and EBITDA generation from this country, particularly since the recent acquisition of Helios Towers Nigeria. Yet, our credit assessment on the IHS Holding group is higher than the foreign currency rating on Nigeria (B/Stable/B) because IHS Holding passes our hypothetical sovereign default stress test, which, among other factors, assumes a 50% devaluation of the Nigerian naira against hard currencies and a 15%-20% decline in organic EBITDA. (For further details, see "Mobile Tower Company IHS Netherlands HoldCo B.V. Assigned Preliminary 'B+' Ratings; Outlook Stable," published Sept. 26, 2016, on RatingsDirect.)

We think that these weaknesses are tempered by the listed nature and solid investment-grade creditworthiness of Saint-Gobain and Bureau Veritas, underpinned by their worldwide leading competitive positions and ability to generate free operating cash flow (FOCF) over the economic cycle. This translates into sustainable and predictable returns to

shareholders.

Further benefits come from the improving asset diversification. Following participation in the successive capital increases in IHS, complimented by the subsequent integration of Alabama-based specialty plastic packaging solutions company CSP Technologies, Austria-based flexible packaging manufacturer Constantia Flexibles, and more recently the merger of U.S.-based Allied Barton with Universal Security Services, Wendel has a much more geographically balanced portfolio. Pro rata Wendel's ownership and pro forma the merged entity, Allied Universal, the company's asset exposure outside Western Europe more than doubled to account for about 69% of the total. From a sector prospective, the trend was similar, with construction—which used to dominate with about 60%, of which more than half from renovation—has declined to just below 20%.

Key Portfolio Developments

During the first half of 2016, the performance of Wendel's operating assets reflected the continuously gloomy commodities and mining market, modest recovery in the Western Europe construction market, alongside negative currency impact. Yet, volumes continued to climb in the resilient specialized packing and business services sectors. Most of the upside came from external growth factors at all the core investments.

Given the comfortable cash position and further flexibility to gain through the €500 million of exchangeables on Saint-Gobain shares, it seems evident that there will be sustained portfolio activity over the next 12-18 months, both in existing assets and in new stakes—as reflected by the just-announced acquisition of the South Africa-based catering and facilities management company, Tsebo. Yet given management's stated new financial policy, we think that such activity will be undertaken with discipline, with an eye to maintaining sufficient flexibility vis à vis its 30% LTV threshold.

Peer comparison

Table 1

	Wendel	Franz Haniel & Cie GmbH	Exor SpA	Industrivarden AB	Investor AB	L E Lundbergforetagen AB
Corporate credit rating on Sept. 29, 2016	BBB-/Stable	BBB-/Stable	BBB+/Negative	A/Stable	AA-/Stable	A+/Stable
Business profile	Fair	Fair	Satisfactory	Strong	Excellent	Strong
Portfolio data as of	Aug. 26, 2016	March 31, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
Portfolio size (mil. US\$), as adjusted	9,798	6,551	15,504	9,512	33,037	7,563
Weight of listed assets (%)	57	47	48	100	75	71
Largest asset (% of portfolio)	39	37	43	25	15	28
Three largest assets (% of potfolio)	69	67	78	55	41	59

Table 1

Wendel--Peer Comparison (cont.)						
	Wendel	Franz Haniel & Cie GmbH	Exor SpA	Industrivarden AB	Investor AB	L E Lundbergforetagen AB
Three largest assets	Bureau Veritas (NR), Compagnie de Saint-Gobain (BBB/Stable), IHS (prelim GCP b+)	Metro AG (BBB-/Stable), CWS Boco (NR), TAKKT AG (NR)	ParnerRE (A-/Stable), FCA (BB/Stable), CNH (BB+/Stable)	Handelsbanken (AA-/Negative), SCA (A-/Stable), Sandvik (BBB/Negative)	Atlas Copco (A/Stable), ABB (A/Stable), SEB (A+/Stable)	Fasteghet L E Lundbergs (NR), Industrivarden (A/Stable), Huvudstaden (NR)
Cash flow leverage	Intermediate	Intermediate	Modest	Modest	Modest	Modest
Net financial debt (US\$)	2,141	1,104	4,003	1,327	2,360	520
Loan-to-value (%)	22	17	26	12	10	7
Loan-to-value ceiling (%)	30	30	20	20	20	15

GCP--Group credit profile.

Financial Risk

Some financial flexibility following an optimization of its ownership of listed assets

Management revised commitment to a more conservative financial policy at the holding level, by lowering its LTV threshold to 30%, represents a supportive factor to the company's financial risk profile. More importantly, it has proved its willingness to deleverage the balance sheet, through the debt reduction of about €1 billion undertaken in May 2016. The company's demonstrated track record in rotating assets under hectic market conditions--as was the case with Parcours--alongside prudent liquidity management, with the early refinancing of all debentures, further support the financial risk profile.

That said, cash burn at the holding company level remains a constraint, in our view, with broadly €260 million per year on interest and operating expenses. This represents about twice the amount incurred by peers JAB (€21 billion portfolio as of March 31, 2016) and Exor (\$15.5 billion portfolio as of June 30, 2016). While Wendel could benefit from a lower cost of debt (3.5% on the bond structure), it will remain subject to the negative carry--whose magnitude will depend upon the timing of cash reallocation.

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

Our Base-Case Cash Flow And Capital Structure Scenario

- A fall in dividend streams from listed stakes from 2016, with amounts adjusted for Wendel's reduced exposure on Bureau Veritas and optimized ownership in Saint-Gobain.
- Financing costs likely to decline to about €150 million, reflecting reduced net debt, less expensive refinanced debt, and persistent negative carry.
- Operating costs of about €60 million, and returns to shareholders for an aggregate amount in excess of €200 million.
- As a result of the above factors, we expect cash flow adequacy to be in the range of 0.8x-1.0x .
- Continued new investment appetite, with a committed further €95 million of outflows on SGI Africa for a 40% stake, up to €200 million earmarked for a controlling stake in the €331 million acquisition of Tsebo, and potential further tickets of similar size in the near term.
- Wendel's LTV ratio of 23% on Sept. 29, 2016, by our calculations and pro forma a €200 million infusion in Tsebo, was well placed within our expectation of 30% for the ratings. On that date, it would have taken an overall decline in asset value of more than 20% for LTV to weaken to our threshold. We estimate that €200 million reinvested on that date would increase LTV by about 1.8%. Nevertheless, a portion of the outstanding €1.6 billion cash on balance sheet (post Tsebo) is earmarked for the €95 million upcoming investment in SGI Africa and our estimate of €300 million-€600 million in potential new investments within the next 24 months.

Financial summary

Table 2

Wendel Financial Summary				
	--Year-ended Dec. 31--			
(Mil. €)	2015	2014	2013	2012
Portfolio as adjusted*	9,975.0	9,771.0	10,423.7	10,067.3
Net debt as adjusted*	3,446.0	2,678.0	3,351.0	3,473.0
Loan to value (%)*	34.5	27.4	32.1	34.5
Dividend & fees income	172.0	194.0	244.0	204.0
Operating charges and tax expenses	53.0	55.6	45.8	39.0
Net interest expenses/ (income)	186.0	162	185.0	188.9
Cash flow cover (x)	0.7	0.9	1.1	0.9
Dividend paid	93.0	86.0	83.0	87.1
Share buybacks	45.0	97.0	105.0	60.0

Liquidity

Comfortable cash position complimented by full availability under back up lines

The short-term rating is 'A-3'. We assess Wendel's liquidity as strong under our criteria, based on our view that sources of liquidity will exceed needs by more than 1.5x in the next 12 months, even in the event of an unforeseen decline in dividends from portfolio companies.

Principal Liquidity Sources	Principal Liquidity Uses
<p>Wendel's liquidity sources as of Aug. 26, 2016, include:</p> <ul style="list-style-type: none"> • Net cash and cash equivalents of €1.8 billion (including €306 million of financial investments); • Dividends from its listed assets that we have further revised downward to €130 million (well below the historical level of €200 million), following the divestment of almost one-half of its stake in Saint-Gobain. In our view, further upside will depend upon value extraction from Stahl and/or other unlisted assets; • €500 million undrawn under debt with margin calls available until March 2020 (as the company has recently canceled the second line of €350 million initially due December 2019); and • €650 million undrawn on a syndicated revolving credit facility (RCF) that matures in November 2019. 	<p>This compares well with the company's potential liquidity uses by Aug. 26, 2017, comprising:</p> <ul style="list-style-type: none"> • Short-term maturities of €634 million (broadly half a billion of debt matures in the subsequent 12 months); • Operating expenses of approximately €60 million; • Interest expenses of about €150 million, given the lower costs of funding; • Continuously increasing return to shareholders that could exceed €200 million in the form of dividends and share buybacks; • Up to €200 million for the controlling stake in the business services company Tsebo complimented by a potential €30 million injection (out of the €95 million earmarked for SGI Africa); • Potential new lines in the portfolio and contribution to existing assets for an amount unlikely to exceed €600 million--given the company's current cash position--over the next 24 months, given management's revised financial policy.

Covenant Analysis

Wendel's €650 million RCF bears two LTV covenants, which are tested semiannually. On June 30, 2016, the company complied with these covenants, and had significant headroom under them. We expect Wendel will have adequate headroom, meaning 15%, under its covenants over the period through Dec. 31, 2016.

Other Credit Considerations

We consider that Wendel's current portfolio is stronger than that of other companies with fair business risk. As such, we include one notch of uplift in the ratings for a positive comparable ratings analysis. For instance, Wendel is currently better positioned than Franz Haniel from a portfolio perspective in terms of size (1.5x that of Haniel as of Sept. 26, 2016, at about €8.9 billion), number of lines within the portfolio (2x that of Haniel), and weight of listed assets (10 percentage points more).

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/A-3

Business risk: Fair

- Country risk: Low
- Industry risk: Intermediate
- Investment position: Fair

Financial risk: Intermediate

- Leverage/Cash flow: Intermediate
- Funding and capital structure: Neutral

Anchor: bb+

Modifiers

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

Related Criteria And Research

Related Criteria

- Methodology: Investment Holding Companies, Dec. 1, 2015
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Methodology: Industry Risk, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings Detail (As Of September 29, 2016)

Wendel

Corporate Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-

Corporate Credit Ratings History

07-Jul-2014	BBB-/Stable/A-3
24-Apr-2013	BB+/Stable/B
11-Apr-2012	BB/Stable/B
10-Oct-2011	BB-/Negative/B

Ratings Detail (As Of September 29, 2016) (cont.)

*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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