MOODY'S
INVESTORS SERVICE

CREDIT OPINION
4 August 2021

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 incorporates the company's consistent and prudent investment strategy, and conservative financial policy, reflected by its very low point-in-time market value leverage (MVL) and our expectation that the company will maintain low MVL through market cycles.

The company's conservative investment strategy is focused on a buy-and-build approach, whereby Wendel targets majority stakes, control investments or large minority stakes to support the development of their business models over a long-term holding period of close to 15 years on average. Wendel has established a strong track record of developing companies, with Bureau Veritas S.A. (Bureau Veritas) as a key example of its ability to identify sound business models and successfully develop them over time. The company 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 10.2% over June 2002-March 2021, which reflects its successful investment strategy through market cycles.

Wendel's portfolio of investments is well diversified across business sectors and geographies. The 47%-53% split between listed and unlisted assets, respectively, as of June 2021 ensures sufficient portfolio liquidity and good valuation metric transparency. Many of Wendel's portfolio assets are rated or have been rated by us in the past, which increases portfolio transparency. In addition, Wendel provides a good level of disclosure on valuation metrics and the 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 in Bureau Veritas (around 40% of the overall value, including cash, as of June 2021), which is mitigated by the business' resilience through macroeconomic cycles, and track record of strong and profitable growth, and the company's public listing. The current rating is supported by our expectation that Bureau Veritas will remain an anchor investment of Wendel in the foreseeable future. We also note that Wendel has recently reiterated its intention to use some of its financial flexibility to invest in new assets with a view to further diversify its portfolio. This will mechanically reduce the concentration on Bureau Veritas over time. Wendel has also indicated its intention to maintain a good balance between listed and unlisted investments going forward.

Despite its 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 the errors by the successful implementation of an action plan, which has restored its asset quality and reduced the loss in value to shareholders. In addition, Wendel has stated that such oversized or overleveraged investments will not happen again and has maintained a more conservative financial policy since then.

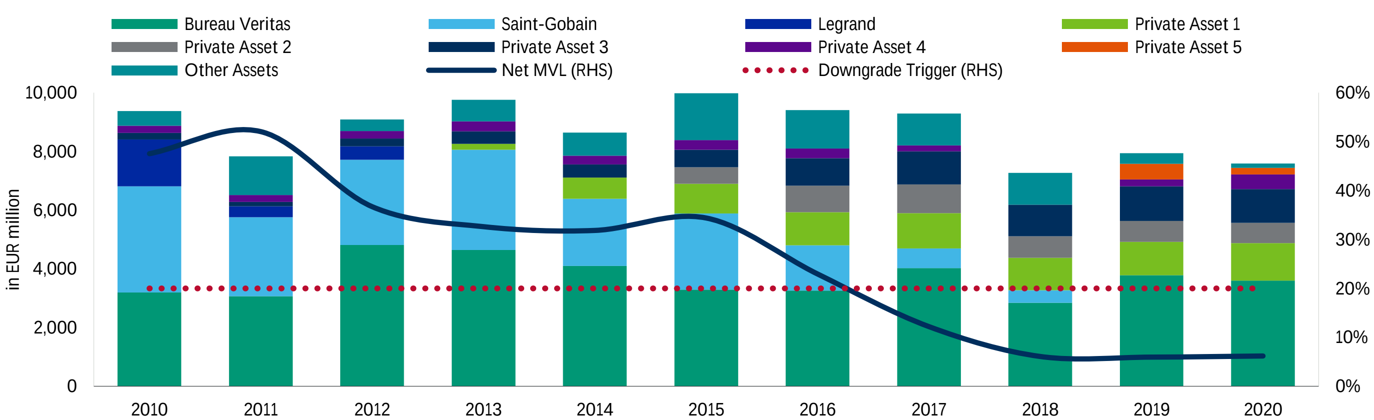
Wendel's underlying investment portfolio is slightly more leveraged than that of its peers we rate, such as Criteria Caixa, S.A., Sociedad Unipersonal (Baa2 stable) or JAB Holding Company S.a r.l. (JAB, Baa2 stable), with a weighted-average rating level in the mid-to-low Ba range, despite the company's recent efforts to reduce its portfolio companies' balance-sheet leverage. Leverage used at the portfolio companies to optimize Wendel's return on equity is also mitigated by conservative MVL at the investment holding level and 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 most of Wendel's portfolio companies are growing companies that have opportunities to reinvest their free cash flow into the businesses to grow both organically and externally, rather than pay dividends to Wendel. The value accretion from reinvesting the generated cash flow into the businesses by far exceeds the return that Wendel's shareholders would obtain through dividend upstreams. In addition, Wendel has a robust cash position, which covers several years of interest and debt maturities, and mitigates the structurally low interest cover.

Wendel managed the fallout from the coronavirus pandemic successfully. Despite a decline of 4.2% in its net asset value in 2020 (up 34.7% sequentially over March 2020-December 2020), which improved by 18.9% over December 2020-June 2021, Wendel maintained a very robust balance sheet structure and liquidity at the holding level. Wendel's net MVL was around 8% as of 30 June 2021, and the company held €2 billion of available liquidity as of 30 June 2021 (around €1.2 billion cash and €750 million full availability under committed undrawn credit facilities). This position offers a more-than-adequate capacity to navigate through the volatile market environment and reflects the company's strong preparedness in the late cycle conditions that preceded the pandemic.

Exhibit 1

Wendel's net MVL has reduced substantially in recent years



Sources: Wendel and Moody's Investors Service

Credit strengths

» Consistent and prudent investment strategy

» Conservative financial policy, reflected in our expectation that Wendel will maintain its net MVL below 20% on a sustained basis

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

» Good end-industry and geographic diversification

» Well-spread maturity profile, with an average maturity of close to six years

Credit challenges

» Some asset concentration, with the top three assets accounting for a substantial portion of the investment portfolio's gross asset value

» 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 rating outlook reflects our expectation that Wendel will maintain a conservative leverage profile through the cycle, with its net MVL below 20%. We would expect Wendel to implement an action plan to reduce net MVL to below 20% within a time frame not exceeding 18 months if this level would be materially and sustainably exceeded. The outlook is also predicated on Wendel refraining from making highly priced investments, a challenge under the current market conditions. In addition, the outlook 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

» A continued track record of shareholder returns through the cycle, coupled with conservative financial policies

» Net MVL below 15% through market cycles and interest cover above 2.0x, both on a sustained basis

Factors that could lead to a downgrade

» Net MVL above 20% on a sustained basis without an action plan to bring down leverage to target levels within a time frame not exceeding 18 months

» Substantial changes in the portfolio composition, including a significant shift in listed/unlisted assets, a reduction in its stake in Bureau Veritas and reinvestment in more volatile assets

» A deterioration in liquidity, especially in light of Wendel’s weak interest cover

Key indicators

Exhibit 2
Wendel SE

	2014	2015	2016	2017	2018	2019	2020	H1 2021
Total Net Assets (in EUR million)	8,640	9,978	9,405	9,292	7,264	7,939	7,583	9,288
Net MVL	31.9%	34.4%	22.9%	12.2%	6.1%	6.0%	6.2%	7.6%
Interest Coverage	1.2x	1.1x	0.8x	3.0x	0.8x	0.4x	-1.1x	N.A.

Sources: Wendel and Moody's Investors Service

Profile

Wendel SE (Wendel), based in Paris, is the parent company of the Wendel group, a leading investment holding company in Europe, with an investment portfolio worth €9.3 billion (excluding cash) as of 30 June 2021. The Wendel group was founded in 1704, and the 1,200 family shareholders grouped under Wendel-Participations SE still own 39.3% of Wendel's share capital. Wendel is listed on the Paris Stock Exchange, and the company's market capitalization amounted to €5.3 billion as of August 2021.

Detailed credit considerations

Clearly defined and conservative investment strategy

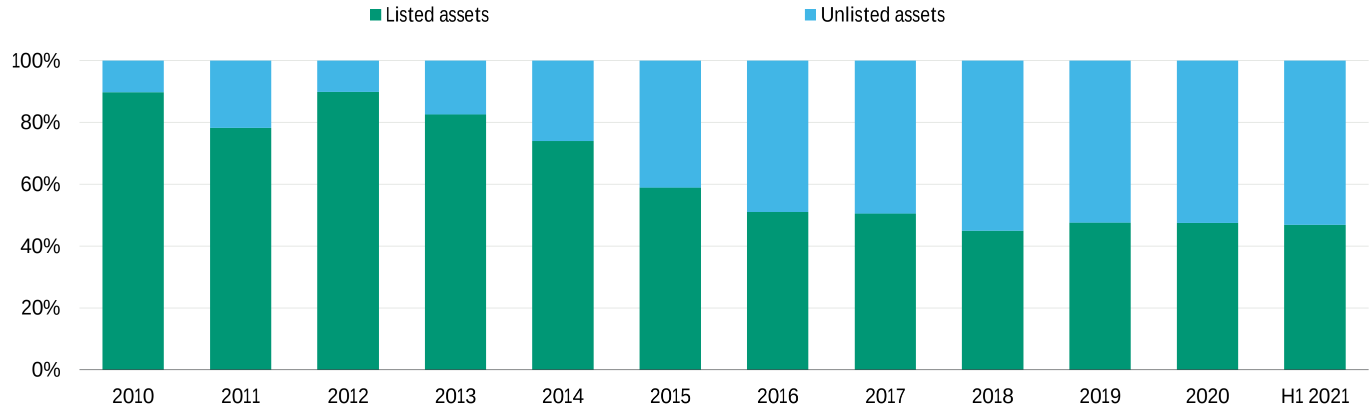
Wendel's investment strategy is clearly defined and well articulated to the group's shareholders and creditors. The management team is focused on a buy-and-build approach, which is centered on buying majority stakes, control investments or large minority stakes in companies to support the development of their business models over a long-term holding period of close to 15 years on average. Obtaining majority stakes is critical to the company's buy-and-build strategy because driving the strategy of an investment through a minority stake is much more difficult. In such instances, Wendel aims to secure at least a veto right, especially with regard to the contractual optionality to trigger a divestment.

According to the new investment strategy over 2021-24, the ideal investment size is €150 million-€500 million in public and private assets. However, Wendel has occasionally partnered with co-investors for larger investments in the past. This model has been successful and can be replicated in the future. Co-investors can also sometimes be sought for their specific knowledge of, or expertise in, a business sector. However, Wendel is not keen on establishing a private-equity fund to invest alongside its shareholders (as JAB has done). This model is considered too complicated and can exert 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 mainly contributing to shareholder returns and dividends playing 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 Wendel's 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, with the current split at around 47%-53%, respectively. The company will not reduce its share of listed assets significantly because it 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 strong earnings and value resilience through the market cycle.

Exhibit 3
Good balance between listed and unlisted assets



Sources: Wendel and Moody's Investors Service

Wendel has an investment target of €150 million-€500 million per investment linked to its 2021-24 strategy, which aims to build a portfolio of up to 10 companies. Our current rating is predicated upon Wendel navigating the current volatile market cycle environment conservatively. In the context of its 2025 roadmap, Wendel resumed its active search for additional investments and is ready to pay high multiples for growth and high quality assets, in the current market conditions earmarked by lofty valuations. We do not exclude acquisitions as in the case of the recently announced acquisition of a stake in Tarkett as a co-investor alongside the Deconinck family.

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 key example. Wendel acquired a majority stake in Bureau Veritas in 1995, when the company was generating an annual turnover of €400 million. Bureau Veritas generated €4.6 billion of sales in 2020, and it is a profitable company, with a reported operating margin of around 13%. The consolidation of the historically difficult leather chemicals market under the leadership of Stahl Group is another example of the successful execution of Wendel's strategic vision. The value of Bureau Veritas and Stahl Group has increased significantly between 2010 and year-end 2020, reflecting Wendel's ability to identify sound business models and successfully develop them over time.

Exhibit 4
Reinvested dividend performance over June 2002-March 2021

	Total returns for the period	Annualized return over the period
Wendel	515.6%	10.2%
Euro Stoxx 50	139.1%	4.7%

Source: FactSet

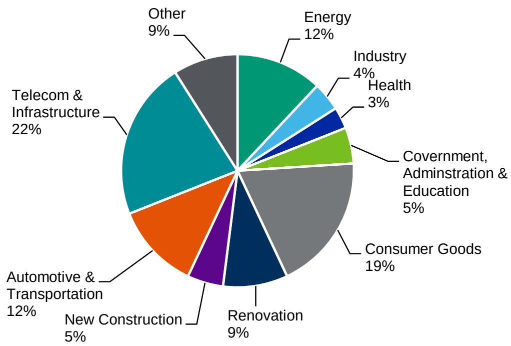
Wendel also has a proven track record of generating consistently high returns for its shareholders, with an annualized total shareholder return of 10.2% since June 2002, which reflects its successful investment strategy through market cycles. This compares quite favorably with the return on EURO STOXX 50, which has generated a net return of 4.7% over the same period. The total shareholder return has been hit in the past by errors in investment, such as that in Saint-Gobain or Materis Group.

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 in business services (around 40%) is clearly mitigated by Bureau Veritas' strong earnings resilience through the macroeconomic cycle. In addition, Wendel's portfolio companies are characterized by strong geographic diversification in terms of revenue generation, with a good mix of developed and emerging economies.

Exhibit 5

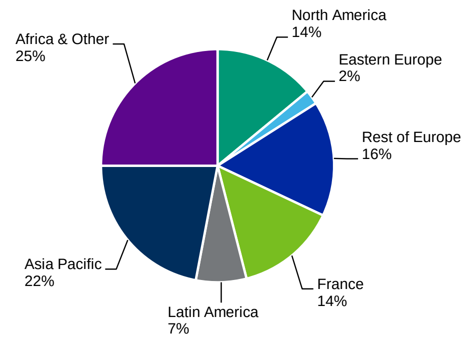
Enterprise value exposure of the Wendel group companies (According to the revenue breakdown in 2020)



Enterprise values are based on net asset value calculations as of 30 December 2020.
Sources: Wendel and Moody's Investors Service

Exhibit 6

Breakdown of revenue by regions where assets are located



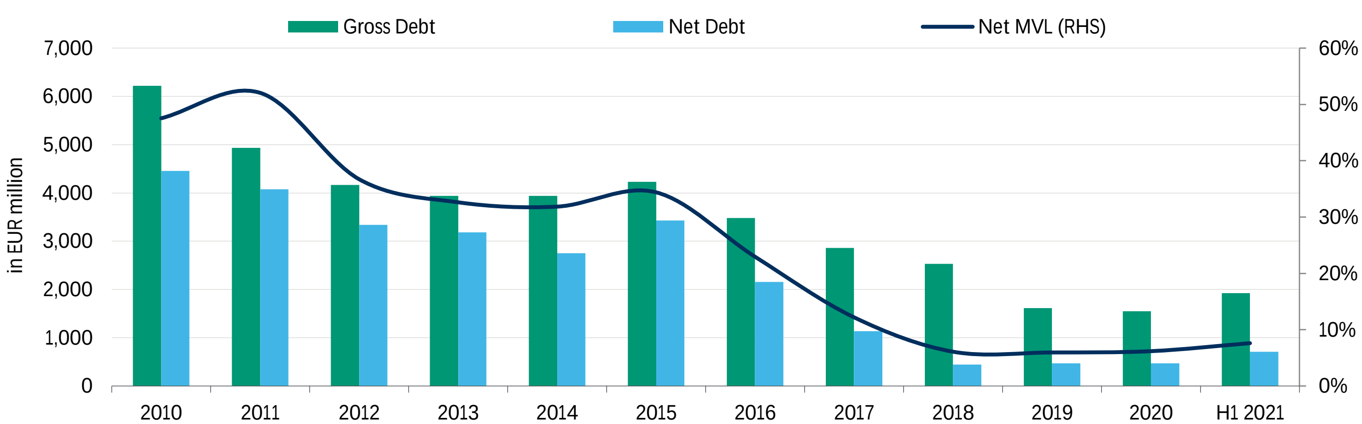
Sources: Wendel and Moody's Investors Service

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

Wendel has very low leverage at the investment holding company level, with net MVL of 7.6% as of June 2021. While the company has made clear in its latest strategic update that it wants to use its low net market value leverage and resulting financial flexibility to invest in new assets, we believe that Wendel will invest in new assets in a prudent manner with the objective to sustain its current rating. We expect Wendel to maintain its net MVL at a level not significantly above 20% on a sustained basis through market cycles and to implement an action plan if its net MVL were to exceed the 20% mark materially and for a prolonged period of time. Wendel also has a strong track record of leverage reduction through the global financial crisis, when it had very high MVL at the trough of the cycle in 2009.

Exhibit 7

Strong track record of leverage reduction since 2009

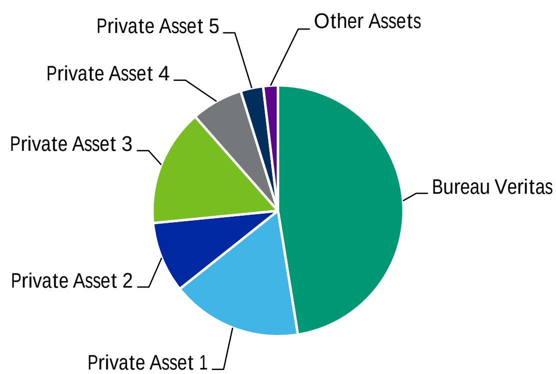


Sources: Wendel and Moody's Investors Service

Some asset concentration, with the top three assets accounting for around 69% of the investment portfolio's gross asset value

Wendel's strategy is focused on the diversification of its asset portfolio. However, the company believes that too much diversification or a very broad portfolio would be detrimental to its objective of generating a double-digit return in percentage terms for shareholders and would increase the credit risk at the Wendel level. The current portfolio is slightly concentrated, with the group's top three assets accounting for around 69% of the investment portfolio's gross asset value, including cash. We expect Wendel's asset concentration to reduce in the medium term because the company will invest the liquidity available at present into new assets over time in a disciplined manner. This concentration is largely mitigated by the share of Bureau Veritas in the group's overall gross asset value (roughly 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 strong support to the credit quality of the overall portfolio of investments.

Exhibit 8
Wendel's portfolio composition
As of December 2020



Sources: Wendel and Moody's Investors Service

Some historical investment errors, which have been well mitigated

Although Wendel has a strong long-term track record of generating high total shareholder returns, the company has not been immune to investment errors. In particular, Wendel's two building materials-related investments (Materis Group and Saint-Gobain) in 2006 and 2007, respectively, led to strong exposure to the cyclical building materials industry late in the cycle and increased balance-sheet leverage just before a collapse in market valuation.

From our interaction with Wendel's senior management, we understand that the company has learned from these errors and has implemented necessary changes in its corporate governance to avoid such mistakes in the future. Wendel's management is navigating very cautiously what we consider the late stage of the current market cycle and is certainly not inclined to execute significant debt-financed concentrated investments that would expose the 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 reducing the holding company's balance-sheet leverage and successfully decreasing its exposure to both Materis Group and Saint-Gobain. Wendel has achieved an average annualized total shareholder return of 10.2% since June 2002, despite the two investment errors.

Relatively low interest cover

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

Wendel has navigated the pandemic successfully, aided by strong preparedness

At the outbreak of the pandemic, Wendel had a very strong financial position. The company had already adapted to a late cycle market environment before the outbreak by divesting some assets at healthy book gains and strengthening its financial metrics. Despite a 4.2% decline in net asset values in 2020, Wendel finished the first half of 2021 with net MVL of 7.6% and liquidity of around €2 billion

(€1.2 billion cash and €750 million fully undrawn committed credit facilities). We view Wendel as very well prepared to continue to navigate the volatile market environment at least over the short term.

ESG considerations

In early 2020, Wendel introduced a new environmental, social and governance (ESG) road map focused on both risk management and growth opportunities for its portfolio companies. Wendel collaborates with each controlled company in the elaboration of its ESG strategy, setting clear objectives and key performance indicators to make ESG compliance a lever for operational excellence and value creation, while mitigating ESG risks.

Environmental considerations

Environmental risks for Wendel SE are mainly centered on its underlying assets. Two key private assets of the group — Stahl Group and Constantia Flexibles — 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 reduce the environmental impact. Stahl Group also leveraged the increasing demand for and regulations on sustainable chemical products to develop innovative solutions. More than 85% of Stahl Group's products are water based, which provides a competitive advantage over competitors in the long term.

Constantia Flexibles produces plastic packaging products, among others, and the company could be affected by a shift toward nonplastic packaging. In 2018, the company pledged that 100% of its packaging solutions will be recyclable by 2025. In 2020, 51% of the product portfolio already achieved the set objective. In the same year, CDP awarded Constantia a high climate score, ranking the company among the top 2% of evaluated companies.

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

Social considerations

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 among its portfolio companies. Because most its portfolio companies belong to the industrial sector, Wendel pays specific attention to the progression of health and safety indicators, with noteworthy results.

Governance considerations

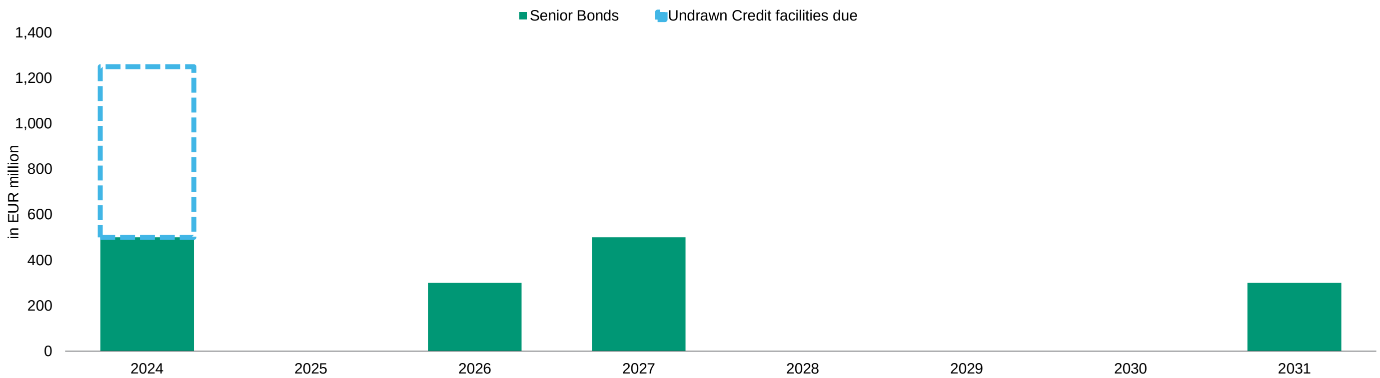
Wendel has good corporate governance, despite the Wendel family holding a 39.3% stake in the company. Stakeholders' interests are protected by an independent board of directors and conservative financial policies.

Liquidity analysis

Wendel's liquidity is solid. The company had around €1.2 billion of cash and marketable securities on its balance sheet as of 30 June 2021. In addition, it 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: net MVL below 50%, and (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 2020. The group's senior unsecured bonds are not subject to maintenance financial covenants.

Wendel has a well-spread maturity profile, with an average debt maturity of 5.5 years improving as a result of the issuance of the €300 million notes in May 2021 with proceeds used for the early repayment in whole of bonds maturing in April 2023. The Wendel group's cash position as of June 2021 covers around six years of debt maturities. Following the extension of the average debt maturity (a €300 million seven-year bond issuance in April 2019, coupled with the early repayment of the 2020 and 2021 bonds in whole), Wendel's Liquidity score in our scorecard has improved to A from Baa.

Exhibit 9
Wendel's debt maturity profile is well spread, with an average maturity of 5.5 years
As of June 2021



Sources: Wendel and Moody's Investors Service

As a backup liquidity option, Wendel's proportion of listed assets (47% of the gross asset value of the investment portfolio) provides it with the flexibility to monetize its investments more quickly.

Wendel also has the flexibility to reduce dividends paid to its shareholders, although we expect the company to resort to such measures only in a very severe scenario. A growing dividend is part of the value proposition that Wendel offers its shareholders, even if dividends only contribute marginally to the overall shareholder return.

Methodology and scorecard

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 one-notch differential between the scorecard-indicated rating and the assigned rating reflects our expectation that Wendel will use some of its financial flexibility under the current rating category to pursue acquisitions in spite of high multiples environment, aiming at growth and high quality assets. However, we expect Wendel to sustain its net MVL below 20% on a sustained basis during the market cycle to maintain its current rating. We also note that any acquisitions may have positive implications on the asset quality of Wendel's portfolio, which is, however, difficult to assess before a live transaction is announced.

Exhibit 10

Rating factors

Wendel SE

Investment Holding Companies Industry [1]	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of 8/2/2021 [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	Ba	Ba	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	-1.1x	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 12/31/2020.
[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

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

Appendix

Exhibit 12

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 of June 2021	**As of June 2021**	**As of Dec 2020**	**As of Dec 2020**	**As of Dec 2020**
Total Portfolio Value (in €m)	9,288	50,090	22,061	26,534	18,446
Cash (in €m)	1,219	2,802	723	2,346	935
Asset Concentration (Top 3 Assets)	69%	43%	47%	76%	56%
Proportion of Listed Assets	47%	85%	80%	71%	80%
Company Guidance / Financial Target	Retain Investment Grade rating profile	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)	8%	2%	7%	25%	23%
(FFO + Interest Expense) / Interest Expense	-1.1x	10.5x	21.7x	2.3x	7.3x

Interest coverage and Asset Concentration for Wendel are as of December 2020.

Source: Company information and Moody's Investors Service

REPORT NUMBER 1294516

CLIENT SERVICES

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

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