

CREDIT OPINION

11 October 2022

Update



Send Your Feedback

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 its consistent and prudent investment strategy, and conservative financial policy, reflected by its very low point-in-time market value leverage (MVL) of 7.8% as of June 30, 2022 (5.3% pro forma for the dividend payment from Bureau Veritas and the sales proceeds of Wendel Paris HQ) and our expectation that the company will maintain low MVL through market cycles.

The company's conservative investment strategy focuses 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 9.2% over June 2002 through March 2022, which reflects its successful investment strategy through economic, market and business cycles.

Wendel's portfolio of investments is well diversified across business sectors and geographies. The 61%-39% split between listed and unlisted assets, respectively, as of June 2022 ensures sufficient portfolio liquidity and good valuation metric transparency. Moody's rates many of Wendel's portfolio assets, increasing 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 good level of transparency on the overall valuation of the investment portfolio. Bureau Veritas' resilience through macroeconomic cycles, track record of strong and profitable growth, and public listing somewhat mitigate Wendel's concentration of portfolio value in this individual asset (around 47% of the overall value, including cash, as of June 2022). As such, our expectation that Bureau Veritas will remain an anchor investment of Wendel for the foreseeable future supports Wendel's rating. 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 in Bureau Veritas over time. Wendel has also indicated its intention to maintain a good balance between listed and unlisted investments.

Despite its strong general track record of value creation through various market cycles, Wendel has not been immune to less successful investment choices, such as the late cycle debt-financed purchase of [Compagnie de Saint-Gobain SA](#) (Saint-Gobain, Baa1 stable) before the global financial crisis in 2007. However, we recognize Wendel's ability to mitigate erosion

in value of these assets with the successful implementation of an action plan, which restored 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.

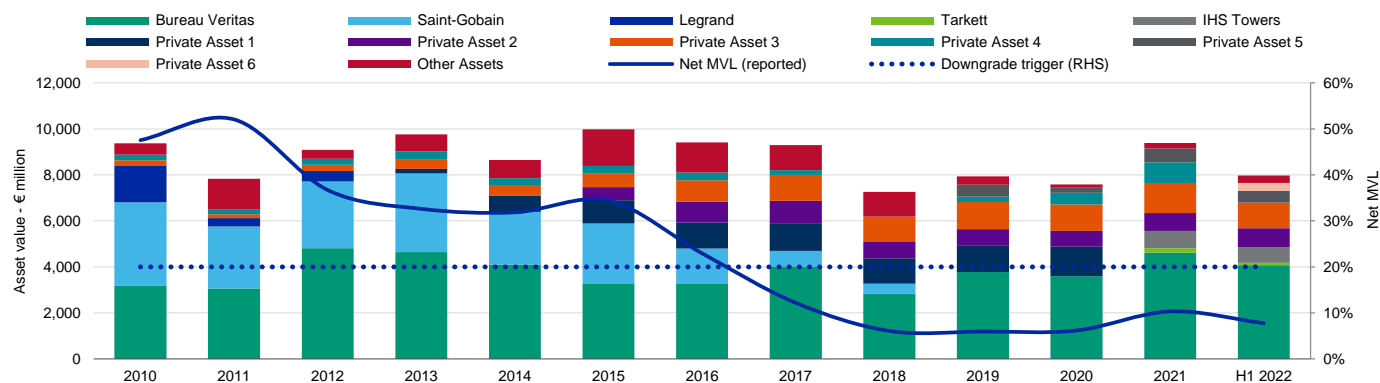
Leverage used at the portfolio companies to optimize Wendel's return on equity is mitigated by conservative MVL at the investment holding level and the strength of the underlying assets, which enable them to carry relatively high leverage.

Relatively low and inconsistent investment income, compared to similarly rated peers, that results in low interest cover constrains Wendel's rating. However, the low interest cover primarily results from Wendel's portfolio of growth companies with opportunities to reinvest their free cash flow into the businesses to grow both organically and externally, rather than pay dividends to Wendel. We believe 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.

The global economic recovery from the coronavirus pandemic led to significant asset price increases across Europe during 2021. Wendel's net asset value increased by 18.3% in 2021, from 2020, as a result of an accommodative monetary policy and significant improvements in global economic sentiment as well as top line growth and increased profitability levels at the investee level. However, a mix of macroeconomic and geopolitical risks, along with inflationary pressure, led to significant asset volatility in the first half of 2022 and a decline in Wendel's net asset value by 12.7%, mitigated by its very robust balance sheet structure and liquidity at the holding level. Wendel's net MVL was around 8% as of 30 June 2022, and the company held €1.5 billion of available liquidity as of 30 June 2022 (around €800 million cash and €750 million under committed fully undrawn credit facilities). This position offers ample capacity to navigate through the volatile market environment and reflects the company's strong preparedness in the late cycle conditions that preceded the current economic landscape illustrated by the ongoing military conflict in Ukraine and persisting inflationary pressure.

Exhibit 1

Wendel's net MVL has reduced substantially in recent years



Sources: Wendel and Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Credit strengths

- » Consistent and prudent investment strategy
- » Conservative financial policy, reflected in our expectation of 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 market and geographic diversification at the investee level
- » Well-spread maturity profile, average maturity of close to seven years

Credit challenges

- » Some asset concentration; top three assets account for around two-thirds investment portfolio's gross asset value
- » Weaker weighted average rating of underlying investment portfolio relative to peers
- » Relatively low interest cover

Rating outlook

The stable rating outlook reflects our expectation that Wendel will maintain a conservative leverage profile through varying economic scenarios, with net MVL below 20%. We expect Wendel to implement an action plan to reduce net MVL below 20% within 18 months if this level is significantly exceeded. The outlook also incorporates expectations that Wendel will refrain from making overly highly priced investments. 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
- » Continued track record of strong shareholder returns through cycles, coupled with conservative financial policies
- » Net MVL below 15% and interest cover above 2.0x, both on sustained basis

Factors that could lead to a downgrade

- » Net MVL above 20% on sustained basis without clear evidence of willingness and ability to reduce leverage to target levels within time frame not exceeding 18 months
- » Substantial changes in the portfolio composition, such as a significant shift in listed/unlisted assets, reduction in Bureau Veritas stake, and reinvestment in more volatile assets
- » Deterioration in liquidity, especially in light of Wendel's weak interest cover

Key indicator

Exhibit 2

Wendel SE

	2015	2016	2017	2018	2019	2020	2021	H1 2022
Total Net Assets (in EUR million)	9,978	9,405	9,292	7,264	7,939	7,583	9,388	7,968
Net MVL	34.4%	22.9%	12.2%	6.1%	6.0%	6.2%	10.3%	7.8%
Interest Coverage	1.1x	0.8x	3.0x	0.8x	0.4x	-1.1x	-0.2x	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 around €8 billion (excluding cash) as of 30 June 2022. 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, controlling 52.3% of its voting rights. Wendel is listed on the Paris Stock Exchange, and the company's market capitalization amounted to around €3.3 billion as of 10 October 2022.

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 focuses on a buy-and-build approach, 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 around 13 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.

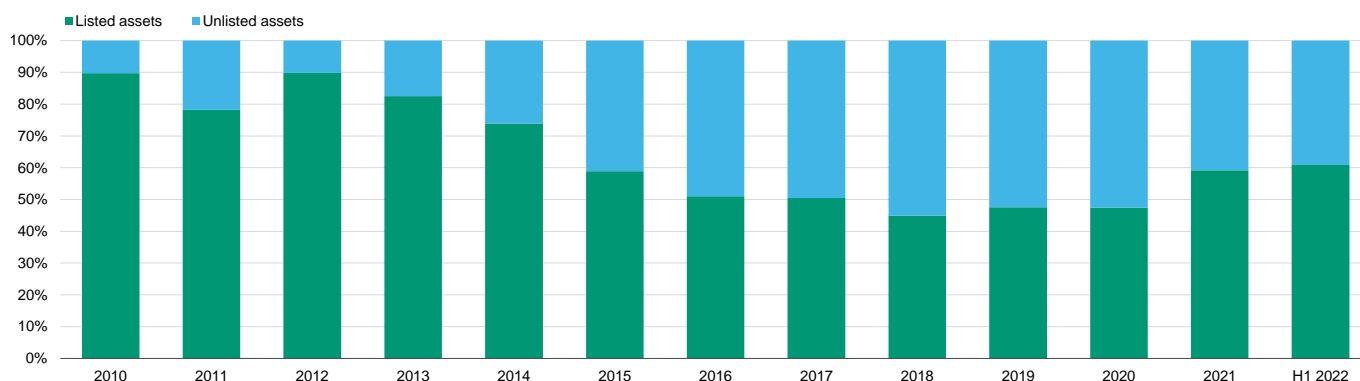
According to the new investment strategy over 2021-24, the ideal investment is €150 million-€500 million in public and private assets. However, Wendel has occasionally partnered with co-investors for larger investments in the past. We see potential for the company to replicate this model, successful historically. Wendel also occasionally seeks co-investors for their specific knowledge of, or expertise in, a business sector, but we do not anticipate it will establish a private-equity fund to invest alongside its shareholders (as JAB has done). The company believes this model can exert undue strain on the management team to invest the collected funds under a specific deadline.

Wendel targets an average annual return of above circa 7% for listed assets, above circa 10% for unlisted assets and for assets in the Wendel Lab: 10% to 15% for Venture Capital funds and more than 25% for direct investments. The ambitious return target implies the need to generate an internal rate of return of above 10%-15% 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, Wendel's largest public and private assets have strong credit profiles, and the more leveraged assets in the portfolio contribute only a very small portion of the gross asset value of the total portfolio value, which improves the sustainability of Wendel's balance-sheet.

Wendel is also committed to maintaining a good balance between listed and unlisted assets, with the current split at around 61%-39%. We expect the company to increase the share of unlisted assets, because it aims to remain the controlling shareholder of Bureau Veritas. In this respect, Wendel's stake in Bureau Veritas, a business with a solid financial metrics as well as a strong track record of value creation and strong earnings and value resilience through the market cycle, supports its credit profile.

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 incorporates expectations for Wendel to navigate the current volatile market cycle environment conservatively. In the context of its 2024 road map, Wendel resumed its active search for additional investments and is ready to pay high multiples for growth and high-quality assets. The recently announced acquisition of ACAMS in March 2022 falls into that category. Wendel divested its position in Cromology in January 2022 receiving cash proceeds of around €900 million.

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 €5 billion of sales in 2021, and it is a profitable company, with a reported operating margin of around 16%. 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 increased significantly between 2010 and year-end 2021, reflecting Wendel's ability to identify sound business models and successfully develop them over time.

Exhibit 4

Reinvested dividend performance over June 2002-March 2022

	Total returns for the period	Annualized return over the period
Wendel	471.0%	9.2%
Euro Stoxx 50	153.6%	4.8%

Source: FactSet

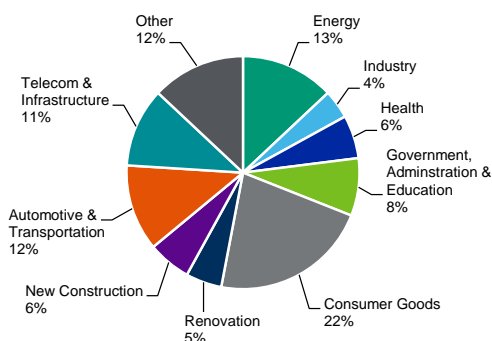
Wendel also has a proven track record of generating consistently high returns for its shareholders, with an annualized total shareholder return of 9.2% since June 2002, which reflects its successful investment strategy through market cycles and compares quite favorably with the return on EURO STOXX 50, which generated a net return of 4.8% over the same period. However, the underperformance of investments such as Saint-Gobain hurt total shareholder return in the past, indicative of some less successful investments.

Asset portfolio well diversified across sectors 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

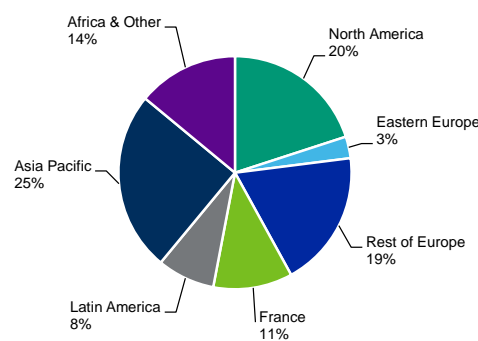
Enterprise value exposure of the Wendel group companies (According to revenue breakdown in 2021)



Enterprise values are based on net asset value calculations as of 30 December 2021.
Sources: Wendel and Moody's Investors Service

Exhibit 6

Breakdown of revenue by regions (According to revenue breakdown in 2021)



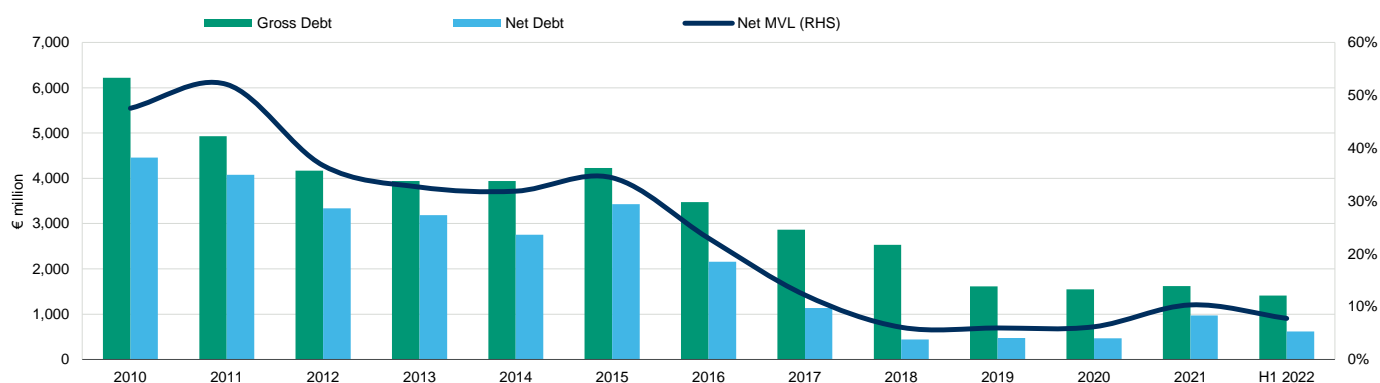
Sources: Wendel and Moody's Investors Service

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 7.8% as of June 2022. The company made clear in its latest strategic update that it wants to use its low net market value leverage and resulting financial flexibility along with proceeds from disposals to invest in new assets. We believe that Wendel will invest in new assets in a prudent manner with the objective to maintain 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% threshold significantly 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

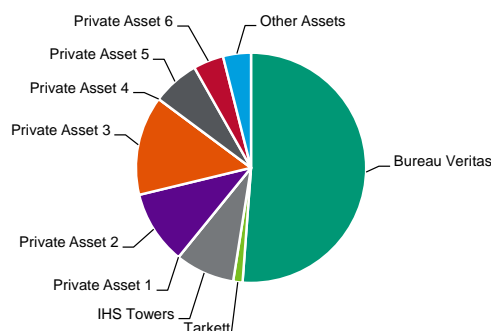
The global economic recovery from the pandemic led to significant asset price increases across Europe in 2021, and Wendel's net asset value rose by 18.3% in 2021 from 2020 also thanks to top line growth and increased profitability levels at the investee level. However, macroeconomic and geopolitical risks, along with inflationary pressure, contributed to significant asset price volatility during H1 2022 and Wendel's net asset value fell 12.7%, mitigated by its very robust balance-sheet structure and liquidity at the holding level. We consider Wendel very well prepared to continue to navigate the volatile market environment at least over the next 12 to 18 months. Wendel's net MVL declined to 7.8% as of 30 June 2022 from 10.3% as of 31 December 2021, driven by material net debt reduction in H1 2022, which was supported by roughly €900 million of proceeds from the disposal of Cromology in January 2022. Wendel deployed around €300 million of the divestment proceeds toward the acquisition of ACAMS, the world's largest membership organization dedicated to fighting financial crime, in March 2022. Wendel has also been scaling up its investment in Wendel Lab with €49 million of new commitments into funds in H1 2022.

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

Wendel's strategy focuses on the diversification of its overall asset portfolio. However, the company believes that too much diversification or a very broad portfolio would be detrimental to achieve its target average annual return profile and would increase the credit risk at the Wendel level. The group's top three assets accounting for around 69% of the investment portfolio's gross asset value, including cash, somewhat concentrated relative to rated peers. We expect Wendel's asset concentration to reduce in the medium term because the company will invest available excess liquidity into new assets over time in a disciplined manner. This defensive nature of Bureau Veritas, the group's largest asset at roughly 47% of gross asset value, including cash, largely mitigates the concentration.

Exhibit 8

Wendel's portfolio composition As of December 2021



Sources: Wendel and Moody's Investors Service

Some historical investment mistakes, but well mitigated

Notwithstanding Wendel's strong long-term track record of generating high total shareholder returns, the company's poorly timed investments in the cyclical building materials (Materis Group and Saint-Gobain) in 2006 and 2007, respectively, led to strong exposure to this industry just before a collapse, which increased Wendel's balance-sheet leverage.

We believe Wendel's senior management has implemented changes in its corporate governance that limit the likelihood of such mistakes in the future. Wendel's management is navigating very cautiously through 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 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 9.2% since June 2002, despite the two investment errors.

Relatively low interest cover

Historically, Wendel's interest cover has been relatively weak, reflective of the relatively high share of private assets in its investment portfolio and Wendel's deliberate choice to use the financial flexibility of these private companies to reinvest into their businesses, rather than upstream cash to the holding level 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. The relatively weak interest cover is also mitigated by Wendel's very low net MVL and the group's solid cash position on the balance sheet at a time when interest income on excess cash is low. Bureau Veritas paid more than €55 million of dividends in 2021 and around €85 million in 2022.

ESG considerations

In 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. Wendel's portfolio ESG considerations are predominantly articulated by the existence of Bureau Veritas as an anchor investment, which represents 51% of total asset value as of June 2022.

Environmental considerations

Environmental risks for Wendel are mainly centered in its underlying assets. Two key private assets of the group — Stahl Group and Constantia Flexibles — are more highly exposed to environmental risks than services companies such as Bureau Veritas and ACAMS. 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. Constantia Flexibles produces plastic packaging products, among others, and the company could be affected by a shift toward non-plastic packaging. In 2018, the company pledged that 100% of its packaging solutions will be recyclable by 2025 through signing the New Plastics Economy Global initiative. Other

investments in Wendel's portfolio have low exposure to environmental risks. 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 mitigate 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 of 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, although the controlling stake of the Wendel family (39.3% economic ownership and 52.3% voting rights) creates some risk. Stakeholders' interests are protected by an independent board of directors and conservative financial policies. Wendel's management has demonstrated a track record of conservative financial policies, with low net MVL from 2016 onwards, that balance the interest of creditors and shareholders with some risk of debt funded acquisitions.

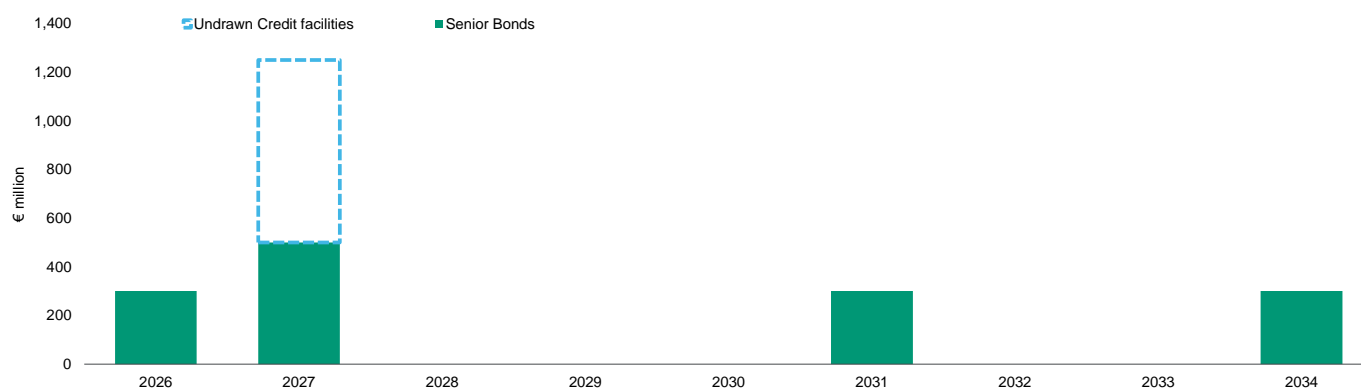
Liquidity analysis

Wendel's liquidity is solid, with group cash as of June 2022 that covers around five years of debt maturities. The company had around €0.8 billion of cash and marketable securities on its balance sheet as of 30 June 2022 and access to an undrawn revolving credit facility of €750 million maturing in July 2027. The availability of the revolving credit facility is subject to compliance with two financial covenants, which are tested semiannually: net MVL below 50%, and $(\text{unsecured debt} + \text{off balance sheet commitment akin to debt} - \text{cash}) / (75\% \text{ of value of listed assets} + 50\% \text{ of value of unlisted assets})$ below 1.0x. Wendel had good capacity under its financial covenants as of year-end 2021 while we also expect good cushion going forward. 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 6.9 years. Following the extension of the average debt maturity (€300 million 12-year bonds issuance in January 2022, coupled with the early repayment of the €500 million bonds maturing in 2024 in whole), Wendel's liquidity score in our scorecard has been maintained at A.

Exhibit 9

Wendel's debt maturity profile is well spread, with an average maturity of 6.9 years As of June 2022



Sources: Wendel and Moody's Investors Service

As a backup liquidity option, Wendel's proportion of listed assets (61% 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 outcome 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 outcome and the assigned rating reflects our expectation that Wendel will use some of its financial flexibility under the current rating category to pursue acquisitions despite the 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. Also, acquisitions may have positive implications on the asset quality of Wendel's portfolio, which is, however, difficult to assess before a transaction is announced.

Exhibit 10

Scorecard factors

Wendel SE

Investment Holding Companies Industry [1][2]			Current FY 06/30/2022		Moody's 12-18 Month Forward View As of 8/29/2022 [3]	
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	B	B
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			-0.2x	Caa	-1x - 1x	Caa
b) Liquidity			A	A	A	A
Rating:						
a) Scorecard-Indicated Outcome				Baa1		Baa1
b) Actual Rating Assigned						Baa2

[1] As of 06/30/2022. Interest coverage as of 12/31/2021.

[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 S.a.r.l	Criteria Calxa
Rating & Outlook	Baa2 Stable	Aa3 Stable	A1 Stable	Baa2 Stable	Baa2 Stable
Country of Domicile	France	Sweden	Belgium	Luxembourg	Spain
	As of June 2022	As of June 2022	As of March 2022	As of December 2021	As of December 2021
Total Portfolio Value (in €m)	7,968	51,856	22,551	45,240	23,014
Cash (in €m)	789	2,853	2,012	3,308	791
Asset Concentration (Top 3 Assets)	69%	38%	43%	69%	62%
Proportion of Listed Assets	61%	81%	71%	67%	84%
Company Guidance / Financial Target	To retain an investment grade profile	MVL in the range of 0% - 10%	MVL below 10%	MVL in the range of 15% - 20% in mid/long term	Target MVL - 20%
Net Market Value Leverage (MVL)	8%	3%	6%	19%	21%
(FFO + Interest Expense) / Interest Expense	-0.2x	9.6x	25.7x	2.7x	6.5x

Interest coverage for Wendel as of 12/31/2021.

Sources: Company information and Moody's Investors Service

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