



## Rating\_Action: Moody's affirms Wendel's Baa2 rating, outlook stable

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Frankfurt am Main, March 29, 2023 – Moody's Investors Service (Moody's) affirmed the Baa2 long-term issuer rating of Wendel SE ("Wendel" or "the company"). Concurrently, the rating agency affirmed Wendel's Baa2 senior unsecured ratings. The outlook remains stable.

### RATINGS RATIONALE

The affirmation of Wendel's Baa2 ratings takes into account the company's new strategic direction communicated on 17 March 2023. Although Moody's considers the contemplated actions of Wendel's refined investment strategy as a pivot away from a more conservative posture, the rating agency expects that these actions remain aligned with Moody's expectations for the Baa2 rating. Key pillars of the new strategic direction include (i) the intention to invest around €2.0 billion of equity within two years; (ii) a commitment to an investment grade rating; (iii) the development of a third-party asset manager; and (iv) a dividend policy that ties dividend payments to 2% of net asset value (NAV) with an objective to have annual stability and a minimum dividend per share.

As a result of Wendel intention to invest around €2.0 billion, Moody's expects that Wendel could re-lever up to 20% market value leverage (MVL). While this is in line with expectations for the Baa2 rating, it would lead to a more levered capital structure compared to the period 2018-2022 when Moody's-adjusted MVL had been below 10%. Nevertheless, the company has options to manage its leverage at the holding company level by monetising assets or by extracting dividends from lowly-levered investees such as Constantia Flexibles or Stahl. The new asset management activities could over time deliver recurring fee income, a credit positive as it would diversify Wendel's investment income, and Moody's does not expect Wendel to raise third-party debt through the new asset management entity in order to invest. Moody's considers the dividend policy consistent with the commitment to an investment grade rating and does not expect a meaningful change relative to Wendel's historical dividend strategy.

Wendel's Baa2 ratings continue to reflect the company's track record of conservative financial policies, including maintenance of market value leverage (MVL) below 20%, which Moody's expects to continue throughout a range of economic cycles. Although Wendel has a high business & consumer services sector concentration through its investments in Bureau Veritas S.A. (BV), ACAMS and CPI, this sector generally results in lower volatility compared with more cyclical end markets, such as building materials, which Wendel is no longer exposed to. New investments also have the potential to further diversify Wendel's portfolio by asset and sector exposure.

Ratings also take into account the current high asset concentration with about half of Wendel's portfolio value of €7.9 billion tied to BV. Moody's recognises Wendel's efforts to reduce the BV exposure, but the move towards private assets brings its own challenges, including reduced monetisation options given that private assets are inherently less liquid in Moody's view. Furthermore, the valuation to private investments is less frequent and subject to various assumptions compared with listed companies, and unlisted investments are more difficult to

monitor given the lack of public disclosure. Wendel updates the valuation of private investments on a quarterly basis.

Moody's attributes Wendel's historically low and volatile interest coverage metric (0.1x average 2018-2022) to management's conscious decision to not release dividends, but expects this metric to strengthen in 2023 and 2024 as higher dividend income complements the acceleration of new investments. Wendel's solid liquidity and the absence of meaningful exposure to rising interest rates also somewhat mitigate this weak metric.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Moody's considers the pivot of Wendel's investment strategy as evolutionary, yet untested. Although it potentially decreases the asset concentration on BV, it increases the exposure to unlisted assets and may result in higher leverage at the investee level. The company's commitment to an investment grade rating and levers it can use to monetise assets or extract dividends, together with solid liquidity, are offsetting supportive factors that balance the risk of higher leverage with divestitures or higher dividend income.

## OUTLOOK

The stable outlook reflects Moody's expectation that Wendel executes its new investment strategy within the perimeters of net MVL below 20% and does not meaningfully increase organizational complexity or raise third-party debt at intermediate holding company level.

## LIQUIDITY

Wendel's liquidity is solid, with €961 million cash and marketable securities as of December 2022. It is further supplemented by the proceeds from the €750 million exchangeable notes issued in March 2023. In addition, Wendel has access to an undrawn revolving credit facility of €750 million maturing in July 2027. Wendel has a well-spread maturity profile, with an average debt maturity of 6.4 years while its available liquidity covers its debt maturities until 2027. The next sizeable maturity is a €300 million senior unsecured bond due April 2026. The vast majority of outstanding debt is low fixed interest rate debt, with a weighted-average cost of bond debt below 2%.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade ratings if Wendel's net MVL stays sustainably below 15% through the market cycle and interest cover improved sustainably to above 2.0x. For an upgrade, Moody's would also expect a continued track record of strong shareholder returns through cycles, coupled with conservative financial policies and evidence of traction of its new investment strategy, including increased portfolio diversification.

Conversely, Moody's could downgrade ratings if Wendel's net MVL increased sustainably above 20% without clear evidence of willingness and ability to reduce leverage to target levels within a time frame not exceeding 18 months. Substantial changes in the portfolio composition, which could add to the riskiness of its portfolio such as a significant shift to more volatile unlisted assets, could also result in a downgrade. Lastly a deterioration in Wendel's liquidity profile especially in light of Wendel's weak interest cover could exert negative pressure on the current rating.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in July 2018 and available at <https://ratings.moodys.com/api/rmc-documents/56472>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## COMPANY PROFILE

Wendel SE (Wendel), based in Paris/France, is the parent company of the Wendel group, an investment holding company in Europe. Wendel reported a portfolio value of around €8.0 billion (excluding cash) as of 31 December 2022. The Wendel group was founded in 1704, and the 1,200 family shareholders grouped under Wendel-Participations SE own 39.6% of Wendel's share capital, controlling 52.6% of its voting rights. Wendel is listed on the Paris Stock Exchange, and the company's market capitalization was around €4.3 billion as of 28 March 2023.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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