

CREDIT OPINION

3 April 2023

Update



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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 following rating affirmation

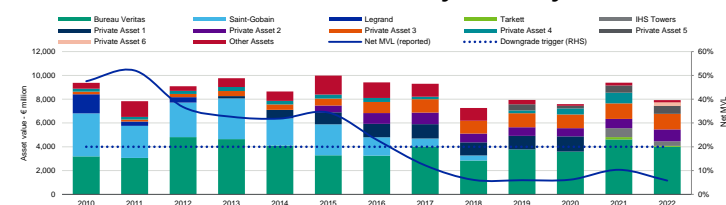
Summary

Wendel SE's (Baa2) rating continues to reflect the company's track record of conservative financial policies, including maintenance of market value leverage (MVL) below 20% on a sustained basis, which Moody's expects to continue throughout a range of economic cycles. We do not expect Wendel's updated investment strategy presented in March 2023 to meaningfully change this conservative financial policy. This includes a commitment to an investment grade rating, the intention to invest around €2.0 billion of equity within two years and 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 well as the ambition to develop an asset management business with third-party money. 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. Other meaningful sector exposure is telecommunications through IHS Towers and chemicals through Stahl. New investments also have the potential to further diversify Wendel's portfolio by asset and sector exposure.

Ratings also take into account the high asset concentration with about half of Wendel's portfolio value of €7.9 billion tied to BV. Wendel has announced a strategy which may over time 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. 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.

Exhibit 1

Wendel's net MVL has declined substantially in recent years



Sources: Wendel and Moody's Investors Service

Credit strengths

- » Consistent and prudent investment strategy coupled with a strong track record and conservative financial policy, including sustained net MVL of below 20%
- » High exposure to business and consumer services, but this sector has lower volatility and more favourable environmental and social risk profiles compared to other sectors; end market and geographic diversification at the investee level
- » Around €1.7 billion cash available, some portion likely to be deployed for further investments
- » Well-staggered debt maturity profile with next sizeable maturity of €300 million notes due April 2026

Credit challenges

- » Concentrated investment portfolio with around half of its portfolio value tied to Bureau Veritas S.A. (BV); diversification efforts underway, including placement of exchangeable bonds linked to BV shares
- » Growing share of private investments
- » Historically low interest cover albeit could improve with potential re-leveraging of investees

Rating 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.

Factors that could lead to an upgrade

For an upgrade, Moody's would 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. Moody's could also upgrade ratings if Wendel's net MVL stays sustainably below 15% through the market cycle and interest cover improved sustainably to above 2.0x.

Factors that could lead to a downgrade

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.

Key indicators

Exhibit 2

Wendel SE

	2015	2016	2017	2018	2019	2020	2021	2022
Total Net Assets (in EUR million)	9,978	9,405	9,292	7,264	7,939	7,583	9,388	7,915
Net MVL	34.4%	22.9%	12.2%	6.1%	6.0%	6.2%	10.3%	5.8%
Interest Coverage	1.1x	0.8x	3.0x	0.8x	0.4x	-1.1x	-0.2x	0.7x

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.com> for the most updated credit rating action information and rating history.

Profile

Wendel SE (Wendel), based in Paris/France, is the parent company of the Wendel group, a leading 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.

Detailed credit considerations

Clearly defined and conservative investment strategy

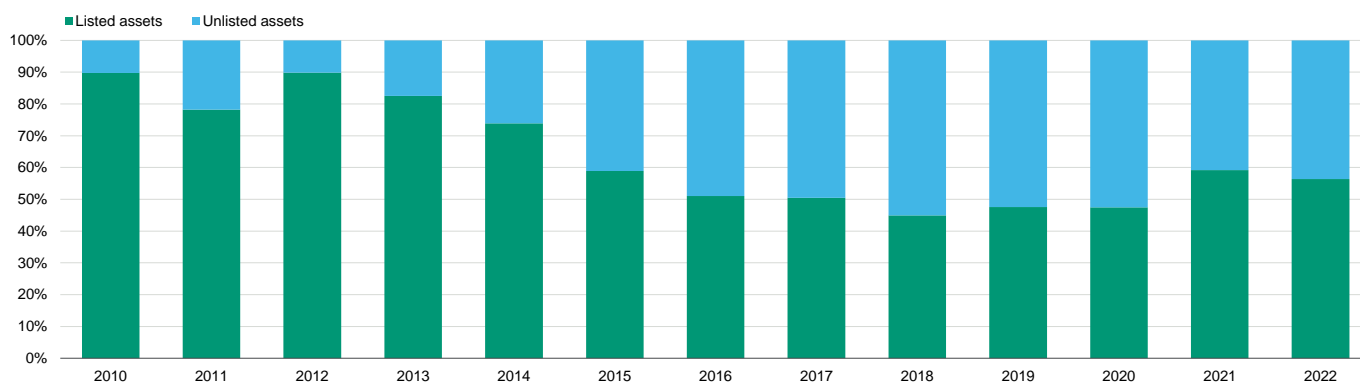
Wendel's investment strategy is clearly defined and well articulated for the group's shareholders and creditors. The management team focuses on a buy-and-build approach, with a priority given to buying majority stakes in companies to support the development of their business models over a long-term holding period of 13 years on average historically. According to the new investment strategy presented in March 2023, Wendel aims at investing €2.0 billion in equity investments of €300 million-€600 million in public and private assets focussed on Western Europe and North America within two years. The company has also announced its intention to develop a third-party asset manager, aiming to create value through existing capabilities and raise third-party capital. Wendel has occasionally partnered with co-investors for larger investments in the past. Wendel also occasionally seeks co-investors for their specific knowledge of, or expertise in, a business sector, but we do not expect it to raise debt at intermediate holding company level.

Wendel targets a double-digit average total shareholder return. The ambitious return targets 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 optimise 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 balance between listed and unlisted assets is currently around 56%-44% (see Exhibit 3). We expect the company to increase the share of unlisted assets. Wendel in March 2023 placed a €750 million exchangeable bond that could allow bondholders to exchange their bonds for BV shares, in which case Wendel's holding in BV would decrease by 4.3%.

Exhibit 3

Pivot towards unlisted assets



Sources: Wendel and Moody's Investors Service

Strong track record of developing assets through organic and external growth and solid shareholder returns through market cycles

Wendel has established a strong track record of developing companies through both organic and external growth, of which BV and Stahl Group are examples. The value of BV and Stahl Group increased significantly between 2010 and year-end 2022, reflecting Wendel's ability to identify sound business models and successfully develop them over time. Wendel acquired a majority stake in BV in 1995, when the company was generating an annual turnover of €400 million. Bureau Veritas generated €5.7 billion of sales in 2022. It

is a profitable company with a reported operating margin of around 16%. The consolidation in specialty coatings for flexible substrates under the leadership of Stahl Group is another example of the successful execution of Wendel's strategic vision.

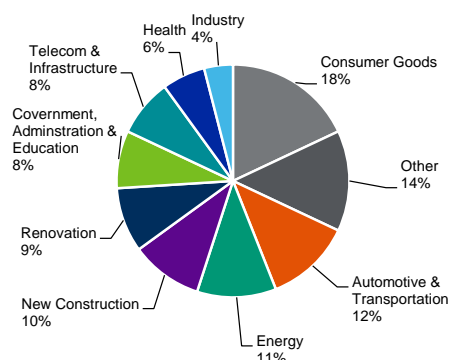
Wendel also has a proven track record of generating consistently high returns for its shareholders, with an annualized total shareholder return of 8.3% since June 2002, which reflects its successful investment strategy through market cycles and compares quite favorably with the return on EURO STOXX 50, which generated a net return of 4.1% over the same period.

Asset portfolio well diversified across sectors and geographies

Wendel's asset portfolio is well diversified across business sectors and geographies. BV's strong earnings resilience through the macroeconomic cycle mitigates the slight concentration in business services (around 60%). In addition, Wendel's portfolio companies are characterised by strong geographic diversification in terms of revenue generation, with a good mix of developed and emerging economies.

Exhibit 4

Enterprise value exposure of Wendel group companies, according to the breakdown of 2022 revenues

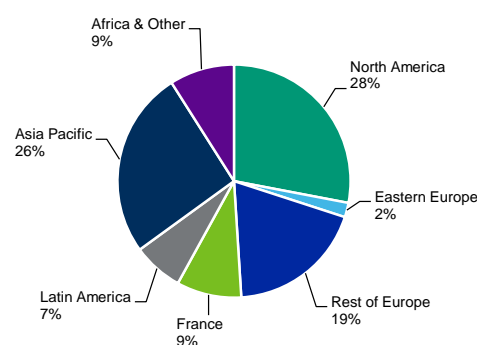


Enterprise values are based on net asset value calculations as of 31 December 2022; except for IHS with 2021 revenue.

Sources: Wendel and Moody's Investors Service

Exhibit 5

Breakdown of revenue by regions

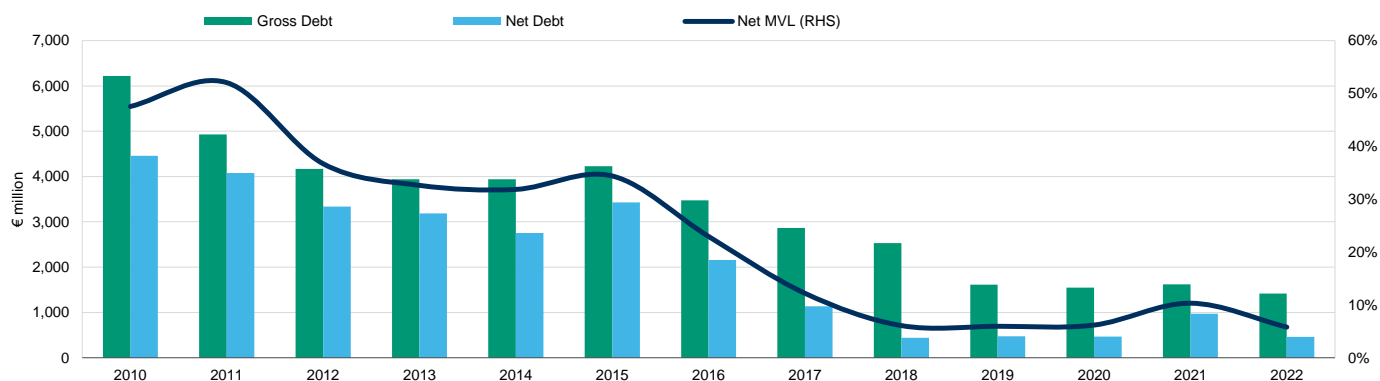


Sources: Wendel and Moody's Investors Service

Expect Wendel to maintain conservative financial policy and net MVL below 20% on a sustained basis

Wendel has had very low leverage at the investment holding company level, with net MVL below 10% in the period 2018-2022 (5.8% as of December 2022). In the context of its new financial policy, Wendel has set its annual dividend target at 2% of net asset value, while having a minimum objective of annual stability. The company also reiterated its investment-grade rating commitment. We expect Wendel to maintain its net MVL at a level below 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 for a prolonged period. Wendel has a strong track record of reducing leverage through the global financial crisis after reaching a very high MVL of around 50% in 2011.

Exhibit 6

Strong track record of leverage reduction since 2009

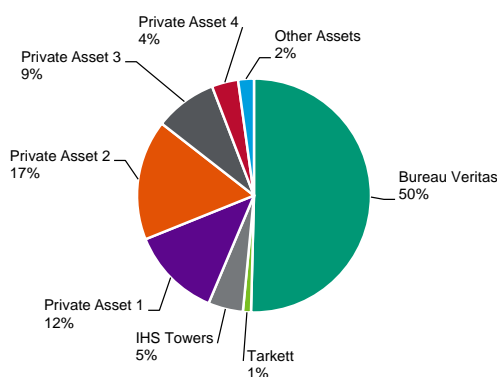
Sources: Wendel and Moody's Investors Service

Macroeconomic and geopolitical risks, along with inflationary pressure, contributed to significant asset price volatility during 2022 and year-to-date 2023. Wendel's net asset value fell 11.4%, but its very robust balance-sheet structure and liquidity at the holding level enabled an improvement in Net MVL. Net MVL declined to 5.8% as of 31 December 2022 from 10.3% as of 31 December 2021, driven by significant net debt reduction. This 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 Growth with €51 million of new commitments into funds in 2022 and total commitments amounting to €204 million as of March 2023, with a medium-term target exposure of around €500 million in direct investment and funds. We expect continued equity price volatility from the inflationary pressure on global economic sentiment, tighter monetary policy and geopolitical uncertainty stemming from the war in the Ukraine.

Some asset concentration, with top three assets accounting for around 70% of 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 71% (as of December 2022) of the investment portfolio's gross asset value, including cash, is somewhat concentrated relative to rated peers. We expect Wendel's asset concentration to reduce as the company invests available excess liquidity into new assets over time in a disciplined manner along with progressively reducing its stake in BV. The defensive nature of BV, the group's largest asset at 45% of gross asset value, including cash, largely mitigates the concentration.

Exhibit 7

**Wendel's portfolio composition
As of December 2022**

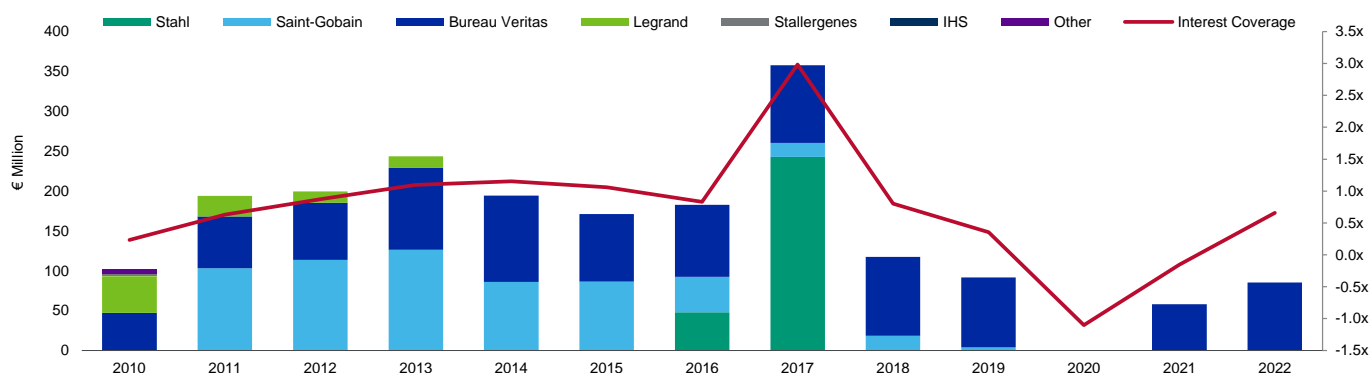
Sources: Wendel and Moody's Investors Service

Low interest cover results from deliberate choice to reinvest profits over dividend payouts

Historically, Wendel's interest cover has been relatively weak, reflective of the relatively high share of private assets in its investment portfolio. It has also been Wendel's deliberate choice to use the financial flexibility of these private companies to reinvest into their businesses, rather than upstreaming cash to the holding level through dividends. 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. Wendel 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. The main contributor to Wendel's dividend income has been BV. BV paid more than €55 million of dividends in 2021 and around €85 million in 2022. We expect dividend income from BV to increase to more than €120 million in 2023, resulting from BV's changed dividend policy which now targets a 65% payout ratio, up from 50%. Higher BV dividends would offset a potentially lower shareholding in BV if holders of the €750 million exchangeable bond due 2026 were to exercise their conversion option into BV shares. The relatively weak interest cover is also mitigated by Wendel's solid cash position.

Exhibit 8

Irregular dividend income drives volatility in interest coverage, which is low Dividend Income from investments and interest coverage development



Sources: Wendel and Moody's Investors Service

ESG considerations

Wendel SE's ESG Credit Impact Score is Neutral-to-Low CIS-2

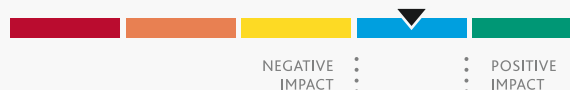
Exhibit 9

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

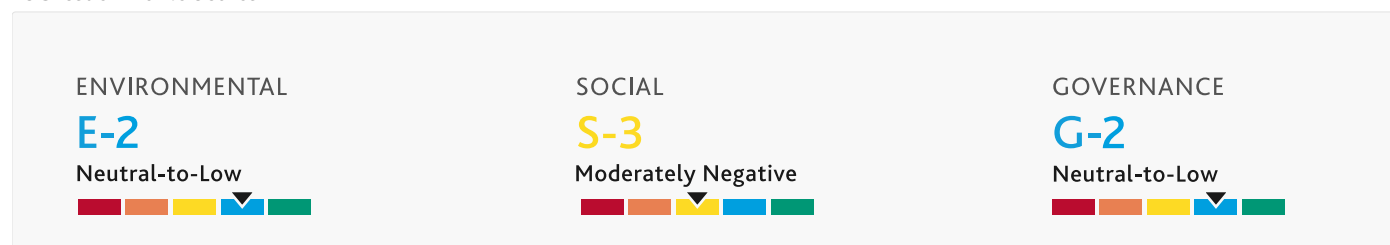


Source: Moody's Investors Service

Wendel's ESG credit impact score is neutral-to-low (**CIS-2**). Wendel has neutral-to-low environmental risks (E-2), moderately negative social risks (S-3) and neutral-to-low governance risks (G-2). The score reflects the anchor investment BV, which accounts for about half of Wendel's portfolio value. BV therefore strongly influences the overall environmental and social risks of Wendel's portfolio.

Exhibit 10

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Credit exposure to environmental considerations is neutral-to-low (**E-2**). Wendel has indirect exposure to environmental risk through its investee companies, foremost BV. It reflects neutral-to-low exposure of BV, which accounts for about half of Wendel's portfolio value.

Social

Wendel's social issuer profile score (IPS) is moderately negative (**S-3**) and reflects Wendel's indirect exposure to social risks through its investee companies. These mostly stem from Wendel's exposure to the business and consumer services (BV) sector.

Governance

Wendel's exposure to governance considerations is neutral-to-low (**G-2**). This reflects its conservative financial policies and risk management, and an experienced management team with a solid operational track record. Our assessment also considers the proven track record of generating high returns for its shareholders on a sustained basis. The annualized total shareholder return (including dividends) of around 9.2% over June 2002-March 2022, reflects Wendel's successful investment strategy through market cycles. Wendel-Participations SE, an investment vehicle of 1,200 family shareholders, owns 39.6% of Wendel's share capital and has around 52.6% of voting rights. Four out of twelve board members are independent and two are employee representatives. The ownership and control structure creates a highly negative risk exposure in board structure, policies and procedures because of the concentrated decision making.

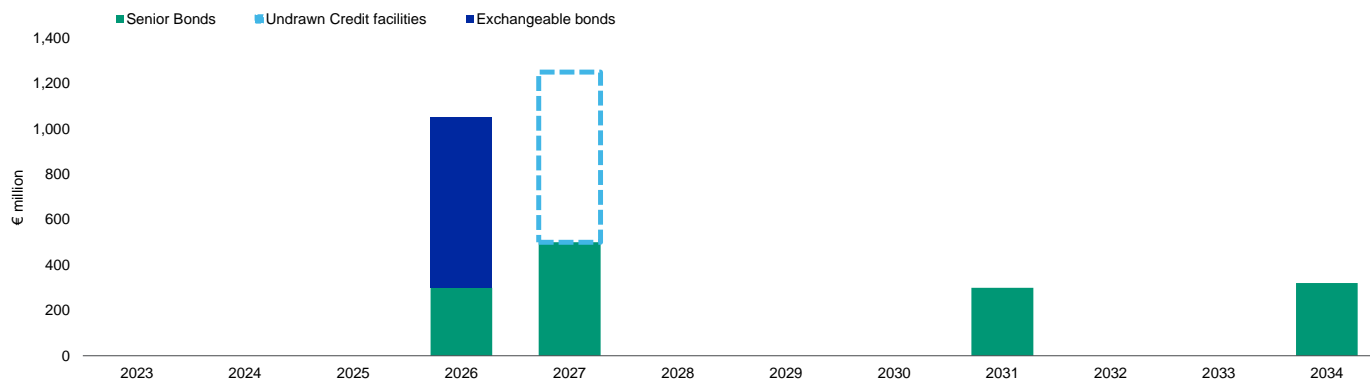
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

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. 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. 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%. We attribute Wendel's historically low and volatile interest coverage metric (0.1x average 2018-2022) to management's conscious decision to not release dividends, but expect 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.

Exhibit 11

Wendel's debt maturity profile is well spread, with an average maturity of 6.4 years
As of March 2023



Sources: Wendel and Moody's Investors Service

Methodology and scorecard

The principal rating methodology used in this rating was [Investment Holding Companies and Conglomerates](#), published in July 2018.

The point-in-time scorecard-indicated outcome is Baa1, one notch above the assigned rating. The scorecard-indicated outcome 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 pursues investments of up to €2.0 billion within the next two years - despite the high-multiples environment aiming at growth and high-quality assets - increasing MVL to not more than 20% on a sustained basis during the market cycle to maintain its current rating. Future investments can improve the asset quality of Wendel's portfolio by reducing asset concentration or increasing business diversity. This is, however, difficult to assess before a transaction is announced.

Exhibit 12

Rating factors

Wendel SE

Investment Holding Companies Industry [1][2]		Current FY 12/31/2022		Moody's 12-18 Month Forward View As of 3/24/2023 [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		0.7x	Caa	0.5x - 1x	Caa
b) Liquidity		A	A	A	A
Rating:					
a) Scorecard-Indicated Outcome			Baa1		Baa1
b) Actual Rating Assigned					Baa2

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2022.

[3] 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 13

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 14

Peer comparison

INVESTMENT HOLDING COMPANIES PEER GROUP

	Groupe Bruxelles Lambert	Investor AB	JAB Holding S.a.r.l	Criteria Calxa	Wendel SE	Franz Haniel
Rating & Outlook	A1 Stable	Aa3 Stable	Baa1 Stable	Baa2 Stable	Baa2 Stable	Baa3 Stable
Country of Domicile	Belgium	Sweden	Luxembourg	Spain	France	Germany
	As of March 2022	As of December 2022	As of June 2022	As of December 2022	As of December 2022	As of June 2022
Total Portfolio Value (in €m)	22,551	55,308	45,007	24,146	7,915	5,233
Cash (in €m)	2,012	2,566	3,877	439	961	4
Asset Concentration (Top 3 Assets)	43%	40%	70%	66%	60%	68%
Proportion of Listed Assets	71%	83%	54%	84%	56%	17%
Company Guidance / Financial Target	MVL below 10%	MVL in the range of 0% - 10%	MVL in the range of 15% - 20% in mid/long term	Target MVL ~20%	To retain an investment grade profile	€1 billion of net debt
Net Market Value Leverage (MVL)	6%	2%	19%	19%	6%	17%
(FFO + Interest Expense) / Interest Expense	25.7x	7.7x	3.0x	12.0x	0.7x	11.1x

Sources: Company and Moody's Investors Service

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