

Tear Sheet:

# Wendel SE

March 22, 2024

**Wendel plans to use some of its financial flexibility for new investments in 2024.** We estimate an S&P Global Ratings-adjusted loan-to-value (LTV) ratio of 10.7% as of Dec. 31, 2023, pro forma the Constantia sale for €1.1 billion, €383 million for the purchase of the 51% stake in IK Partners (closing expected in the second quarter of 2024), €300 million for investment commitments in IK Partners' fundraising, and about €85 million for share repurchases remaining under Wendel's €100 million program. This is comfortably below our 20% LTV ceiling for the 'BBB' rating, although we believe that a rapid and sizable allocation to new investments could erode Wendel's current financial flexibility. We estimate that, if the holding company were to immediately allocate €800 million to other new assets, its LTV ratio would increase to about 19%, all else being equal, leaving limited rating leeway. That said, we anticipate that Wendel will gradually pace its new investments to retain some LTV headroom. Our estimate also assumes a cash repayment of the holding company's €750 million exchangeable bond in Bureau Veritas (BV) shares due 2026, while a share payment linked to a higher BV share price would likely further increase LTV headroom.

**Wendel aims to fund higher shareholder distributions by increasing its recurring dividend income.** The investment holding raised its proposed dividend payout by 25% to €4.0 per share--or 2.5% of its reported net asset value (NAV)--in 2024, from €3.2 (2% of NAV) last year. It aspires to further increase the payout over the next few years to 3.5% of its NAV, which we assume, based on Wendel's NAV as of Dec. 31, 2023, that this could translate into an outflow of at least €250 million from 2026-2027, from about €175 million in 2024 and €139 million in 2023. In addition, we believe the holding will remain opportunistic with share repurchase activities, in line with its ongoing €100 million program announced in October 2023. To limit the impact on its LTV ratio, we anticipate that Wendel will seek to self-fund most of these higher distributions by strengthening its recurring dividend income received from its investee assets. Its total dividend income increased to about €209 million in 2023, from €85 million in 2022, supported by €124 million received from BV and a €85 million special dividend from Stahl. We anticipate a further increase in BV's income contribution to about €133 million this year based on the company's proposed dividend, while we estimate that IK Partners' fee related earnings (FRE) should increase dividend income by €20 million-€25 million (after-tax effects) upon its integration. Wendel aspires to increase total pre-tax FRE from IK Partners and its investment management platform to €150 million annually by 2027. In our view, such an achievement would largely aid the holding in absorbing the targeted higher shareholder distributions without materially impairing its LTV headroom.

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## Recent Research

- Tear Sheet: Wendel SE, Oct. 31, 2023
- Global Macro Update: 2024 Is All About The Landing, Nov. 29, 2023
- Wendel's Planned Sale Of Constantia Flexibles Paves The Way For Further Capital Redeployment, Aug. 2, 2023
- Wendel SE, June 9, 2023
- Wendel Plans To Use Its Financial Flexibility With A €2 Billion Portfolio Expansion, March 24, 2023

## Company Description

Wendel is a France-based investment holding company, tracing its history back to the eighteenth-century steel industry in eastern France. At Dec. 31, 2023, we estimate that its adjusted investment portfolio is about €7.9 billion pro forma the planned acquisition of IK Partners and the disposal of Constantia Flexibles. The holding is invested in diversified sectors such as business services, chemicals, flooring materials, and telecommunications across Europe, North America, and Africa. Key investments include a 35.5% stake in publicly listed testing, inspection, and certification business Bureau Veritas (about 45% of pro forma portfolio value), and a 68.1% stake in leather chemicals and specialty coatings producer Stahl.

Wendel is publicly listed on the Paris stock exchange. With 39.6% as of Dec. 31, 2023, Wendel-Participations SE, a family vehicle representing the individual interests of more than 1,200 Wendel family members, holds the largest stake in the company and has 52.6% of voting rights. Six members of the Wendel family are on the supervisory board.

## Outlook

The stable outlook on France-based investment holding company Wendel reflects our view that it will maintain LTV well below our 20% threshold, while redeploying capital over the next 12-24 months.

### Downside scenario

We could consider a negative rating action if the LTV ratio increased toward 20% without Wendel taking steps toward a rapid recovery. We could also lower the rating over the medium term if Wendel's cash flow adequacy dropped below 0.7x and its cash position diminished such that cash reserves did not abundantly compensate its operating deficit.

### Upside scenario

## Wendel SE

Given the nature of Wendel's investment portfolio, business model, and renewed investment strategy, we regard a potential positive rating action as unlikely over the next 24 months. However, we would consider upgrading Wendel if its portfolio value and diversity increases in favor of listed assets such that the share of liquid assets as a portion of the total portfolio value is well above 60% on a structural basis and, at the same time, materially diminishes the reliance on BV, all else being equal.

## Key Metrics

### Wendel SE--Key metrics

Period ending	2017a	2018a	2019a	2020a	2021a*	2022a	2023a	2024f
LTV (%)	12.2	6.6	6.7	7.2	11.1	6.9	10.7	<20
Cash flow adequacy (x)	1.0	0.6	0.0	0.0	0.5	0.7	1.8	1.0-1.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. Adjustments at Dec. 31, 2023, include €64 million of investment commitments and €24 million of minority put options. \*Before the €896 million sale proceeds from Cromology and \$338 million equity investment in ACAMS. a--Actual. f--Forecast

## Financial Summary

### Wendel SE--Financial summary

Period ending	2018a	2019a	2020a	2021a**	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Reported portfolio value, net of cash	7,265	7,902	7,583	9,701	7,940	7,836
Adjusted portfolio value*	7,306	7,963	7,669	9,845	8,033	7,924
Reported net debt	422	473	469	950	459	1,115
Adjusted net debt*	483	534	556	1,094	552	849
Reported loan-to-value (%)	6.1	6.0	6.2	9.8	5.8	13.5
Adjusted loan-to-value (%)	6.6	6.7	7.2	11.1	6.9	10.7
Cash dividend income	138	0	0	58	85	209
Operating charges and tax expenses	56	82	83	74	91	99
Interest expenses	185	64	58	38	28	16
Cash flow adequacy (x)	0.6	0.0	0.0	0.5	0.7	1.8
Ordinary dividend paid	121	124	123	127	130	139

All figures are adjusted by S&P Global Ratings, unless stated as reported. \*Adjustments at Dec. 31, 2023, include €64 million of investment commitments and €24 million of minority put options. \*\*Before the €896 million sale proceeds from Cromology and \$338 million equity investment in ACAMS. a--Actual.

## Peer Comparison

### Wendel SE--Peer comparison

	Wendel SE	EXOR N.V.	JAB Holding Company	Prosus N.V.	BevCo Lux Sarl
Issuer credit rating	BBB/Stable/A-2	A-/Stable/A-2	BBB+/Stable/--	BBB/Stable/A-2	BBB/Negative/--
Business risk profile	Fair	Satisfactory	Satisfactory	Fair	Fair
Portfolio data as of	31-Dec-2023	30-Jun-2023	30-Jun-2023	31-Mar-2023	30-Jun-2023
Adjusted portfolio size (mil. \$)	8,746	40,983	31,872	145,524	7,691
Weight of listed assets (%)	48.8	81.4	61.4	90.9	86.3
Largest asset (% of portfolio)	45.1	35.4	25.3	84.5	75.6
Three largest assets (% of portfolio)	72.7	67.5	59.2	89.5	97.2
Financial risk profile	Modest	Modest	Intermediate	Minimal	Modest
Loan-to-value (%)	10.7	11.6	19.9	1.3	18.0
Loan-to-value ceiling (%)	20.0	20.0	25.0	10.0	20.0

All figures are adjusted by S&P Global Ratings, unless stated as reported.

## Environmental, Social, And Governance

Environmental, social and governance factors are an overall neutral consideration in our credit rating analysis of Wendel. The holding benefits from a diversified portfolio of assets, with a concentration on business services through its stake in BV, which accounts for close to 50% of the portfolio value, and limited exposure of investee companies to environmental or social risks. We regard Wendel's governance as robust enough to sustain the holding's investment and divestment policies and as such consider it neutral to our rating on Wendel.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB/Stable/A-2</b>
<b>Local currency issuer credit rating</b>	<b>BBB/Stable/A-2</b>
<b>Business risk</b>	<b>Fair</b>
Country risk	Low
Industry risk	Intermediate
Investment position	Fair
<b>Financial risk</b>	<b>Modest</b>
Cash flow/leverage	Modest
<b>Anchor</b>	<b>BBB-</b>
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
<b>Stand-alone credit profile</b>	<b>BBB</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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