

Wendel

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Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Covenant Analysis

Issue Ratings - Subordination Risk Analysis

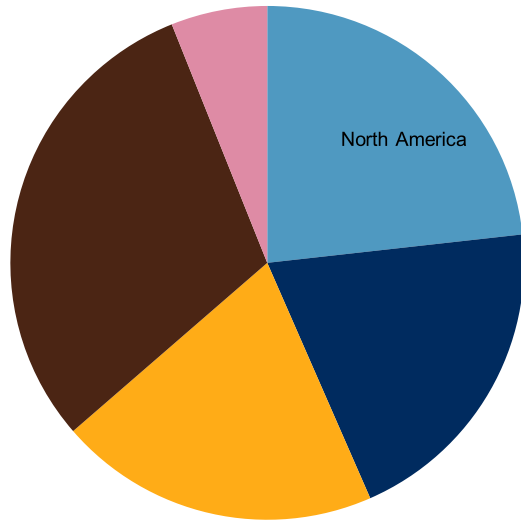
Ratings Score Snapshot

Related Criteria

Chart 2

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Outlook: Stable

The stable outlook on France-based investment holding company Wendel reflects S&P Global Ratings' expectation that Wendel's LTV ratio, which was about 7% at year-end 2019 (in line with year-end 2018), will not exceed 20% over the next 12 months. Residual investment capacity in line with the aforementioned LTV target is about €1 billion. As expected, Wendel's management was successful in redeploying capital without any impact on leverage.

Downside scenario

We could consider a negative rating action if the LTV ratio increases beyond 20% over a prolonged period. Pressure on the rating could also build if Wendel's below-average cash flow adequacy ratio became permanent.

Upside scenario

We believe that any potential positive rating action would need to reflect a consistent reduction in portfolio concentration. We view a substantial improvement in asset credit quality and liquidity as unlikely. We therefore regard an upgrade as remote over the next 12 months.

Our Base-Case Scenario

Assumptions	Key Metrics												
<ul style="list-style-type: none">We do not have visibility on Wendel's investment pipeline in 2020 but we estimate investment capacity at around €1 billion is in line with maintaining LTV below 20%.We do not expect a new share buyback program at least not to the extent of the €200 million executed in 2019.	<table><thead><tr><th></th><th>2018A</th><th>2019E</th><th>2020F</th></tr></thead><tbody><tr><td>Cash flow adequacy (x)</td><td>2</td><td>0</td><td>0</td></tr><tr><td>LTV (%)</td><td>6.4%</td><td>7%</td><td><20%</td></tr></tbody></table> <p>A--Actual. E--Estimate. F--Forecast. LTV--Loan to value.</p>		2018A	2019E	2020F	Cash flow adequacy (x)	2	0	0	LTV (%)	6.4%	7%	<20%
	2018A	2019E	2020F										
Cash flow adequacy (x)	2	0	0										
LTV (%)	6.4%	7%	<20%										

Base-case projections

Company Description

Wendel is a France-based, publicly-listed investment holding company, tracing its history back to the eighteenth century steel industry. Wendel-Participations SE, a family vehicle representing the individual interests of more than 1,140 Wendel family members, holds the largest stake in the company, 39.53% as of April 25, 2019.

Wendel's investment portfolio was worth €7.7 billion (excluding cash) on Sept. 30, 2019. Slightly less than 45% of value is represented by a 35.8% stake in listed testing, inspection, and certification business Bureau Veritas (BV; not rated), which represents its largest single asset. Stahl, market leader in leather chemicals and performance coatings; IHS, Africa-based provider of telecom tower infrastructure for mobile operators; and Constantia Flexible, the world's fourth-largest flexible packaging and labels supplier make up another 40% of the value. After the partial sale of its stake (6% post transaction) in Allied Universal, the largest security service company in the U.S., this no longer represents a significant investment for Wendel. The transaction reduces the holding's exposure to a comparatively highly leveraged asset when compared to fellow investee companies.

In the second half of 2019, Wendel announced the acquisition of CPI in the U.S. for an equity contribution worth US\$569 million. CPI is the leader in the provision of behavior management and crisis prevention training programs. The company teaches and certifies individuals to instruct staff at their organization to assess, manage, and safely resolve high risk, disruptive, or aggressive behavior in the workplace. CPI's end-markets include education and health care mainly in the U.S. with a potential to develop beyond its captive market. The transaction was finalized in December 2019. S&P Global Ratings estimates the portfolio's three-largest assets represent slightly more than 75% of the gross asset value net of cash.

Performance at Wendel's investee companies was mixed in the first nine months of 2019: BV and IHS experienced

single assets, combined with a lower exposure to global manufacturing and to the cycle, as in the case of the CPI acquisition, reduces the portfolio polarization and increases resilience to a rather bleak economic outlook.

Chart 3

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Peer comparison

Table 1

Wendel--Peer Comparison

Wendel

Financial summary

Table 2

Wendel Financial Summary				
	--Fiscal year ended--			
	2019**	2018**	2017	2016
(Mil. €)				
Portfolio as adjusted*	7,587	7,180	9,292	9,403
Net debt as adjusted	505	463	1133	2158
Loan to value (%)	6.7	6.4%	12%	23%
Dividend & fees income	0	137.6	368.5	182
Operating charges and tax expenses	61.8	71.4	71.4	51
Net interest expenses/ (income)	59.3	91.4	109	136
Cash flow cover (x)	0	0.8	2	1
Dividend paid	129	123	107	99
Share buybacks	200.0	36.8	49.3	49.9

* net of cash held. ** November Asset Valuation.

Liquidity: Strong

Our assessment of Wendel's liquidity as strong reflects our expectation that its sources of liquidity will likely exceed liquidity uses by more than 2.4x in the next 12 months despite the absence of dividend inflow from our investee companies. Wendel's generally good access to the bond market, solid relations with banking counterparties, and comfortable headroom under covenants, supports our assessment.

Principal Liquidity Sources	Principal Liquidity Uses
<p>We calculate the following liquidity sources for the 12 months started Sept. 30, 2019:</p> <ul style="list-style-type: none"> • Net cash and cash equivalents of €1.1 billion; and • €750 million available on a revolving credit facility (RCF) expiring in 2024. 	<p>We estimate the following liquidity uses for the same period:</p> <ul style="list-style-type: none"> • No debt maturities until 2023; • Operating expenses of €60 million-€70 million; • Interest expenses in the €50 million-€60 million; • Dividends likely to exceed €120 million; and • The closing of the CPI acquisition (Dec. 23, 2019).

Covenant Analysis

Wendel's €750 million RCF bears two LTV covenants, tested semiannually but only if the line is drawn down. As the line is undrawn, there is no obligation of covenant headroom reporting but headroom would be comfortable.

Issue Ratings - Subordination Risk Analysis

We rate Wendel's senior unsecured debt in line with its issuer rating and we don't have any concerns about structural subordination.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Fair

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest

- Cash flow/leverage: Modest

Anchor: bbb-

Modifiers

- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile : bbb

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	
[Redacted Content]						

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