

Summary of the
Rating Report

Grammer AG

2 August 2017



EULER HERMES
Rating

Issuer Rating

Grammer AG		2 August 2017	
		BBB	
		Issuer rating	Outlook
Industry	Automotive: Development, manufacturing and distribution of driver and passenger seats for the off-road segment, trucks and buses, as well as components and systems for passenger car interiors	2016 revenue	€ 1.7 billion
		2016 employees	12,250



BUSINESS RISK	slightly increased
<ul style="list-style-type: none"> Key markets offer moderate medium- to long-term growth, but are cyclical and highly competitive Strong market position in the <i>Commercial Vehicles</i> segment, strong growth in the <i>Automotive</i> segment Good positioning due to development and production capacities in the most important global regions 	

OPERATIONAL RISKS	- 0
<ul style="list-style-type: none"> Operating risks well managed Moderate operating risks remain 	

FINANCIAL RISK	low to moderate
<ul style="list-style-type: none"> Satisfactory to highly satisfactory earning power with a positive outlook Highly satisfactory capital structure and deleveraging capacity, good interest coverage Good financial flexibility 	

EXTERNAL INFLUENCE	± 0
<ul style="list-style-type: none"> No relevant external influence 	

Financial ratios *	2014 actual	2015 actual	2016 actual
Equity ratio (%)	6.9	5.8	7.1
Debt to equity ratio (%)	16.9	9.9	17.1
Total liabilities / EBITDA	25.5	23.9	24.1
Net financial liabilities / EBITDA	37.8	46.2	42.1
EBIT interest coverage	6.5	8.9	6.5
EBITDA interest coverage	1.4	2.4	1.5
Equity ratio (%)	6.8	5.2	6.9
Debt to equity ratio (%)	11.3	10.2	11.4

* adjusted in accordance with EHRG's analysis principles

Rating Rationale

Euler Hermes Rating assigns a BBB issuer rating to Grammer AG. We believe the company's strategy, management and customer relationships will remain reasonably stable with the current shareholder structure. We therefore expect the rating to remain stable over the next twelve months.

Slightly increased business risk due to exposure to cyclical industries

In our view, Grammer AG is exposed to a **slightly increased business risk**. We expect unit sales of cars and commercial vehicles to rise moderately worldwide over the medium to long term, benefiting Grammer as an automotive parts supplier. Grammer focuses on the premium end of the motor vehicle market, which we view as a rating strength given the better profit potential and greater stability of unit sales in these segments. Another strength, in our estimation, is the company's diversification across products, customers and regions. In the *offroad seat* market, Grammer is a global market leader. In the automotive sector, Grammer is one of the smaller international Tier 1 suppliers and focuses on headrests, centre consoles, armrests and interior components. Grammer AG has, in our view, systematically improved its market position in recent years by expanding its global production and development structures and broadening its client base and order book. We consider Grammer's weaknesses to include its dependence on the automotive sector and other cyclical industries as well as its relatively weak bargaining position with major motor vehicle manufacturers. Risks include sales volatility and growing competition.

Moderate to low financial risk based on generally satisfactory financials

We rate Grammer AG's **financial risk** as **low to moderate**. Strong sales growth in 2016 was largely driven by new orders in the console business and the integration of Grammer Interior Components entities in the *Automotive* segment. Profit margins increased as a result of optimization programs and lower pre-production costs. Grammer exceeded the previous year's plan values and achieved satisfactory to highly satisfactory income figures in what remains a challenging environment. The company also reduced its financial debt by paying back two tranches of a borrower's note loan. Cash and cash equivalents grew due to an increase in cash flow from operating activities. In 2017, we expect financial liabilities to decline further and the capital structure to improve even more as the company issues and converts a mandatory convertible bond and repays a borrower's note tranche (amounting to € 40.0 million) on schedule. We rate Grammer AG's capital structure and debt ratios as highly satisfactory overall. Its financial flexibility is good.

No modifications to the anchor rating

We view the company's structures, processes and systems for managing operational risks as good overall. Grammer AG's current shareholder structure will, in our estimation, help keep its corporate governance, management, strategy and customer relationships reasonably stable. It is still exposed to moderate operational risks from supply relationships and production structures, which exhibit the kind of complexity typically found in the industry. We believe the operational risks are consistent with the anchor rating. There are no external factors of relevance to the rating. Therefore, no modifications were made to the anchor rating.

Rating history

	30.06.2011-06.06.2012	21.03.2013-21.07.2016	02.08.2017
Rating	BBB-	BBB	BBB
Outlook	stable	stable	stable

Company

Manufacturer of motor vehicle seats and interior components and systems

Grammer AG of Amberg specialises in developing, manufacturing and selling components and systems for car interiors (*Automotive* segment) as well as driver and passenger seats for offroad vehicles, trucks and buses (*Seating Systems* segment, renamed the *Commercial Vehicles* segment in 2017). In the 2016 financial year, Grammer generated € 1.7 billion in group revenue with 12,250 employees (average for the year), with 72.9 % of the revenue coming from the *Automotive* segment and 27.1 % from *Seating Systems*. Grammer AG has 40 production, development and sales locations in 19 countries in Europe, Asia, Africa and North and South America. Its primary sales region is EMEA (Europe, Middle East, Africa), representing 70.7 % of revenue, followed by the Americas (North and South America), representing 14.5 %, and APAC (Asia Pacific), representing 14.8 %.

Leading market position in seats for offroad vehicles

Grammer is a global market leader in the **Seating Systems/Commercial Vehicles segment**, particularly in seats for offroad vehicles (tractors, agricultural machinery, construction equipment, forklifts, lawnmowers, etc.). In this segment, Grammer supplies large multinationals such as Daimler, AGCO/Fendt and John Deere as well as a variety of smaller regional providers and manufacturers of special-purpose vehicles. The *Seating Systems* segment includes both OEM and aftermarket sales of seats, which have to be replaced after several years of professional use in offroad vehicles. This segment generated € 473.6 million in revenue and € 39.1 million in EBIT (EBIT margin: 8.3 %) in 2016 with 3,699 employees (end-of-year headcount). Its competitors include Sears Seating in the offroad segment and Isringhausen and Johnson Controls in the truck segment.

Relatively small provider with rapid growth in the automotive segment

The **Automotive segment** generated € 1,270.8 million in revenue and € 42.5 million in EBIT (EBIT margin: 3.3 %) with 8,272 employees from sales of centre consoles, armrests, headrests and interior components for car manufacturers and Tier 1 suppliers for the motor vehicle industry. The *Automotive* segment has a more concentrated customer base than the *Seating Systems* segment, serves car manufacturers with stronger market positions than suppliers, and competes with Tier 1 suppliers who, in some cases, are significantly larger than Grammer. The company's largest customer in the *Automotive* segment are VW, BMW, Daimler and GM. Its competitors in the *Automotive* segment include Tier 1 suppliers such as Johnson Controls, Lear Corp., Magna and Faurecia.

Has built up its market position over decades

Grammer AG started out in 1880 as a saddlery in Amberg. Its rise began when Georg Grammer joined the company in 1954 and suspended tractor seats entered mass production in 1970. Other milestones in the company's history include its entry into the truck seat market in 1982, the automotive interior market in 1985 and the centre console market in 2004 as well as the commissioning of its own factories in China in 2005.

Listed stock corporation with a broad shareholder base

Grammer AG's shares have been traded on a stock exchange since 1996 and are listed in the SDAX. The largest single shareholder is Ningbo Jifeng, a Chinese automotive parts supplier that has held 20.01 % of the shares since July 2017 and is a strategic partner of Grammer AG. Around 22 % of the shares are controlled by members of the Hastor family through various companies. The remaining shares are distributed among institutional investors and other shareholders with stakes of less than 5 %. The Executive Board of Grammer AG consists of Hartmut Müller (Chairman), Manfred Pretscher and Gérard Cordonnier. Grammer AG of Amberg is the group parent company and the rating subject.

Appendix 1: Execution of the Rating

Analysts

- Holger Ludewig, director and project manager
- Katia Winkler, rating analyst

Rating committee

- Kai Gerdes, director
- Matthias Peetz, senior rating analyst

Principal sources of information

- Consolidated financial statements of 2014, 2015, 2016
- Excerpts from internal reporting (e.g. business performance in 2016 and 2017 , list of financial liabilities, etc.)
- Market analyses
- Strategy paper and corporate planning
- Documents on group structure
- Interviews with the Management of Grammer AG

Rating methodology

- Issuer rating of Euler Hermes Rating GmbH of May 2016
(<http://www.ehrg.de/seiten/Methodology2016.pdf>)

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Appendix 2: Rating categories

Category	Explanation
AAA	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

Appendix 3: Definition of financial ratios

Earnings potential and profitability

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net financial liabilities + economic Equity (= capital employed)

Total return on capital
Numerator
Adjusted operating and financial result + Interest expense
Denominator
Adjusted total capital

Cash flow return on investment

Cash flow return on investment (cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total capital

Capital structure and debt to equity ratio

Debt

Equity ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total capital

Debt to equity ratio
Numerator
Net financial liabilities
Denominator
Net financial liabilities + economic Equity (= capital employed)

Net financial liabilities

Net financial liabilities
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Degearing periods

Total liabilities / EBITDA
Numerator
Total capital - economic capital (= total liabilities)
Denominator
EBITDA

Net financial liabilities / EBITDA
Numerator
Net financial liabilities
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expense

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expense

Disclaimer

This report is a condensed summary of the detailed rating report of 2 August 2017. The detailed rating report, which is submitted to the company and is not being published by Euler Hermes Rating GmbH, forms the basis for the rating notation.

Grammer AG (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 19 June 2016. The company was visited on 25 July 2017. The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 2 August 2017. This rating report was given to the client on 18 August 2017, thereby concluding the rating process.

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Hamburg, 18 August 2017