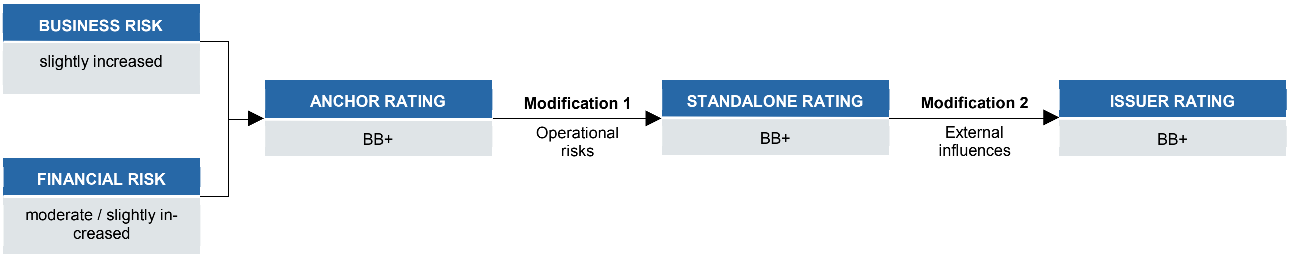
Issuer rating

Grammer AG		04 June 2020	BB+
		Issuer rating	
		Outlook	negative
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	Revenue in 2019	€ 2.0 billion
		Employees in 2019	14,910



BUSINESS RISK	slightly increased

- Fiercer competition and sector volatility due to dependence on cyclical automotive and commercial vehicle sector
- Strong market position in the *Commercial Vehicles* division and comfortable market position in the *Automotive* division
- Future-proven product portfolio in conjunction with global development and production capacity

OPERATIONAL RISKS	0

- Operational risks are managed adequately

FINANCIAL RISK	moderate / slightly increased

- Earnings power and capital structure at the lower end of the 'satisfactory' range; temporary weakening expected
- Satisfactory interest coverage ratios; temporary weakening expected
- Adequate financial flexibility

EXTERNAL INFLUENCES	± 0

- No external influences of relevance for the rating

Financial ratios *	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual
EBITDA margin (%)	6.9	5.8	7.1	6.9	6.8	8.1
ROCE (%)	16.9	9.9	17.1	16.5	12.6	11.6
Equity-to-total assets ratio (%)	25.5	23.9	24.1	29.3	20.5	22.4
Leverage (%)	37.8	46.2	42.1	28.4	51.6	54.1
Total liabilities / EBITDA	6.5	8.9	6.5	6.3	8.8	6.6
Net debt / EBITDA	1.4	2.4	1.5	1.0	2.4	2.2
EBIT interest coverage	6.8	5.2	6.9	7.9	6.9	4.3
EBITDA interest coverage	11.3	10.2	11.4	13.8	11.8	8.8

* Adjusted on the basis of EHR's analytical principles

Rating rationale

Euler Hermes Rating has downgraded Grammer AG's rating from BBB- to BB+. The downgrade is driven by an increase in financial risk resulting from the direct and indirect consequences of the COVID-19 pandemic. Depending on the future course of the pandemic and global recession, the automotive sector may face additional sales and earnings risks in the short-to medium-term, which may have unplanned adverse impacts on profitability, capital structure and liquidity. We therefore expect the rating to deteriorate over the next twelve months.

Slightly increased business risk due to cyclical sensitivity and pronounced structural change

In our view, Grammer AG has a **slightly increased business risk**. This assessment factors in the moderate global growth prospects for cars and commercial vehicles that we expect over the medium-to long-term. Grammer focuses on the high end of the motor vehicle market, which we view as a rating strength given the better profit potential and generally greater stability of unit sales in these segments. The recent integration of Toledo Molding & Die, Inc. (TMD) improved diversification and strengthened access to the US market. The company has unique selling propositions in some of its core markets, which allows it to occupy a globally leading position in the market for offroad seats. Grammer is one of the smaller international Tier 1 suppliers in the automotive sector. Its new management partly realigned the company, emphasising operational excellence and digitalisation, which we view as a rating strength given the structural changes sweeping the sector. The company intends to further diversify its customer and order books regionally and leverage regional competitive advantages and privileged access to the Chinese market provided by Ningbo Jifeng, the Chinese majority shareholder. It laid the basis for this move back in 2019 by forming joint ventures with well-known local companies. Grammer operates exclusively in cyclical sectors that are subject to slightly increased to increased sector volatility, which has been exacerbated by the economic fallout of the COVID-19 pandemic. Supplier companies in this industry generally face high competitive and innovation pressure as well as relatively weak bargaining positions vis-à-vis major motor vehicle manufacturers.

Moderate to slightly increased financial risk due to temporarily weakened earnings power with slightly elevated leverage

Grammer AG's **financial risk** increased from moderate to a level **between moderate and slightly increased.** The increase was primarily driven by the decline in earnings power and profitability with financial debt increasing due to acquisitions during the period under analysis. In 2019, the company improved earnings power and generated positive free cash flow as budgeted. Its performance will be affected by negative effects of the COVID-19 pandemic in 2020 and 2021, which will slow the planned deleveraging. We expect the crisis will generally weaken financial ratios and cash flow over the short-to medium-term. In addition, we expect indebtedness to be temporarily slightly elevated from additional borrowing under the "KfW Special Program", which aims to bridge cash crunches caused by the negative cyclical and sales effects of the coronavirus pandemic. As the recovery picks up, Grammer should benefit from the initiated reorganisation and leaner structures and should regain its accustomed satisfactory earnings power and capital structure over the medium-term. In our view, the company generally has a high internal financing potential, which was recently strengthened by the integration of TMD. The syndicated loan taken out in February 2020 ensures the corporate group's medium- to long-term funding. We rate the company's financial flexibility as adequate overall thanks to its vigorous crisis and working capital management.

No modifications to the anchor rating

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.

Upgrade / downgrade factors

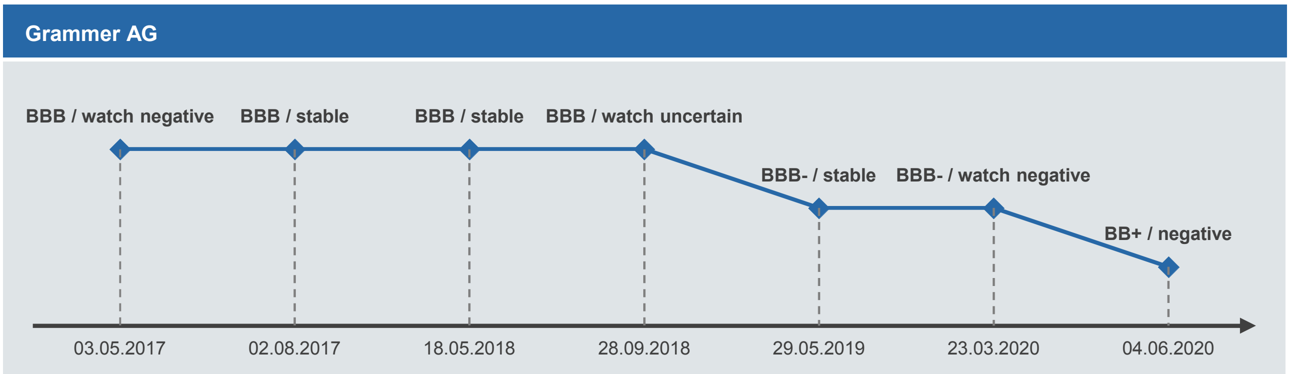
Factors that could prompt an upgrade

- Lasting improvement of diversification and growth of non-cyclical segments (e.g. aftermarket) that represent significant proportions of total income
- Lasting improvement of operating performance thanks to the initiated reorganisation and stronger focus on operational excellence and digitalisation
- Euler Hermes Rating adjusted EBITDA margin sustainably above 9%
- Lasting improvement in deleveraging potential (Euler Hermes Rating adjusted net debt / EBITDA less than 2.5)
- Lasting increase in the cash flow basis and positive free cash flow performance

Factors that could prompt a downgrade

- Major, prolonged recession phase associated with significant declines in orders and production interruptions as a result of the COVID-19 pandemic
- Significant decline in market share in core markets
- Lasting deterioration of operating performance, e.g. due to increasing pressure on margins and delays in implementing the reorganisation
- Euler Hermes Rating adjusted EBITDA margin sustainably below 7%
- Lasting deterioration in deleveraging potential (Euler Hermes Rating adjusted net debt / EBITDA greater than 3.0)
- Decline in cash flow generation and negative free cash flow performance

Rating history



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 division) as well as driver and passenger seats for offroad vehicles, trucks and buses (Commercial Vehicles). In the 2019 financial year, Grammer and its 14,900 employees (average for the year) generated € 2.0 billion in group revenue in the Automotive (revenue share: 72.6%; previous year: 68.6%) and Commercial Vehicles (revenue share: 27.4%; previous year: 31.4%) divisions. Grammer AG has 42 production, development and sales locations in 20 countries in Europe, Asia, Africa, North and South America. Its primary sales region is EMEA (Europe, Middle East, Africa), representing 54.7% of revenue (previous year: 64.0%), followed by the Americas at 29.9% (previous year: 19.7%) and APAC (Asia Pacific) at 15.4% (previous year: 16.3%).

Leading market position in seats for offroad vehicles

Grammer's **Commercial Vehicles division** is a global market leader, particularly in seats for offroad vehicles (tractors, agricultural machinery, construction equipment, forklifts, lawnmowers etc.). This division 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 Commercial Vehicles division handles both OEM and aftermarket sales of seats, which have to be replaced after several years of professional use in offroad vehicles. The 3,786 employees (end-of-year headcount) of this division generated € 607.4 million in revenue and € 44.1 million in EBIT (EBIT margin: 7.2%) in 2019. The competitors of the Commercial Vehicles division include Sears Seating in the offroad segment and Isringhausen and Adient in the truck segment.

Relatively small, specialised provider with rapid growth in the Automotive division

The **Automotive division** and its 10,910 employees generated € 1,479.8 million in revenue and € 51.0 million in EBIT (EBIT margin: 3.4%) from sales of centre consoles, armrests, headrests and thermoplastic and non-thermoplastic interior components for car manufacturers and Tier 1 suppliers for the motor vehicle industry. The Automotive division has a more concentrated customer base than the Commercial Vehicles division, serves car manufacturers with stronger market positions than suppliers, and competes with Tier 1 suppliers who may be significantly larger than Grammer. The Automotive division's largest customers are VW, BMW, Daimler and GM. The Automotive division's competitors include Tier 1 suppliers such as Adient, 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. The acquisition of US-based TMD in 2018 added thermoplastic components for the automotive industry to the company's product portfolio.

Listed stock corporation with Chinese anchor shareholder

Grammer AG's shares have been traded on a stock exchange since 1996 and were listed on the SDAX until September 2018 (currently: Prime Standard). The largest single shareholder since 2018 is Ningbo Jifeng, a strategic partner who holds 84.23%. The remaining shares are distributed among institutional investors and other shareholders. Following the retirement of the entire Executive Board during the Ningbo Jifeng takover, the interim Executive Board of Grammer AG consisted of Manfred Pretscher (CEO, CFO) and Jens Öhlenschläger (COO) until August 2019. Two new Executive Board members, Thorsten Seehars (CEO) and Jurate Keblyte (CFO), were appointed to the Executive Board effective 1 August 2019.

EULER HERMES Rating

Execution

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Rating Committee

- Kai Gerdes, Director
- Matthias Peetz, Senior Analyst

Rating, participation, principal sources of information

- This rating was prepared in compliance with the Regulation for Credit Rating Agencies (CRA Regulation).

[x] Solicited rating
[ ] Unsolicited rating
  [ ] Without participation of the rated company or related third parties
  [x] With participation of the rated company or related third parties
    [x] With access to internal documents
    [x] With access to management

- Prior to publication of this rating, the rated entity had an opportunity to review the key assumptions of the rating documented in the rating report. The rating was not modified between the completion of the review and the publication of the rating.
- Principal sources of information:
  - Consolidated financial statements (audit reports) for 2017, 2018, 2019
  - Reports from the internal reporting system (e.g. business development in 2020, financing overview etc.)
  - Market analyses
  - Information on strategy and corporate planning
  - Documents on legal structure
  - Talks with management

Rating methodology and definitions

- Euler Hermes Rating GmbH Methodology: Issuer Rating of May 2016 (https://www.ehrg.de/seiten/Methodik_Emittentenrating_20171114.pdf)
- Basic principles for assigning credit ratings and other services (https://www.ehrg.de/seiten/Principles_2020.pdf)
- General information for including ESG factors in our company ratings (https://www.ehrg.de/seiten/ESG_2020.pdf)

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Rating categories*

Category	Explanation
AAA	In the opinion of EHR, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, 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.

* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services (https://www.ehrg.de/seiten/Principles_200701.pdf)

Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow-Return on Investment

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

Capital structure

Indebtedness

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

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

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

Deleveraging potential

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

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

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

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

Company Inc. (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 19 June 2016. The Management call was on 09 April 2020

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 04 June 2020. This rating report was given to the client on 25 June 2020, thereby concluding the rating process.

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The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Euler Hermes Rating GmbH

Hamburg, 25 June 2020