# Issuer rating

| Grammer AG | | 29 May 2019 | BBB- |
|---|---|---|---|
| | | Issuer rating | |
| | | Outlook | Stable |
| 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 2018 | € 1.9 billion |
| | | Employees 2018 | 14,379 |

**BUSINESS RISK**
slightly increased

**FINANCIAL RISK**
moderate

**ANCHOR-RATING** BBB- → **Modification 1** Operational risks → **STAND-ALONE-RATING** BBB- → **Modification 2** External influence → **ISSUER RATING** BBB-

| BUSINESS RISK | Slightly increased |
|---|---|

- Increased intensity of competition and sector volatility due to dependencies on the cyclical automotive and commercial vehicles sector
- Strong market position in the *Commercial Vehicles* segment and comfortable market position in the *Automotive* segment
- Future-proof product portfolio combined with global development and production capacities

| OPERATIONAL RISKS | - 0 |
|---|---|

- Operating risks are appropriately managed

| FINANCIAL RISK | Moderate |
|---|---|

- Satisfactory earning power and capital structure
- Good interest coverage; weakening expected
- Good financial flexibility

| EXTERNAL INFLUENCES | ± 0 |
|---|---|

- No relevant external influences

| Key financial ratios * | 2016 | 2017 | 2018 |
|---|---|---|---|
| EBITDA margin (%) | 7.1 | 6.9 | 6.8 |
| Return on capital employed (ROCE) (%) | 17.1 | 16.5 | 12.6 |
| Equity ratio (%) | 24.1 | 29.3 | 20.5 |
| Debt to equity ratio (%) | 42.1 | 28.4 | 51.6 |
| Total liabilities / EBITDA | 6.5 | 6.3 | 8.8 |
| Net financial liabilities / EBITDA | 1.5 | 1.0 | 2.4 |
| EBIT interest coverage | 6.9 | 7.9 | 6.9 |
| EBITDA interest coverage | 11.4 | 13.8 | 11.8 |

* adjusted on the basis of EHRG's analysis principles

# Rating Rationale

**Euler Hermes Rating is reducing Grammer AG's rating from BBB to BBB-. Crucial factors are the increased indebtedness and increasing market-related challenges which, in our view, are having a negative medium-term impact on earning power and capital structure. Given the high order backlog, we expect the rating to remain stable over the next twelve months.**

**Slightly elevated business risk due to dependence on cyclical sectors.**

In our view, Grammer AG is exposed to a **slightly elevated business risk**. This takes into account the fact that we expect moderate medium- to long-term global growth prospects for passenger cars and commercial vehicles. We view the continuing focus on the premium end of the vehicle market as positive given the greater stability of unit sales and the wider margins in these segments. The diversification profile was recently improved and market access in the USA strengthened as a result of the takeover of the American company Toledo Molding & Die, Inc. (TMD). In the off-road seat market, Grammer is a global market leader. In the automotive sector, Grammer is one of the smaller international specialist Tier 1 suppliers. Grammer AG has, in our view, systematically improved its market positioning in recent years and reduced dependencies by expanding its global production and development structures and broadening its client base and order book. Grammer operates solely in cyclical industries and has a relatively weak bargaining position with major motor vehicle manufacturers. Risks include sales volatility and growing pressures of competition and innovation.

**Moderate financial risk based on overall satisfactory financials**

We rate Grammer AG's **financial risk** as **moderate**. Following the TMD and Ningbo Jifeng takeover and sharp WLTP-related revenue reductions from the end of the third quarter in Europe, earning power and profitability declined in 2018 to a barely satisfactory to satisfactory level. Lower additional operating expenses and efficiency increases should increase earning power and profitability again over the medium term, so that in our view, Grammer should see a sustainable return to satisfactory values. In 2018 the capital structure declined to a barely satisfactory level. The deterioration was mainly due to the acquisition-related increase in financial liabilities (TMD) and is, in our view, largely temporary. Due to the planned accelerated reduction of debt, the capital structure should return to a satisfactory level over the medium term. In 2019 the good interest coverage declined to a satisfactory to highly satisfactory level due to the increased indebtedness and interest expense for bridge financing. We rate the planned short to medium-term earnings trend as slightly ambitious, in particular due to the increasing market-related challenges and current slowdown in unit sales in the automotive sector in the core market of Europe. Grammer has overall good internal financing potential and good financial flexibility.

**No modification 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.

# Rating History

| | 30/06/2011-20/03/2013 | 21/03/2013-28/05/2019 | 29/05/2019 |
|---|---|---|---|
| **Rating** | BBB- | BBB | BBB- |
| **Outlook** | Stable | Stable | Stable |

EULER HERMES Rating

# Company

***Manufacturer of motor vehicle seats and interior components and systems***

Grammer AG of Amberg specialises in developing, manufacturing and selling driver and passenger seats for the off-road segment, trucks and buses (Commercial Vehicles segment), as well as components and systems for passenger car interiors (Automotive segment). In the 2018 financial year, Grammer generated € 1.9 billion in group revenue with 14,379 employees (average for the year), with 68.6% (PY 70.5%) of the revenue deriving from the Automotive segment and 31.4% (PY 29.5%) from Commercial Vehicles. 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 64.0% (PY 68.6%) of revenue, followed by the Americas at 19.7% (PY 15.7%) and APAC (Asia Pacific) at 16.3% (PY 15.7%).

***Leading market position in seats for off-road vehicles***

Grammer is a global market leader in the **Commercial Vehicles segment**, particularly in seats for off-road 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 Commercial Vehicles segment includes both OEM and aftermarket sales of seats, which have to be replaced after several years of professional use in off-road vehicles. This segment generated € 599.8 million in revenue and € 55.5 million in EBIT (EBIT margin: 9.3%) in 2018 with 3,744 employees. Its competitors include Sears Seating in the off-road segment and Isringhausen and Adient in the truck segment.

***Relatively small specialist provider with rapid growth in the automotive segment***

The **Automotive segment** generated € 1,312.6 million in revenue and € 37.7 million in EBIT (EBIT margin: 2.9%) with 10,635 employees from sales of centre consoles, armrests, headrests and interior components as well as thermoplastic 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 Commercial Vehicles 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 customers in the Automotive segment are VW, BMW, Daimler and GM. Its competitors in the Automotive segment 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 Grammers 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 two sites in China in 2005. The takeover of the US company TMD in 2018 expanded the product portfolio to include thermoplastic components for the automotive industry.

***Listed stock corporation with Chinese anchor shareholder***

Grammer AG’s shares have been traded on a stock exchange since 1996 and were listed in the SDAX until September 2018 (currently Prime Standard). Since 2018 the largest single shareholder has been the strategic partner Ningbo Jifeng, which currently holds 84.23% of the shares via an affiliated company. The other shares are distributed among institutional investors and other shareholders. Following the departure of the entire Executive Board in the course of the Ningbo Jifeng takeover, the Executive Board of Grammer AG has, since 1 January 2019, consisted of the interim members Manfred Pretscher (CEO, CFO) and Jens Öhlenschläger (COO). Two further Executive Board members, Thorsten Seehars (CEO/ formerly Knorr Bremse AG) and Jurate Keblyte (CFO), have been appointed with effect from 1 August 2019.

# Execution

### Analysts

- Joerg F. Walbaum, Senior Rating Analyst/ Project Manager
- Robin Rabe, Senior Rating Analyst

### Rating committee

- Kai Gerdes, Director
- Matthias Peetz, Senior Rating Analyst

### Principle sources of information

- Consolidated financial statements (audit reports) 2016, 2017, 2018
- Excerpts from internal reporting (e.g. business development 2019, financing overview, etc.)
- Market analyses
- Information on strategy and company planning
- Documents on the corporate structure
- Interviews with the management

### Rating methodology

- Euler Hermes Rating GmbH Issuer Rating Methodology of May 2016 (https://www.ehrg.de/seiten/Methodology_Issuer%20Rating_20171114.pdf)

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# 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 to 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 (+)**<br>**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. |

# 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<br>(= capital employed) |

| Return on total assets |
|---|
| **Numerator** |
| Adjusted operating and financial result<br>+ 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<br>(= economic capital) |
| **Denominator** |
| Adjusted total assets |

| Leverage |
|---|
| **Numerator** |
| Net debt |
| **Denominator** |
| Net debt + economic equity<br>(= 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<br>(= 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

SAF-HOLLAND S.A. engaged Euler Hermes Rating GmbH to conduct a rating on 19/06/2016. The company was visited on 02/05/2019.

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 29/05/2019. This rating report was given to the client on 07/06/2019, thereby concluding the rating process.

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Hamburg, 07/06/2019