Summary of the Rating Report

Grammer AG

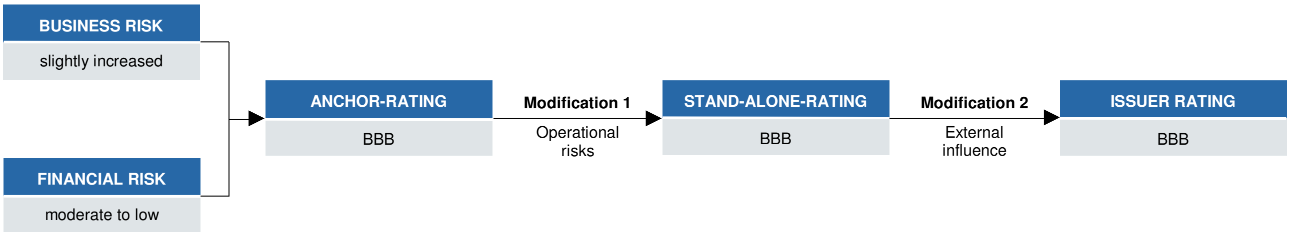
21 July 2016

EULER HERMES Rating

EULER HERMES Rating

Issuer Rating

Grammer AG		21 July 2016	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 2015	€ 1.4 billion
		Employees 2015	11,397



BUSINESS RISK	slightly increased

- Key markets offer medium- to long-term growth, but are cyclic and highly competitive
- Strong market position in the *Seating Systems* segment, strong growth in the *Automotive* segment
- Good positioning due to development and production capacities in the most relevant global markets

OPERATIONAL RISKS	- 0

- Operating risks well managed
- Moderate operating risks remain

FINANCIAL RISK	moderate to low

- Satisfactory stability of earnings in a partially challenging environment
- Satisfactory capital structure, deleveraging capacity and interest coverage
- Good financial flexibility

EXTERNAL INFLUENCE	± 0

- No relevant external influence

Key financial ratios	2013	2014	2015
EBITDA margin (%)	7,3	6,9	5,8
Return on capital employed (ROCE) (%)	17,2	16,9	9,9
Equity ratio (%)	27,5	25,5	23,8
Debt to equity ratio (%)	38,5	37,8	46,3
Total liabilities / EBITDA	5,9	6,5	8,9
Net financial liabilities / EBITDA	1,4	1,4	2,4
EBIT interest coverage	6,7	6,8	5,2
EBITDA interest coverage	10,6	11,3	10,2

EULER HERMES Rating

Rating Rationale

Euler Hermes Rating reaffirms its BBB rating for Grammer AG. We expect the rating to remain stable over the next twelve months.

Slightly elevated business risk due to exposure to cyclical industries

In our view, Grammer AG is exposed to a **slightly elevated business risk**. We expect unit sales of cars and commercial vehicles to rise globally over the 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 wider margins 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 positioning in recent years by expanding its global production and development structures and broadening its client base and order book. Its efforts included the acquisition of the Reum Group at the end of December 2015 and the establishment of a joint venture with Shaanxi Automobile Group Co. Ltd., a Chinese truck manufacturer, in March 2016. 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.

Low to moderate financial risk based on generally satisfactory financials

We rate Grammer AG's **financial risk** as **low to moderate**. Revenue increased significantly in the *Automotive* segment in the 2015 financial year due to new orders. It decreased in the *Seating Systems* segment following a decline in the production of trucks in China and Brazil and of agricultural and construction machinery. The EBIT margin was adversely affected by lower business volumes in the *Seating Systems* segment and by start-up costs for new sites and orders associated with the *Automotive* segment's growth. We rate Grammer AG's earnings stability as satisfactory given the convergence of these negative factors. We expect the company's earnings power to improve in 2016, though, since operating profit has been recognisably strong in the first quarter and profits will not be adversely affected by several factors that weighed on the previous year's earnings. Debt and liquidity are higher after the company placed a bond at the end of 2015. We expect financial liabilities to decrease and the capital structure to improve in 2016. In this light, we rate Grammer AG's capital structure and debt ratios as satisfactory overall. Its financial flexibility is good, in our view.

No modifications to the anchor rating

We view Grammer AG's structures, processes and systems for managing operational risks as good overall. 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	28.04.2014	15.05.2015
Rating	BBB-	BBB-	BBB	BBB	BBB
Outlook	Stable	Stable	Stable	Stable	Stable

EULER HERMES Rating

Company

Manufacturer of motor vehicle seats and interior components and systems

More than 30 locations worldwide

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). In the 2015 financial year, Grammer generated € 1.4 billion in group revenue with 11,397 employees (average for the year), with 68.7 % of the revenue coming from the *Automotive* segment and 31.3 % from *Seating Systems*. Grammer AG has over 30 production, development and sales locations in 20 countries in Europe, Asia, Africa and North and South America. Its primary sales region is EMEA (Europe, Middle East, Africa; formerly: Europe), representing 68.2 % of revenue, followed by the Americas (formerly: Overseas (North and South America)), representing 17.1 %, and APAC (Asia Pacific, formerly: Far East / Rest), representing 14.7 %.

Leading market position in seats for offroad vehicles

Grammer is a global market leader in the ***Seating Systems* segment**, particularly in seats for offroad vehicles (tractors, agricultural machinery, construction equipment, forklifts, lawnmowers, etc.). It received the BAUMA Innovation Award in April 2016 as part of the Cab Concept Cluster that developed the Genius Cab. 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 € 458.4 million in revenue and € 27.8 million in EBIT (EBIT margin: 6.1 %) in 2015 with 3,729 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 € 1,008.1 million in revenue and € 23.8 million in EBIT (EBIT margin: 2.4 %) with 7,400 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 customers 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 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.

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 HALOG GmbH & Co. KG, which holds 10.22 %. The Executive Board of Grammer AG consists of Hartmut Müller (Chairman), Manfred Pretscher and Gérard Cordonnier (since 01 June 2015). Grammer AG of Amberg is the group parent company and the rating subject.

Execution of the rating

This report is a condensed summary of the detailed rating report of 21 July 2016. 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.

The rating request was submitted by Grammer AG on 13 April 2015. The company was visited on 11 and 12 April 2016. This rating report was presented to the client on 21 July 2016, meaning that the rating process has now been concluded. The notation proposal and the report on which it was based were reviewed by the Rating Committee on 21 July 2016 and approved in their current form. If this rating is not made public, the rating refers to this date. If the rating assessment is published on the rating agency's website (www.eulerhermes-rating.com), it will be followed by a subsequent one-year monitoring process. During this period, the company and the environment in which it operates remain under observation. The rated company is subject to unrestricted disclosure obligations during this period. Any change in the rating agency's assessment will result in a change in the published rating, meaning that the rating as shown on the internet represents the current rating assessment at all times. Continued publication after the expiry of the monitoring period is contingent upon a follow-up rating being conducted.

The client is solely and exclusively liable for any errors or omissions in the documents and information supplied openly and willingly in response to our requests for information. The client has reviewed the rating report and confirms that all of the information which it contains is correct and complete in all significant respects, that no major aspects have been concealed and that any forward-looking statements which it may include are based on plausible, verifiable and current data and have been prepared by the client with the diligence of a prudent businessman. However, the client cannot be held liable if actual results differ from the forward-looking statements, in particular the projections, presented in this document. Changes in the economic environment and unforeseen events may impair the validity of the forward-looking statements and projections.

The rating report may not be construed as constituting a recommendation to participate in certain facilities. All recipients of the information should conduct their own independent analyses, credit assessments and other reviews and evaluations which are customary and necessary to reach a final decision about the participation in certain facilities. It should be noted that the summaries of contracts, legislation and other documents included in the report are no replacement for examination of the corresponding full texts. As of the date on which this information is published, it is not possible to guarantee that the information has not changed since being collected and that all information provided is still valid. The client is under no obligation to update the information.

The publication of this rating report may be prohibited by law in certain jurisdictions. The client therefore requests that any persons who gain possession of this information enquire about and comply with any such restrictions. The client does not assume any liability of any kind towards anyone with respect to the dissemination of this rating report in any jurisdiction whatsoever.

The client's management has submitted to Euler Hermes Rating GmbH a written letter of representation.

We have prepared this report to the best of our abilities and knowledge.

Euler Hermes Rating GmbH

Hamburg, 21 July 2016

Analysts

Holger Ludewig, director and project manager
Katia Drummen, junior analyst

Rating committee

Kai Gerdes, director
Matthias Peetz, analyst

Principal sources of information

- Consolidated financial statements for 2013, 2014 and 2015
- Extracts from internal reports
  (e.g. business performance in 2016, list of financial liabilities etc.)
- Market analyses
- Strategy paper and corporate planning
- Documents on corporate structure
- Interviews with management

Rating methodology

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

EULER HERMES Rating

Appendix 1: Rating notations

Category	Explanation
AAA	AAA rated companies demonstrate an excellent credit quality. Such companies are characterized by an extremely positive future outlook and are viewed as being “first class” business partners. Although the various security elements can certainly change, such changes - to the extent this can be assessed - are highly unlikely to adversely affect the fundamentally strong position of such companies.
AA	AA rated companies demonstrate very high quality with respect to future security. Along with the AAA rated companies, this group forms the so-called “quality class.” Security margins may, however, be comparatively thinner, the solidity of the security elements may fluctuate more or individual assessment components may indicate a greater long-term risk than is the case for AAA rated companies.
A	A rated companies demonstrate high quality with respect to future security. They show many favourable features which secure their future. Nevertheless, there may be isolated factors which reveal a slightly in-creased susceptibility to the worsening of circumstances and general economic conditions in the future.
BBB	BBB rated companies demonstrate reasonable quality with respect to future security. Compared to A rated companies, however, it is more likely that worsening of general economic conditions could weaken the capability of fulfilling financial obligations.
BB	BB rated companies still have structures adequate to secure their future. Yet they are subject to greater insecurities. Negative business developments or changes in the general financial and economic conditions can make it impossible for them to fulfil their financial obligations in a suitable manner.
B	B rated companies lack the usual structures to secure their future. Negative business developments or changes in the general financial and economic conditions will most likely make it impossible for them to fulfil their financial obligations in a suitable manner.
CCC	CCC rated companies have structures which greatly endanger the security of their future. Capital service is in jeopardy. Such a company is dependent on a favourable development of general economic conditions if it is to be able to meet its financial obligations in the long term.
CC	Companies receiving a CC rating have very little security for their future. Capital service is in great jeopardy.
C	C rated companies have the least future security of all. The basic conditions enabling such debtors to fulfil their financial obligations are extremely poor. Default is imminent.
D	Companies with a D rating are already in default of payment or have filed for bankruptcy. The D rating is irrelevant for the future; it documents solely the bankruptcy of the company.
SD	If an issuer defaults with respect to a certain financial liability or class of liabilities but is still able to honour its payment obligations under other financial liabilities or classes of liabilities within the requisite period, it is assigned SD (selective default) status.
NR	A debtor or an issuer not rated by Euler Hermes Rating is classified as NR (Not Rated).
PLUS (+) **MINUS (-)**	Rating notations from AA to CCC may be complemented by a PLUS (+) or MINUS (-) if required, in order to show their relative position within the respective rating category.

Appendix 2: Definition of 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 capital

Cash flow return on investment

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

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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