Summary of the
Rating Report

Grammer AG

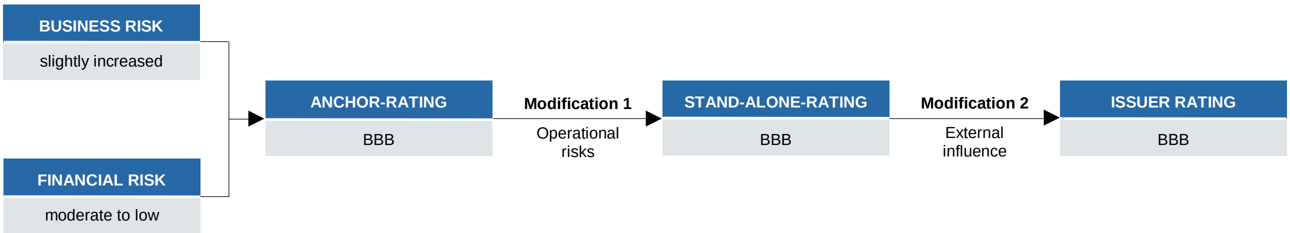
18 May 2018

EULER HERMES
Rating

A company of Allianz

Issuer Rating

Grammer AG		**18 May 2018** / **Issuer rating**	**BBB**
		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 2017	€ 1.8 billion
		Employees 2017	12,947



BUSINESS RISK	**slightly increased**

- Key markets offer medium- to long-term growth, but are cyclic and highly competitive
- Strong market position and strong growth in the *Commercial Vehicles* segment, *Automotive* segment with slight growth after high increases in previous years
- Good positioning due to development and production capacities in the most relevant global markets

OPERATIONAL RISKS	**- 0**

- Operating risks well managed

FINANCIAL RISK	**moderate to low**

- 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**

- No relevant external influence

Key financial ratios	**2015**	**2016**	**2017**
EBITDA margin (%)	5.8	7.1	6.9
Return on capital employed (ROCE) (%)	9.9	17.1	16.5
Equity ratio (%)	23.9	24.1	29.3
Debt to equity ratio (%)	46.2	42.1	28.4
Total liabilities / EBITDA	8.9	6.5	6.3
Net financial liabilities / EBITDA	2.4	1.5	1.0
EBIT interest coverage	5.2	6.9	8.8
EBITDA interest coverage	10.2	11.4	14.7

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. 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. Grammer aims to continue reducing its dependence on German OEMs in the premium sector by further diversifying its customer portfolio. 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 *Commercial Vehicles* segment in the 2017 financial year due to the strong demand for trucks, construction machinery and forklifts. The *Automotive* segment also generated revenue growth, resulting from increases in the console business, China and North America. New-order volume from German OEMs in the *Automotive* segment showed a decline due to uncertainties regarding the developments of the shareholder structure. This was partly offset by the acquisition of new customers outside Germany. Subsequently, the profit margins were adversely affected by uncovered costs of development and sales as well as one-off costs related to legal and advisory fees. We rate Grammer AG's earnings stability as satisfactory. Economic equity increased as a result of the issuance of a mandatory convertible bond. Due to the reduction of financial debt and the increase of liquid funds, net financial liabilities could be decreased. We rate Grammer AG's capital structure and debt ratios as satisfactory to highly 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. 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	21.03.2013-02.08.2017	18.05.2018
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 (*Commercial Vehicles* segment). In the 2017 financial year, Grammer generated € 1.8 billion in group revenue with 12,483 employees (average for the year), with 70.5 % of the revenue coming from the *Automotive* segment and 29.5 % from *Commercial Vehicles*. Grammer AG has over 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 68.8 % of revenue, followed by the Americas (North and South America) and APAC (Asia Pacific), each representing 15.7 %.

Leading market position in seats for offroad vehicles

Grammer is a global market leader in the ***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 *Commercial Vehicles* 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 € 540.2 million in revenue and € 45.9 million in EBIT (EBIT margin: 8.5 %) in 2017 with 3,737 employees (end-of-year headcount). Its competitors include Sears Seating in the offroad segment and Isringhausen and Adient in the truck segment.

Relatively small provider with rapid growth in the automotive segment

The ***Automotive* segment** generated € 1,291.2 million in revenue and € 40.7 million in EBIT (EBIT margin: 3.2 %) with 8,931 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 *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.

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 currently holds 25.51 % of the shares and is a strategic partner of Grammer AG. 18.34 % of the shares are held by members of the Hastor family through Cascade International and HALOG GmbH & Co. KG. 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

Notice

This report represents a highly abridged summary of the complete rating report issued on 18 May 2018. The full rationale for the rating notation is given in the complete rating report that was presented to the company and has not been published by Euler Hermes Rating GmbH.

Analysts

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

Rating committee

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

Principal sources of information

- Consolidated financial statements for 2015, 2016, 2017
- Internal reporting
  (z. B. business development 2017, financing overview, etc.)
- Market analyses
- Information on strategy and company planning
- Documents on the corporate structure
- Interviews with the management

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 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 3: 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

Disclaimer

Grammer AG (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 19 June 2016. The company was visited on 23 April 2018.

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 18 May 2018. This rating report was given to the client on 06 June 2018, thereby concluding the rating process.

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Hamburg, 06 June 2018