ScopeHamburg

Issuer rating

Grammer AG		22 June 2021 / Issuer rating	BB+
		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 in 2020	€ 1,710.7 mn
		Employees in 2020	14,192

BUSINESS RISK: Slightly increased
FINANCIAL RISK: Moderate / slightly increased

→ **ANCHOR RATING**: BB+ → **Modification 1** (Operational risks) → **STANDALONE RATING**: BB+ → **Modification 2** (External influences) → **ISSUER RATING**: BB+

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-proof product portfolio in conjunction with global development and production capacity

OPERATIONAL RISKS	± 0

- Operational risks are generally managed in a manner commensurate with the rating

FINANCIAL RISK	Moderate to slightly increased

- Good financial base and financial flexibility
- Earning power is temporarily weakened, expected to be satisfactory in the medium term
- Satisfactory capital structure

EXTERNAL INFLUENCES	± 0

- No external influences of relevance for the rating

Key financial ratios *	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual	2020 actual
EBITDA margin (%)	5.8	7.1	6.9	6.8	8.1	2.7
Return on capital employed (ROCE) (%)	9.9	17.1	16.5	12.6	11.6	-6.8
Equity ratio (%)	23.9	24.1	29.3	20.5	22.4	20.3
Debt to equity ratio (%)	46.2	42.1	28.4	51.6	54.1	57.8
Total liabilities / EBITDA	8.9	6.5	6.3	8.8	6.6	22.5
Net financial liabilities / EBITDA	2.4	1.5	1.0	2.4	2.2	7.9
EBIT interest coverage	5.2	6.9	7.9	6.9	4.3	-2.0
EBITDA interest coverage	10.2	11.4	13.8	11.8	8.8	2.1

* Adjusted based on the principles of analysis of Scope Hamburg

Rating rationale

Scope Hamburg GmbH (henceforth referred to as "Scope Hamburg") reaffirms Grammer AG's BB+ rating. The rating outlook has improved from negative to stable. In Scope Hamburg's view, key factors are the stabilising order book and fundamental economic conditions.

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

In our view, Grammer AG continues to have a **slightly increased business risk**. This assessment factors in the global growth prospects for cars and commercial vehicles that we expect over the medium to long term, the cyclical sensitivity of the business model and the high competitive and innovative pressure typical of the sector. In our estimation, the integration of Toledo Molding & Die, Inc. (TMD) recently 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. The company's new management updated the strategy and realigned the organisation, 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. Following the implementation of the initiated strategic measures, we expect the company to be better able to counteract the increased sector volatility overall in the future.

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

We continue to consider Grammer AG's **financial risk** to be **moderate to slightly increased.** Following initial implementation wins from the initiated reorganisation, earning power and profitability gradually improved, reaching a satisfactory level by our standards by 2019. 2020 was strongly impacted by special pandemic-related factors. We expect profitability and key figures to improve and stabilise at a highly satisfactory level in the medium term as the imminent economic recovery accelerates in the core markets and the company benefits from the cost-cutting and efficiency-boosting measures that it stepped up again in 2020. Capital strengthening measures kept the capital structure satisfactory by our standards despite the challenges and business slowdown caused by the pandemic. Deleveraging potential and interest coverage ratios, on the other hand, were weak as the pandemic weakened earning power. In the medium term, we expect the key figures to gradually improve to the kind of satisfactory to highly satisfactory level that is typical for the company. While market volatility may still increase slightly from time to time in the short term, we rate Grammer AG as solidly financed overall in the medium term and its financial flexibility as good.

No modifications to the anchor rating

We believe the operational risks are consistent with the anchor rating. We currently see no increase in corporate governance risk from the majority shareholder, Ningbo Jifeng (China). A far-reaching investor agreement was signed that protects creditors and bans the misappropriation of borrowed funds. Extensive support was also provided during the pandemic, including dividend waivers, shareholder loans and a capital increase, which has had a positive impact on the rating. There are no external factors of relevance to the rating. Therefore, no modifications were made to the anchor rating.

Upgrade / downgrade factors

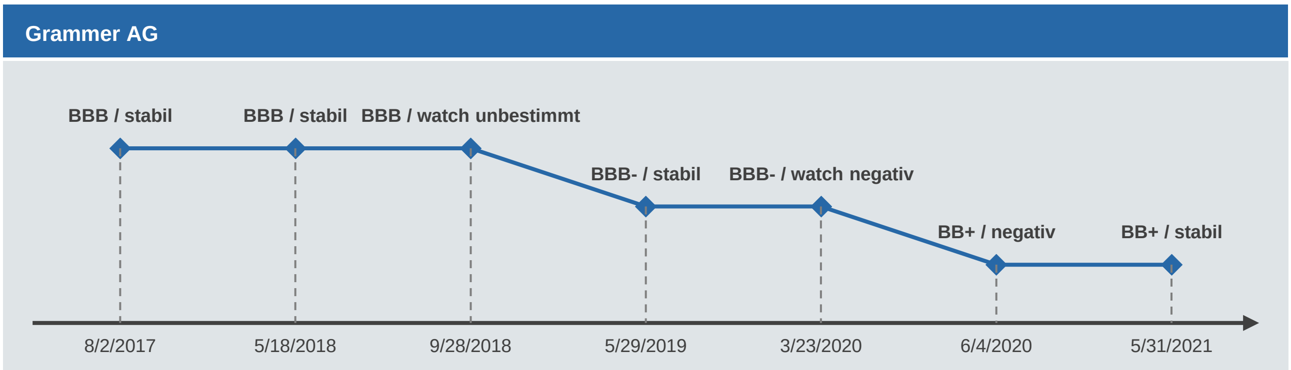
Factors that could lead to an upgrade

- 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
- Scope Hamburg adjusted EBITDA margin sustainably above 9%
- Lasting improvement in deleveraging potential (Scope Hamburg adjusted net debt / EBITDA less than 2.0)
- Lasting increase in the cash flow basis and positive free cash flow performance

Factors that could lead to a downgrade

- Significant decline in market share in core markets
- Scope Hamburg adjusted EBITDA margin sustainably below 7%
- Lasting deterioration in deleveraging potential (Scope Hamburg 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 2020 financial year, Grammer and its 14,192 employees (average for the year) generated € 1.7 billion in group revenue in the Automotive (revenue share: 69.1%; 2019: 70.9%) and Commercial Vehicles (revenue share: 30.9%; 2019: 29.1%) divisions. Grammer AG has 48 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 52.9% of revenue (2019: 54.7%), followed by the Americas at 27.8% (2019: 29.9%) and APAC (Asia Pacific) at 19.3% (previous year: 15.4%).

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 3,488 employees (end-of-year headcount) of this division generated € 544.5 million in revenue and € 24.8 million in EBIT (EBIT margin: 4.6%) in 2020. 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 10,484 employees generated € 1,219.3 million in revenue and € -61.6 million in EBIT (EBIT margin: -5.1%) 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. The Executive Board of Grammer AG consists of Mr Thorsten Seehars (CEO), Ms Jurate Keblyte (CFO) and Mr Jens Öhlenschläger (COO).

Execution

Analysts

- Joerg F. Walbaum, Senior Analyst (Lead Analyst)
- Nils Weinhold, Senior Analyst

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Rating comittee

- Kai Gerdes, Director
- Matthias Peetz, Senior Analyst

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

[x] Solicited Rating

[ ] Unsolicited Rating

[ ] No participation of the rated entity or related third party

With participation of the rated entity or related third party

[ ] Access to internal documents

[ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Consolidated financial statements for 2018, 2019, 2020
  - Internal reporting (e.g. business development 2021, financing overview, etc.)
  - Market analyses
  - Information on strategy and company planning
  - Documents on the corporate structure
  - Interviews with the management

Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016
- Basic Principles for Assigning Credit Ratings and Other Services as of July 2020
- Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020

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Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is immi-nent.
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 as of July 2020]

Appendix 3: 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

Grammar AG (client and rated entity) engaged Scope Hamburg GmbH to conduct a rating on 06/19/2016. The virtual company visit was on 04/07/2021.

The Rating Committee of Scope Hamburg GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 05/31/2021 and 06/22/2021. This rating report was given to the client on 06/23/2021, 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 Scope Hamburg 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. Scope Hamburg 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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Scope Hamburg GmbH

Hamburg, 06/23/2021