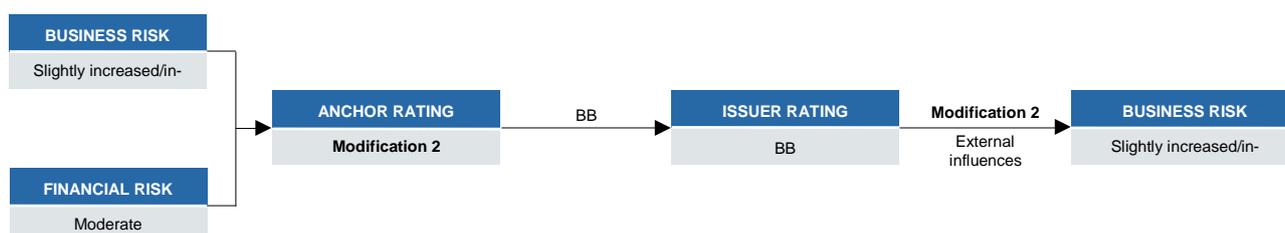


Issuer rating

Hörmann Industries GmbH (Hörmann)		23 October 2019	BB
		Issuer rating	
		Outlook	Stable
Industry	Metallic components, modules and systems for commercial vehicles and cars, services for communication and siren systems, commercial real estate and intralogistics projects, instrumentation	Revenue in 2018	€ 624.1 mn
		Employees in 2018	3,175



BUSINESS RISK	Slightly increased to increased
<ul style="list-style-type: none"> Limited diversification due to dependence on European commercial vehicle market and (large) customers Slightly increased to increased sector volatility in industry portfolio due to cyclical dependencies and intense competition Structural adaptability limited by group complexity and large weight of capital-intensive Automotive division 	

OPERATIONAL RISKS	± 0
<ul style="list-style-type: none"> Integration risks Complex group structure Consistent with the anchor rating overall 	

FINANCIAL RISK	Moderate
<ul style="list-style-type: none"> Earnings power at the lower end of 'satisfactory' range Good capital structure Good financial flexibility 	

EXTERNAL INFLUENCES	± 0
<ul style="list-style-type: none"> Neutral external influence from the Hörmann Group 	

Financial ratios*	2016 actual	2017 actual	2018 actual
EBITDA margin (%)	6.8	6.4	6.6
ROCE (%)	24.0	24.3	29.6
Equity-to-total assets ratio (%)	27.9	27.5	30.4
Leverage (%)	0.0	0.0	0.0
Total liabilities / EBITDA	6.6	6.2	5.0
Net debt / EBITDA	0.0	0.0	0.0
EBIT interest coverage	3.4	6.6	10.2
EBITDA interest coverage	5.5	11.6	15.8

* Adjusted based on EHRG's analytical policies

Rating rationale

Euler Hermes Rating assigns a BB rating to Hörmann Industries GmbH. We expect the rating to remain stable over the next twelve months.

Slightly increased to increased business risk due to dependence on volatile markets as well as individual segments and customers

We view Hörmann Industries GmbH as having a **slightly increased to increased business risk**. The sub-group of a heterogeneous corporate group, Hörmann primarily serves cyclical to highly cyclical industries. Its business is dominated by the Automotive division, which accounts for around 68.0 % of total revenues. The overall market risk for the Hörmann Industries portfolio is between slightly increased and increased. To put this in context, we would describe the market risk for Tier 1 suppliers to the commercial vehicle market as increased due to moderate medium- to long-term growth opportunities, cyclical sensitivity and our expectation that margin pressures will grow. In our view, the market environment for the Engineering division and the industrial construction and logistics business segments faces increased to slightly increased sector volatility. We have a more positive view of the market risk for the Communication division, which we rate as moderate to slightly increased. We believe Hörmann Industries GmbH's strategic risks include a slightly increased concentration risk due to its regional focus on the European market and its dependence on large customers served by its dominant Automotive division. The group plans to progressively reduce its dependence by improving its overall diversification profile in the medium term and growing its attractive Engineering, Communication and Services divisions at an above-average pace through organic and inorganic growth.

Moderate financial risk due to good capital structure and financial flexibility

We rate Hörmann Industries GmbH's **financial risk** as **moderate** and mainly driven by the group's marginally satisfactory earnings power, good capital structure and internal financing capability. The group plans to strategically grow its non-automotive divisions, which we expect will increasingly diversify its revenue and income streams, produce a stabilizing effect in the future and progressively lower its reliance on the low-margin Automotive division. We expect (net) debt to increase over the medium term as it executes its planned growth strategy, causing debt and deleveraging ratios to weaken slightly but nonetheless remain consistent with a moderate level of financial risk. Overall, the Hörmann Group is solidly financed, in our view. We rate the group's financial flexibility as good based on its existing credit lines, available cash and ability to liquidate certain assets (Funkwerk AG) if needed. The group has diversified funding sources.

No modifications to the anchor rating

Operational risks exist, in our opinion, in the form of integration risks from the acquisition strategy, complex group structure and high capital intensity in the core Automotive division. On balance, however, we feel the risks are consistent with the anchor rating. As far as external influences are concerned, the group has financial ties to the Hörmann Group. However, they have been adequately taken into account through analytical adjustments in the financial analysis and are thus already reflected in the anchor rating. We have therefore not modified the anchor rating.

Rating history

	28/10/2014	03/06/2015 - 28/10/2015	11/10/2016 - 22/10/2019
Rating	BB	BB-	BB
Outlook	Negative	Stable	Stable

Company

Hörmann Industries subgroup comprises four divisions

Hörmann Industries GmbH, as the parent company of a subgroup of Hörmann Holding GmbH & Co. KG (the “Hörmann Group”), consists of various companies in the Automotive, Communication, Engineering and Services divisions. With € 624.1 million in sales revenues, an EBIT of € 25.1 million and 3,175 employees, Hörmann Industries GmbH makes up the bulk of the Hörmann Group.

Automotive segment dominates sales revenues

The **Automotive** division contributes the largest proportion of revenues in the Hörmann Industries subgroup at € 423.9 million (percent of consolidated revenues: 67.9 %, PY: 71.9 %). The division mainly consists of the production of metallic components, modules and systems for trucks, buses and construction and agricultural equipment. The Hörmann Group is a leading European supplier of frame rails for heavy-duty trucks. The Hörmann Industries subgroup’s most important customer is MAN Truck & Bus AG (“MAN”), a member of the VW Group and responsible for over 40% of the subgroup’s sales revenues. Other customers include Daimler and EvoBus. It has seven production sites in Germany (Gustavsburg, Penzberg, St. Wendel, Saarbrücken, Bielefeld, Eislingen and Wackersdorf) and a site in Banovce, Slovakia.

MAN is by far the largest customer

Real estate and intralogistics projects

The **Communication** division generates € 96.1 million in sales revenues (15.4 %, PY: 17.6%). The **Engineering** division contributes another € 65.6 million (10.5%, PY: 6.4 %). The **Services** division, established in the first half of 2017, generated € 38.5 million in sales revenues and thus accounted for 6.2 % of total revenue. The **Engineering** division mainly provides design and engineering services for commercial real estate projects and general contractor services for the construction of automated high-bay warehouses and other intralogistics projects. This division also includes VacuTec Messtechnik GmbH, which develops, manufactures and sells ionizing radiation detectors for medical applications and other uses. The **Communication** division provides communication and siren systems and related services. It has also been assigned a majority stake (78 %) in Funkwerk AG, a listed provider of information, communication and security systems that mainly supplies railway and public transport companies. Hörmann **Services** GmbH provides technical services for the industrial and public sectors.

Communication and siren systems, technical services

Group’s beginnings date back to 1955

The Hörmann Group started out as an engineering firm for lightning protection systems that Dipl.-Ing. Hans Hörmann established in 1955. Since 2003, the group has been building up the Automotive division by acquiring various companies that manufacture metallic vehicle components. In 2011, Hörmann Industries GmbH was established, and the companies of the various divisions were incorporated into it, producing the present-day subgroup.

Complex group structure

The shares in Hörmann Holding GmbH & Co. KG are held by members of the Hörmann family. Hörmann Holding GmbH & Co. KG holds 85.0 % of the equity in Hörmann Industries GmbH via Hörmann Beteiligungsholding GmbH, an intermediate holding company. The other 15.0 % of the equity in Hörmann Industries GmbH is held by Hans Hörmann Holding GmbH & Co. KG. The managing directors of Hörmann Industries GmbH are Dr.-Ing. Michael Radke and Johann Schmid-Davis. The holding company’s advisory board is composed of Dipl.-Ing. Hans Hörmann (chairman), Prof. Dr.-Ing. Franz Breun, Dipl.-Ing. Siegfried Bülow, Dr. Günter Rommel and Heinz Runte.

The rating subject is Hörmann Industries GmbH with its subsidiaries.

Execution

Analysts

- Joerg F. Walbaum/Lead-Analyst und Projektleiter
- Robin Rabe, Rating Analyst

Ratingkomitee

- 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 (+) 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 (= 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

Hörmann Industries GmbH engaged Euler Hermes Rating GmbH to conduct a rating on 09/09/2019. The company was visited on 17/09/2019.

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 23/10/2019. This rating report was given to the client on 24/10/2019, thereby concluding the rating process.

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Euler Hermes Rating GmbH

Hamburg, 24/10/2019