Hörmann Industries GmbH
Germany, Industrial Conglomerate

STABLE
BB

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	7.4x	10.3x	8.6x	8.6x
Scope-adjusted debt/EBITDA	1.4x	1.3x	1.9x	1.8x
Scope-adjusted funds from operations/debt	63%	49%	33%	37%
Scope-adjusted free operating cash flow/debt	20%	9%	-19%	20%

Rating rationale

Hörmann's BB issuer rating is based on its B+ business risk profile and BBB- financial risk profile. The following factors support the rating: a good financial risk profile; a good positioning in the profitable niche rail communication market; and a diversified product offering. The following factors constrain the rating: relatively weak market position and weak profitability in automotive, the group's largest segment with 57% of its revenues in 2021; a heavy reliance on subsidiary Funkwerk for cash flow and profitability; a dependency on individual customers; weak end-market diversification; and a weak international presence.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Hörmann will grow its revenues in 2023, driven in particular by higher volumes from truck customers, recently negotiated price increases, and the finalisation of major projects in its Intralogistics division, although at a lower profitability. The Outlook also reflects our expectation that Scope-adjusted free operating cash flow will turn positive in 2023 after being negative in 2022, supported by lower net working capital. The Outlook takes into account our expectation that leverage as measured by Scope-adjusted debt/EBITDA will remain at around 2.0x in 2022-24 and that Hörmann can refinance its EUR 50m bond due in 2024.

A positive rating action is possible if Hörmann's financial risk profile improved, e.g. driven by a Scope-adjusted debt/EBITDA ratio moving to around 1.5x, bolstered by higher profitability in automotive or a return to significantly positive and steady free operating cash flow. Alternatively, a positive rating action could be warranted by an improved business risk profile, e.g. through an improved profitability on the group level.

Scope may consider a negative rating action if Scope-adjusted debt/EBITDA were sustained at around 2.5x, which could result from lower profitability, the aggressive use of liquidity for M&A or a worsening of Funkwerk's strong market position.

Rating history

Date	Rating action	Issuer rating & Outlook
28 March 2023	New	BB/Stable

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BB

Analyst

Gennadij Kremer
+49 69 6677389 84
g.kremer@scoperatings.com

Related Methodology and Related Research

General Corporate Rating Methodology; July 2022

European Automotive Suppliers Rating Methodology; February 2023

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Positive rating drivers	Negative rating drivers
• Good positioning in a profitable niche communications market, especially through subsidiary Funkwerk • Diversified product offering • Strong leverage as measured by a Scope-adjusted debt/EBITDA ratio of around 1.5x in 2019-21 and around 2.0x expected for 2022-24	• Relatively weak position in automotive, the group's largest segment with 57% of group revenues in 2021 • Weak profitability in automotive, the biggest contributor to group revenues, reflected in a reported EBIT margin of less than 1% in 2017-21 • Heavy reliance on one subsidiary (Funkwerk) regarding cash flow and profitability • Volatile and weak cash flow cover • Customer concentration: top three accounted for more than 35% of revenues in 2022 • Weak end-market diversification and international presence

Positive rating-change drivers	Negative rating-change drivers
• Improved financial risk profile, e.g. driven by a Scope-adjusted debt/EBITDA ratio moving to around 1.5x, bolstered by higher profitability in automotive or a return to significantly positive and steady free operating cash flow • Improved business risk profile, e.g. through an improved profitability on the group level	• Scope-adjusted debt/EBITDA sustained at around 2.5x, which could result from lower profitability, the aggressive use of liquidity for M&A or a worsening of Funkwerk's strong market position

Corporate profile

Hörmann was founded in 1955 as an engineering firm offering lightning protection systems. The company has since grown to a conglomerate of 36 companies, which are split into four business divisions:

- Automotive: the division specialises in the production of frame mounting parts (e.g. tubular cross members, bumpers, coupling plates and cross beams), body-in-white components (e.g. roof panels, bottom plates and side panels), longitudinal frame members, and modules and chassis.
- Communication: Funkwerk AG, owned 78% by Hörmann, accounts for more than 70% of the segment's revenues. Funkwerk offers train radio modules for railways and public transport companies using analogue and digital mobile networks (LTE, GSM-R); display and information systems for transport operators, municipalities and cities; and video security applications for building and process monitoring. Siren systems and services generated EUR 30m-50m of revenues.
- Intralogistics: This division was founded in the first half of 2017 and reorganised/renamed in 2022. Most the division's revenue (around EUR 60m) comes from activities as a general contractor in the planning and realisation of automatic high-bay warehouses and miniload or tray warehouses as well as in the modernisation of existing facilities during ongoing operations.
- Engineering: After a reorganisation in 2022, the division focuses on engineering services such as structural design and solutions in technical building equipment, the planning and realisation of new factories, the re-engineering and/or relocation of existing factories, and the design engineering for the development of rail and road vehicles. Around EUR 10m-15m of divisional revenues are generated by the development and production of detectors for measuring ionising radiation for use in medicine.

The group is headquartered in Kirchseeon, Germany and has locations in Austria, Poland, the Czech Republic and Slovakia. The group has over 2,700 employees and reported EUR 590m in revenues and EUR 45m of EBITDA in 2021. Hörmann Industries GmbH is an indirect subsidiary of Hörmann Holding GmbH & Co. KG (85%) and a direct subsidiary of Hans Hörmann Holding GmbH & Co. KG (15%), whose company shares are held by the Hörmann family.

Financial overview

				Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	10.5x	7.4x	10.3x	8.6x	8.6x	8.1x
Scope-adjusted debt/EBITDA	1.6x	1.4x	1.3x	1.9x	1.8x	1.7x
Scope-adjusted funds from operations/debt	51%	63%	49%	33%	37%	42%
Scope-adjusted free operating cash flow/debt	-3%	20%	9%	-19%	20%	1%
Scope-adjusted EBITDA in EUR m						
EBITDA	35.6	25.5	45.3	35.3	37.0	45.6
add: operating lease payments in respective year	15.1	14.0	10.0	14.0	14.0	14.0
Scope-adjusted EBITDA	**50.7**	**39.5**	**55.3**	**49.3**	**51.0**	**59.6**
Funds from operations in EUR m						
EBITDA	35.6	25.5	45.3	35.3	37.0	45.6
less: (net) cash interest paid	-1.9	-3.1	-3.4	-3.4	-3.6	-5.0
less: cash tax paid per cash flow statement	-4.7	-6.0	-13.7	-10.5	-9.2	-11.8
less: pension interest						
add: depreciation component, operating leases	12.1	11.7	8.1	11.6	11.6	11.6
add: provisions	6.1	13.8	4.0	-2.7	-2.9	1.3
less: profit on disposals	-0.1	-0.1	-0.7			
Other[1]	-4.5	-7.7	-4.4			
Funds from operations	**42.6**	**34.1**	**35.2**	**30.3**	**33.0**	**41.7**
Free operating cash flow in EUR m						
Operating cash flow	11.0	25.2	17.7	-10.7	34.9	12.0
less: capital expenditure (net)	-13.5	-14.2	-11.3	-7.0	-16.8	-11.2
Free operating cash flow	**-2.5**	**11.1**	**6.4**	**-17.7**	**18.1**	**0.9**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	1.9	3.1	3.4	3.4	3.6	5.0
add: interest component, pensions						
Net cash interest paid	**1.9**	**3.1**	**3.4**	**3.4**	**3.6**	**5.0**
Scope-adjusted debt in EUR m						
Reported gross financial debt	50.0	60.0	59.4	57.6	55.1	52.5
less: cash and cash equivalents	-64.8	-83.2	-93.7	-72.8	-71.9	-60.1
add: non-accessible cash	18.8	26.3	38.0	38.0	38.0	38.0
add: pensions	18.8	21.2	21.2	21.2	21.2	21.2
add: operating lease obligations	60.4	30	47.3	47.3	47.3	47.3
Scope-adjusted debt	**83.2**	**54.3**	**72.2**	**91.3**	**89.7**	**98.9**

[1] Other items in the FFO include other non-cash operating items

Table of Content

Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

We did not identify any ESG-related factors of immediate relevance to the credit rating.

Social risks are moderate, arising from the company's ability to attract and retain skilled and talented technical and engineering employees to remain competitive in a developing technology environment.

Governance risks relate to the potential for conflicts of interest as no advisory or supervisory board is in place. The shareholders' meeting constitutes the highest management body. The shareholders' meeting decides on all matters relating to business operations, with resolutions generally requiring a simple majority unless stipulated by law or the articles of association. As a rule, the shareholders' meeting is convened once a year (i.e. annual general meeting). The shareholders of Hörmann Industries GmbH are Hörmann Beteiligungsholding GmbH (85%) and Hans Hörmann Holding GmbH & Co. KG (15%). Further, Dr Michael Radke (Hörmann Industries GmbH's CEO) and Johann Schmid-Davis (Hörmann Industries GmbH's CFO) are also managing directors with the sole power of representation of Hörmann Beteiligungsholding GmbH and Hörmann Verwaltungs GmbH (managing general partner of Hörmann Holding GmbH & Co. KG).

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: B+

Good position in profitable niche communications market

Hörmann's business risk profile reflects a moderate market position, supported in particular by its good position in a profitable niche communications market, especially through subsidiary Funkwerk.

Funkwerk is Europe's largest supplier of mobile GSM-R train radio systems

Funkwerk is by far the largest subsidiary in the Communication segment, generating 70% of the segment's revenues, mostly by its provision of train radio modules for railways and transport companies using analogue and digital mobile radio networks (LTE, GSM-R). The digital train radio network GSM-R (Global System for Mobile Communication for Railways) is the communication standard in European rail. Funkwerk is the largest supplier of GSM-R train radio systems in Europe, with a market share of around 75%. This is a niche market generating only EUR 40m-45m in revenues, which keeps out large companies such as Siemens or Alstom.

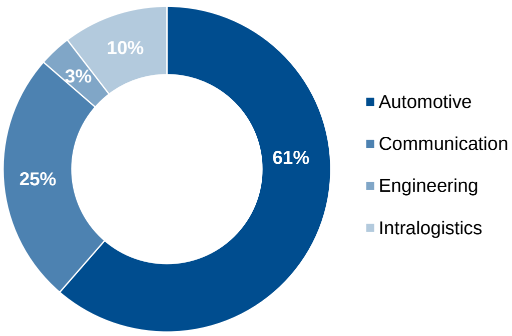
FRMCS introduction could negatively impact Funkwerk's market position in the long-term

However, GSM-R will be gradually replaced by FRMCS as the standard rail communications system. For instance, Deutsche Bahn plans to introduce FRMCS between 2026 and 2035. Since the basic components for FRMCS have to be newly developed (different frequencies to GSM-R; different system architecture), various companies are looking to enter this market. We expect Funkwerk can leverage off its currently high customer penetration to take a share of this market. Even so, FRMCS will change the competitive landscape and could have a negative impact on Funkwerk's market position in the long term. In the medium term, until the migration from GSM-R to FRMCS is complete, both systems are likely to operate in parallel. Moreover, countries such as Spain and Poland are just upgrading to GSM-R and will probably only accompany FRMCS from an observer position for the time being.

Weak position in Automotive

Hörmann's overall market position is restrained by the relatively weak position in Automotive, the group's largest segment with 57% of revenues in 2021.

Figure 1: 9M 2022 revenue split by division



Sources: Hörmann, Scope

Figure 2: Group revenue by product category, 2021

Product category	Revenue EURm	% of total revenue
Automotive parts	334	57%
Frame mounting parts	97	17%
Body-in-white components	87	15%
Longitudinal frame members	50	9%
Module & chassis	47	8%
Flaps & tanks	13	2%
Other	40	7%
Train radio modules	83	14%
Engineering services	75	13%
Siren systems	25	4%
Display and information systems	20	3%
Video systems	20	3%
Conveyor systems	15	3%
Detectors	15	3%
Total		**100%**

Sources: Hörmann, Scope

Weak Automotive profitability indicates weak pricing power

We note in particular the very weak profitability reflected in an EBIT margin of less than 1% in 2017-21, which we consider indicative of weak pricing power. Yet, Hörmann's main competitors are only marginally better with EBIT margins of 3-5%. We attribute this low profitability to competitive pressure from lower-cost companies from Eastern Europe.

Relatively diversified product offering is a rating support

Hörmann's business risk profile is supported by a relatively diversified product offering, which ranges from automotive parts to radio modules for railway companies, display and information systems for railway companies, airports and local public transport services, professional video systems for process and building surveillance, siren systems for warning populations of disasters, conveyor systems for industry, airports, mail sorting centres and detectors for measuring ionising radiation for use in medicine. The company also provides technical services such as the planning and implementation of automatic high-bay warehouses, the planning and realisation of new factories, the re-engineering and/or relocation of existing factories and facilities, and the design engineering for the development of rail and road vehicles. Although automotive parts accounted for 57% of total revenues in 2021, the products are also somewhat diversified.

Low share of aftermarket business

On the negative side, the aftermarket business, which usually has lower volatility and higher profitability, is very small, accounting for less than 5% of total revenues (mainly maintenance and service of products and systems supplied under Communication).

Dependency on individual customers

Diversification is also held back by the dependency on individual customers. The largest single customer, MAN Truck & Bus SE, accounted for around 40% of Automotive revenues in 2022 and 22% of group revenues. The second largest, Daimler, accounted for 13% of Automotive revenues and 6% of group revenues. Having said that, we believe that the risk of substitutability by MAN or Daimler to be rather low due to the mutual dependence. Hörmann is a single-source supplier of extra-long chassis side members for MAN and the double-source supplier for Daimler. Furthermore, Hörmann is a single-source supplier of various body parts for MAN and Daimler, especially for the driver's cab. Outside of Automotive, the customer structure is more granular. Deutsche Bahn is the largest customer with a share in total revenues of around 8%.

Low end-market diversification

End-market diversification is another restraining factor as around 74% of total revenues are exposed to only two sectors: the cyclical automotive market (around 57%) and railway (around 17% of revenues, based on our estimates). The remaining 25% of total revenues are spread across public transport, buildings, public spaces, industrial properties and facilities, shipping and airports, parcel distribution centres, and hospitals.

Weak international presence

Hörmann has a weak international presence as Germany accounts for around 67% of total revenues in 2021. We believe this is due to the Automotive and Engineering/Intralogistics divisions. Communication, on the other hand, is much more internationally oriented, with around 50% of its revenues generated outside of Germany, mainly in other European countries.

Low operating profitability

With a Scope-adjusted EBITDA margin of between 7-10% in 2017-21, Hörmann's low operating profitability in a peer group context is another restraining factor for its business risk profile. This is due to the weak profitability of Automotive, Hörmann's largest division in terms of revenues, reflected in a reported EBIT margin of less than 1% in 2017-21. Automotive EBIT was negative in 2020-21, mainly due to the 28% drop in revenues YoY, costs triggered by the Covid-19 pandemic in 2020 and price increases for materials in 2021.

Automotive revenues are driven in particular by MAN's orders and the development in material prices, which are passed on to customers.

Funkwerk's strong profitability supports group profitability

The relatively strong profitability of Communication, on the other hand, supports group profitability. More than 85% of the division's EBIT was from Funkwerk, which is also the main contributor to group profitability. Funkwerk's EBIT margin tripled between 2017 and 2021, due to high capacity utilisation resulting from Germany's Railway Economic Stimulus Programme, part of its 'Future Package' to improve mobile reception across the German rail network through the modernisation and conversion of systems to interference-free GSM-R components. Driven by Funkwerk, the reported EBIT margin in Communication tripled between 2017 and 2021 to around 22% in 2021.

Figure 3: Revenue and reported EBIT, 2017 to 2024E by division

EUR m	2017	2018	2019	2020	2021	9M 2022	2022E	2023E	2024E
Consolidated revenue	**522**	**624**	**622**	**521**	**590**	**471**	**686**	**744**	**804**
YoY	*12.3%*	*19.6%*	*-0.3%*	*-16.2%*	*13.1%*	*9.5%*	*16.3%*	*8.4%*	*8.2%*
Consolidated EBIT	**15**	**25**	**24**	**13**	**30**	**4**	**23**	**26**	**34**
margin	*2.9%*	*4.0%*	*3.8%*	*2.4%*	*5.1%*	*0.8%*	*3.4%*	*3.5%*	*4.3%*
Revenue, Automotive	**375**	**424**	**380**	**273**	**334**	**289**	**400**	**420**	**440**
YoY	*9.3%*	*12.9%*	*-10.5%*	*-28.0%*	*22.1%*	*14.1%*	*19.9%*	*5.0%*	*4.8%*
EBIT, Automotive	***2***	***4***	***3***	***-16***	***-6***		***-6***	***1***	***4***
margin	*0.5%*	*0.9%*	*0.8%*	*-5.9%*	*-1.8%*		*-1.6%*	*0.2%*	*0.8%*
Revenue, Communication	**109**	**113**	**134**	**146**	**170**	**118**	**181**	**191**	**200**
YoY	*56.3%*	*3.9%*	*18.3%*	*9.0%*	*16.1%*	*-1.9%*	*6.8%*	*5.3%*	*4.7%*
EBIT, Communication	***8***	***13***	***19***	***24***	***37***		***31***	***20***	***24***
margin	*7.5%*	*11.4%*	*13.8%*	*16.1%*	*21.8%*		*17.0%*	*10.6%*	*11.8%*
Revenue, Engineering	**33**	**66**	**87**	**84**	**69**	**15**	**23**	**28**	**34**
YoY	*-35.7%*	*97.0%*	*32.5%*	*-3.0%*	*-18.4%*	*-66.4%*	*-67.2%*	*21.7%*	*24.7%*
EBIT, Engineering	***5***	***9***	***10***	***9***	***7***		***4***	***3***	***4***
margin	*15.3%*	*13.1%*	*10.9%*	*10.8%*	*10.8%*		*17.3%*	*9.1%*	*10.2%*
Revenue, Intralogistics (formerly Services)	**4**	**21**	**21**	**17**	**18**	**49**	**82**	**105**	**130**
YoY		*417.1%*	*0.9%*	*-20.6%*	*3.5%*	*310.0%*	*367.0%*	*27.7%*	*23.8%*
***EBIT, Intralogistics* (formerly Services)**	***0***	***0***	***-4***	***-3***	***-2***		***-5***	***2***	***4***
margin	*-2.4%*	*1.9%*	*-18.7%*	*-14.7%*	*-11.4%*		*-6.2%*	*2.0%*	*3.2%*

Source: Hörmann, Scope (estimates)

Solid 9M 2022 revenue and expected increase in revenues in 2022

Revenue in 9M 2022 was solid, up 9.5% YoY to EUR 470.7m, supported by the pass-on to customers of inflation-related price increases in Automotive (EUR 289m or +14% YoY after 9M 2022). We expect group revenues to reach EUR 680m for the full-year 2022.

Revenues expected to increase in 2023, too

For 2023, we expect revenue to increase to around EUR 740m, driven by higher volumes, the recently negotiated price increases in Automotive, and the finalisation of several major projects in Intralogistics. The phasing-out of the Railway Economic Stimulus Programme has already led to around EUR 10m in lost revenues from train radio modules in 2022. We expect revenues to reduce further by around EUR 10m after the end of the programme. Part of this revenue loss should be compensated through the M&A transaction planned during 2023. The Communication division should also benefit from demand for siren warning systems: an order was received to build 8,000 sirens in Germany, which, with a current annual capacity of 600-700 sirens, means capacity utilisation for the next 10 years.

Intralogistics: highest growth rates expected of the divisions

We note that the Engineering division was reorganised in the first half of 2022 and some companies were transferred to the Services division, now named Intralogistics. Hörmann expects the highest growth rates for Intralogistics once several major projects are finalised in 2023. Hörmann also sees a good demand for automated logistics systems after 2023 and plans an expansion of its international business. In addition to Eastern Europe, Hörmann intends to enter the US market.

Expected decrease in Scope-adjusted EBITDA margin in 2022-23

Despite higher revenues expected, to around EUR 50m, we anticipate lower Scope-adjusted EBITDA in 2022 due to the expected decrease in Scope-adjusted EBITDA margin to around 7% (around 9.5% in 2021). Here we note that the reported EBIT margin decreased to 0.8% after 9M 2022 compared to 5.2% after 9M 2021 due to the 500 bp lower gross profit margin, which reflects strong growth in the material-intensive

Automotive division, price increases for raw materials such as steel, purchased parts and electronic components, and the increased energy costs for production. For 2023, we anticipate an only marginal improvement in Scope-adjusted EBITDA as higher revenues should be counteracted by lower profitability in Communication due to the expiry of the Railway Economic Stimulus Programme in 2022. In Intralogistics, margins will still be burdened by costs for business expansion in 2023 in addition to materials price increases.

Financial risk profile: BBB-

Good leverage supports financial risk profile; weak cash flow cover is a restraint

The financial risk profile is supported by the strong leverage, as measured by the Scope-adjusted debt/EBITDA ratio of around 1.5x in 2019-21, but restrained by a volatile and weak cash flow cover.

All debt is managed centrally; no cross guarantees

Financial debt came to EUR 59.4m at end-December 2021 (EUR 61.2m at end-September 2022). All debt is managed centrally by the Hörmann Industries GmbH, which provides loans and other types of financing to affiliate companies. There are no cross guarantees.

Available debt largely comprises a bond and a syndicated loan

Debt largely comprises a EUR 50.0m bond issued by Hörmann Industries GmbH in June 2019. The bond has a coupon of 4.5% and a term of five years ending on 6 June 2024. The remaining debt comprises a EUR 9.4m entrepreneur loan (EUR 7.5m at end-September 2022) with German development bank KfW, raised at the end of July 2020 as part of the German government's measures to mitigate the economic impact of the Covid-19 pandemic. This KfW loan with an initial amount of EUR 10m has a term of five years with 16 quarterly repayment instalments. The first quarterly repayment of EUR 0.6m was paid in the fourth quarter of 2021. By the third quarter of 2022, EUR 2.5m had been repaid. In addition, Hörmann has EUR 40.0m under a five-year syndicated loan, concluded with a bank consortium in December 2019. Of this amount, up to EUR 15m can be used as a current account credit line and up to EUR 25m as a revolving Euribor line. In June 2021, Hörmann exercised the existing option to extend the term for a year until the end of 2026. This loan was undrawn at year-end 2021; EUR 3.0m has been utilised as of 30 September 2022.

Covenant associated with syndicated loan

The EUR 40.0m syndicated loan has a covenant of an adjusted equity ratio of more than 22%, calculated at the level of parent company Hörmann Holding GmbH & Co. KG. This covenant is tested quarterly. As of 30 June and 30 September 2022, this ratio was at around 28%.

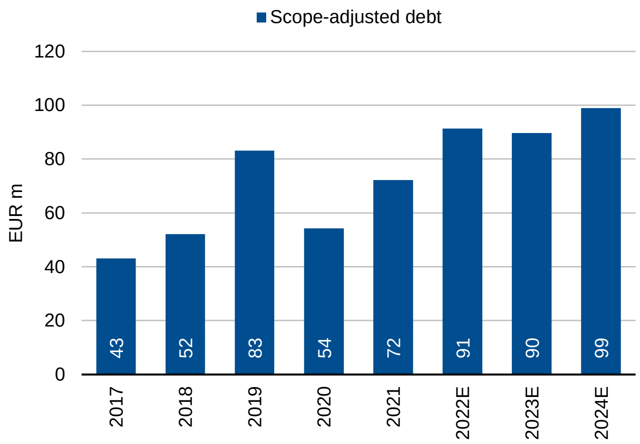
50% of Funkwerk's cash is trapped

In order to calculate Scope-adjusted debt, we added i) pensions of EUR 21m; and ii) leases of EUR 47m. Moreover, the vast majority of the group's cash is held at the level of the listed Funkwerk, in which Hörmann holds 78% of the shares. Although we believe Hörmann could access Funkwerk's cash through a dividend payment, a full transfer of cash is unrealistic due to economic and other issues. We therefore assume that 50% of the Funkwerk's cash is trapped.

Scope-adjusted debt expected at EUR 91m in 2022-23

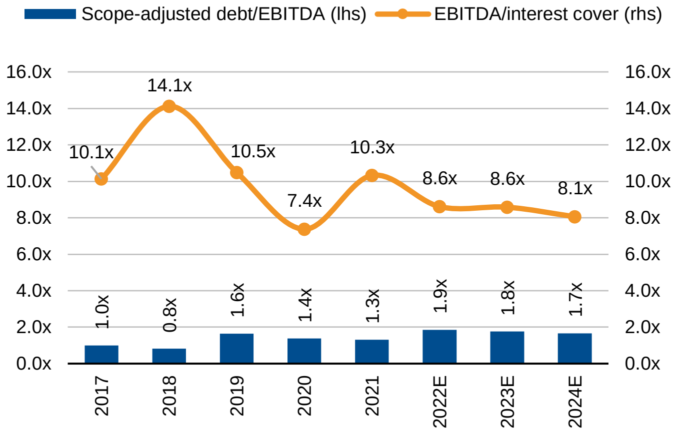
All in all, Scope-adjusted debt came in at EUR 72m at end-December 2021. We expect Scope-adjusted debt to increase to around EUR 91m by year-end 2022 as negative Scope-adjusted free operating cash flow (Scope-adjusted FOCF) will weigh on the group's cash. We expect Scope-adjusted debt to remain relatively stable in 2023, which assumes that the planned investments, such as the construction of new production and administration buildings at Funkwerk's headquarters and M&A transactions, will be covered by positive Scope-adjusted FOCF. Given plans for add-on transactions of EUR 10m-12m in 2024-25, we do not expect deleveraging in 2024-25.

Figure 4: Scope-adjusted debt, 2017 to 2024E



Sources: Hörmann, Scope (estimates)

Figure 5: Scope-adjusted debt/EBITDA and EBITDA/interest cover, 2017 to 2024E



Sources: Hörmann, Scope (estimates)

Scope-adjusted debt/EBITDA ratio at around 2.0x in 2022-24

The expected increase in Scope-adjusted debt and the lower Scope-adjusted EBITDA should result in the leverage ratio, measured by Scope-adjusted debt/EBITDA, weakening to around 2.0x in 2022. We expect Scope-adjusted debt/EBITDA to remain at around 2.0x in 2023-24 as the expiry of the railway stimulus programme in 2022 will weigh on the Scope-adjusted EBITDA margin.

Interest cover expected at around 8x after bond refinancing

Interest cover in 2021 was strong at around 10x. We assume that Hörmann will refinance its current bond with a new bond and expect a significant increase in the coupon from the current 4.5%. We anticipate interest cover at around 8x after the refinancing.

In 2021, Scope-adjusted FOCF was around EUR 6.5m. The decline compared to EUR 11m in 2020 was due to the increase in trade receivables, which Hörmann explained was due to window dressing at its large customers.

Funkwerk the group's cash cow

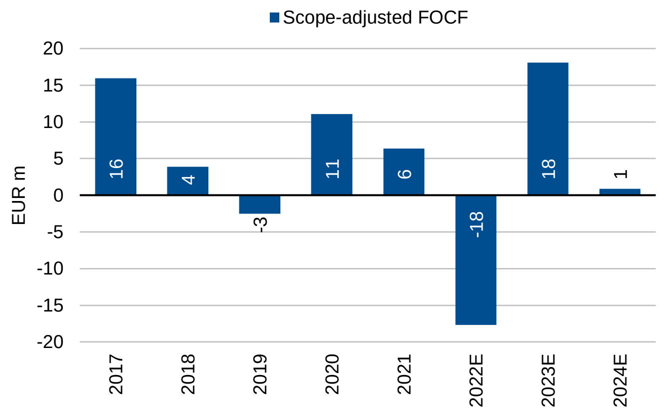
It is worth noting that Funkwerk generated most, at times even all, of the group's cash flow over the last four years. This heavy reliance on one company within the group is a credit weakness.

Scope-adjusted free operating cash flow expected to be negative in 2022 and to turn positive in 2023

For 2022, we expect Scope-adjusted FOCF to become negative at around -EUR 18m. After 9M 2022 the reported cash flow from operating activities declined to EUR −25.4m compared to -EUR 1.8m after 9M 2021, largely as a result of the increase in inventory. In addition, the negative effects of high procurement prices, construction delays and long delivery times for components in Intralogistics led to a EUR 30.2m increase in work-in-progress inventory. Net capex after 9M 2022 increased to -EUR 5.2m from -EUR 1.5m after 9M 2021, mainly due to the construction of new production and administrative buildings at Funkwerk's headquarters. We expect the higher capex due to the construction work to burden cash flow in 2023 as well. Nevertheless, we expect a significant reduction in net working capital to compensate for this negative effect and see Scope-adjusted FOCF increasing to around EUR 18m in 2023. The expected reduction in inventory will be driven by the invoicing of press tools for DAF and Daimler, which were in stock with around EUR 10m at the end of 2022, and the delayed execution of Intralogistics orders from 2022 to 2023. There was also a sharp increase in trade receivables at the end of 2022 due to the invoicing of the Automotive division's strong sales in December.

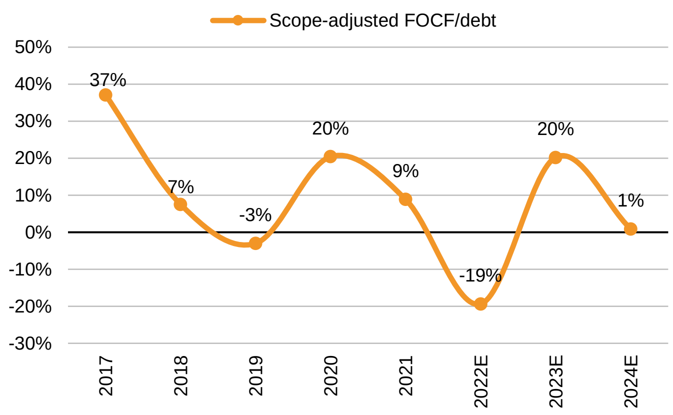
Cash flow cover will turn negative in 2022 based on the negative Scope-adjusted FOCF expected and then improve to around 20% in 2023.

Figure 6: Scope-adjusted FOCF, 2017 to 2024E



Sources: Hörmann, Scope (estimates)

Figure 7: Scope-adjusted FOCF/debt, 2017 to 2024E



Sources: Hörmann, Scope (estimates)

Neutral view on capital allocation

We have a neutral view on Hörmann's capital allocation. Hörmann has used its capital in recent years primarily for bolt-on acquisitions. In 2016 Hörmann acquired a majority stake in Funkwerk (78%). Hörmann acquired MAT Automationstechnik GmbH, MAT Industrieservices GmbH and MAT Maschinentechnik GmbH in 2017 and the majority stake (51%) of Klatt Fördertechnik GmbH in 2019. In 2020, Funkwerk completed its takeover of the train radio business unit of STRABAG Infrastructure & Safety Solutions GmbH. Dividend payments were relatively small and include payments by Funkwerk to its minority shareholders and by Hörmann to its parent company.

Adequate liquidity

We consider Hörmann's liquidity reserves to be 'adequate', supported by the available liquidity sources and the absence of large short-term maturities until June 2024 when EUR 50m is due for repayment. Our liquidity assessment assumes the refinancing of the bond due in June 2024, most probably through a new bond.

Balance in EUR m	2022E	2023E	2024E
Unrestricted cash (t-1)	55.7	34.8	33.9
Open committed credit lines (t-1)	40.0	40.0	40.0
Free operating cash flow (t)	-17.7	18.1	0.9
Short-term debt (t-1)	2.5	2.5	52.5
Coverage	**>200%**	**>200%**	**>100%**

Cash sources

Principal cash sources comprise:

- Cash on the balance sheet of EUR 62.1m as of 30 September 2022. Our liquidity calculation excludes 50% of cash at the Funkwerk level as we consider this trapped.
- An undrawn EUR 40.0m syndicated loan with a term until end-2026, of which up to EUR 15m can be used as a current account credit line and up to EUR 25m as a revolving Euribor line.
- Expected operating cash flow of around EUR 33m in 2023 and EUR 12m in 2024.
- Cash inflows of EUR 2.5m per year in 2023-25 from the repayment of a EUR 20m loan granted in 2019.

Cash uses

Expected cash uses comprise:

- Capex of around EUR 17m in 2023 and EUR 11m in 2024
- Dividend payments of around EUR 3m per year in 2023-24
- M&A-related payout of around EUR 16m in 2023 and around EUR 10m in 2023-24
- Debt repayments of EUR 2.5m in 2023 and EUR 52.5m in 2024

Long-term debt rating

Senior unsecured debt rating: BB

In line with the issuer rating, we have assigned a BB rating for senior unsecured debt, based on an 'average' recovery prospect in a simulated event of default. The recovery analysis uses a distressed, going-concern enterprise value in a simulated event of default in 2024 of around EUR 50m.

Hörmann's debt instruments comprising a bond, a KfW entrepreneur loan and a syndicated loan amounted to EUR 98.1m at end-September 2022, of which EUR 61.1m was drawn. All debt instruments are unsecured and pari passu.

We assume that Hörmann will reduce its KfW entrepreneur loan to EUR 1.9m until year-end 2024 and that the bond will be refinanced through a new bond in the same amount. We also assume that at the simulated point of default the EUR 40.0m syndicated loan will be fully drawn. We also point out that Hörmann may take on up to EUR 6.5m in additional debt on the basis of the KfW loan's documentation. We also assume that at the simulated point of default Hörmann or one of its subsidiaries will make use of this option and raise senior unsecured debt in the amount of EUR 6.5m. Beyond this, we assume that the business plan will be executed as planned with no additional bank debt or other financing ranking ahead of the bond.

Hörmann and its parent make use of unsecured guaranteed credit lines. However, Hörmann is a co-obligor or co-borrower for the financings of its parent Hörmann Holding GmbH & Co. KG regarding guaranteed credits and leasing obligations. The guaranteed credit lines total EUR 107m, of which around EUR 32m were utilised at year end 2022.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer