Scope Hamburg GmbH (Scope) affirms Hörmann’s issuer rating of BB/Stable on Hörmann Industries GmbH and assigns short-term rating of S-3

The rating reflects the supportive credit metrics but is constrained by market cyclicality, weak geographical diversification and low profitability.

Rating action

Scope Hamburg GmbH (Scope) today affirmed its BB/Stable issuer rating for Hörmann Industries GmbH. At the same time, Scope has assigned a short-term debt rating of S-3. Scope is explicitly not mandated to rate the bond (ISIN A2TSCH/NO0010851728) issued in June 2019 due in June 2024. Accordingly, no instrument rating is assigned, no recovery for this outstanding bond is calculated and no long-term debt category rating is assigned.

Rating rationale

Hörmann’s issuer rating mainly benefits from our assessment of a good financial risk profile and is held back by a comparatively weaker business risk profile assessment.

Hörmann’s business risk profile is assessed at ‘BB-‘ and is supported by its broad product diversification in various mature end markets. The business units operate mainly in smaller niche markets where Hörmann occupies moderate to leading market positions. At the same time, in some segments we see increased customer dependencies, which, together with the weak geographical diversification and low profitability, limits the overall business risk assessment. While Hörmann is diversified into end-markets such as communications, engineering and intralogistics, most of the group sales (60%) is tied to the automotive or commercial vehicles division (incl. parts of the service division). Key constraints in the commercial vehicle (CV) business are dependencies on the development of the European commercial vehicle markets, inherent cyclicality that drive demand in the commercial vehicles market, high customer concentration, limited presence in key emerging markets, and exposure to volatile raw material prices. The communication division with around 30% of group sales balances the risks originating in the remainder of the group as most of the business derived in the communications unit are linked to more stable infrastructure spending. With its engineering division, Hörmann is further exposed to general contractor risks.

Geographical diversification is limited with a high concentration on the German market (65%) and the remainder mainly across Western Europe. To some extent Hörmann benefits from operating in different end-markets with different cycles, partly stabilizing operating profitability.

In 2022 operating profitability (EBITDA) is likely affected by the effect of rapid cost increases (commodities, energy, supply chains and logistics) and we are looking for an EBITDA margin below 6 % in 2022. We view the developments in 2022 as a temporary effect. From 2023 on we expect gradual normalization of operating profitability (EBITDA margin) supported by increasing ability of Hörmann to pass on cost inflations.

The commercial vehicles division has undergone a substantial restructuring since 2018 with increasing level of automation and relocation of production to less wage-intensive Eastern Europe. As a result, we believe that the EBITDA margin in the automotive division is set to improve going forward. In the medium term, we expect the first benefits from the restructuring to bear fruit leading to a mild improvement SaEBITDA margin towards 9 %. Operating profitability (EBITDA) is strongly supported by the communications business with double-digit margins in this division while the dominant automotive division is currently unprofitable and below the group's average operating profit levels.

The issuer rating likewise captures a financial risk profile assessment of "BBB". Key for this assessment is the low leverage of Hörmann's key financial credit metrics that are currently positive for the rating. Scope-adjusted debt(SaD)/EBITDA stands at 2.0x (2021) and FFO/SaD at 33%. From 2023 onwards we forecast positive free operating cash flows in each of the two next years effectively leading to further gradual deleveraging and improvement of key credit ratios, SaD/EBITDA and FFO/SaD, to levels of below 2.0x and above 45%, respectively. This is supported by our forecast that Hörmann will maintain its moderate dividend payout policy. For the purposes of our credit ratio calculations, we have treated the fully-consolidated cash located at Funkwerk AG where Hörmann holds a 78% stake as not accessible for the group (EUR 76.0m as of 31 Dec 2021).

Liquidity is adequate. Hörmann has access to an operating credit line of EUR 40.0m provided by a bank consortium, which has not been drawn. The credit line has a term until December 2025 and is unsecured. The precautionary support programmes provided by the German government and KfW of EUR 40.0m in the wake of the COVID 19 crisis were largely not needed. EUR 30.0m were cancelled prematurely and the drawn amount of EUR 10.0m is scheduled to be repaid in 16 quarterly instalments from Dec. 2021. Hörmann has moderate and manageable short-term maturities in 2022 and 2023. Short-term debt is safely covered with unrestricted cash. In our liquidity assessment, we have likewise treated the cash located at Funkwerk AG as non-accessible for the group. The next largest maturity is EUR 50m bond issued in June 2019 due in June 2024.

On the supplementary rating drivers we currently view neutral the parent company Hörmann Holding GmbH & Co. KG (Hörmann Holding). The shares in Hörmann Holding are held by members of the Hörmann family. We view the financial policy as conservative.

Dividends are adjusted to the development of the business environment and profits generated and are generally below 50 % of net income and covered through free cashflow generation.

In our analysis no driver is considered as ESG-related factor and given that any such ESG-related factor is not viewed in existence, there is no substantial impact on the overall assessment on credit risks emanating from ESG-related factors. We note, however, that companies such as Hörmann operating in the automotive supplier sector are exposed to the need for improved resource management including reduction of greenhouse gas emissions, either for their end-products or in the production process.

Outlook and rating-change drivers

The stable outlook reflects our expectation that the SaD/EBITDA ratio will move towards 2.5x in 2022. In addition, we expect that automotive OEMs and Hörmann will be able to find suitable cooperative solutions to adequately compensate for inflation-related cost increases.

A positive rating action could we warranted if, contrary to our expectations, the economic recovery is faster and the deleveraging is outpaced by a significant improvement in operating margins and free cash flows, leading to stronger credit metrics than envisaged at this stage. We would view an improvement of leverage (SaD/EBITDA) to levels of below 1.0x on a sustainable basis to be indicative for any such situation.

A negative rating action could be warranted if the financial risk profile was to deteriorate leading to credit metrics such as SaD/EBITDA above 4.0x on a sustained basis. This could be triggered by an inability of Hörmann to pass on escalated input costs or may result from an unexpected volume weakness in the automotive or commercial vehicles and communications end-markets.

Long-term and short-term debt ratings

Hörmann short-term rating of S-3 reflects Hörmann's view on the company's very good liquidity including the cover of financial maturities with internal liquidity sources but likewise through the combination of internal and external liquidity sources both leading to an assessment of better-than-adequate.

Hörmann also benefits good standing in public and private debt markets, and well-established banking relationships as evidenced by a broad mix of committed long-term credit lines from leading banks.

We were explicitly not mandated to rate the bond (ISIN A2TSCH/NO0010851728) issued in June 2019 due in June 2024. Accordingly, no instrument rating is assigned, no recovery is calculated and no long-term debt category rating is assigned.

Stress testing & cash flow analysis

No stress testing was performed. Scope Hamburg performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook: (Corporate Rating Methodology, 15 July 2022), Corporates – Rating Methodology: European Automotive Suppliers (14 January 2022).

Scope Ratings GmbH, Scope Ratings UK Limited and Scope Hamburg GmbH apply the same methodologies/models and key rating assumptions for their credit rating services.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Basic Principles for Assigning Credit Ratings and Other Services 2 May 2022', published on **https://scopehamburg.com/seiten/Principles__July_2022.pdf**. Historical default rates of the entities rated by Scope Hamburg can be viewed in the 'Credit Rating Transition and Default Study July 2022' at **https://scopehamburg.com/seiten/Default_Study_2022_Scope_Hamburg.pdf.** Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): **https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml**.

A comprehensive clarification of Scope Hamburg's definitions of default and Credit Rating notations can be found at **https://scopehamburg.com/seiten/Principles__July_2022.pdf**. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on **https://scoperatings.com/governance-and-policies/rating-governance/methodologies**.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, documents from the Issuer and Scope Hamburg's internal sources. Scope Hamburg considers the quality of information available to Scope Hamburg on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Hamburg considers to be reliable and accurate. Scope Hamburg does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Hamburg GmbH, Ferdinandstraße 29-33, D-20095 Hamburg, Tel +49 40 60 77 81200

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The Credit Ratings/Outlook were first released by Scope Hamburg or its predecessor on 01 November 2013. The Credit Ratings/Outlook were last updated on 22 October 2021.

Potential conflicts

See **www.scoperatings.com** under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

Conditions of use/exclusion of liability

About Scope Group

With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors world-wide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis.

Scope ESG Analysis provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several Europe-an countries. More on **www.scopegroup.com**

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