28 March 2024

Corporates

# Hörmann Industries GmbH
# Germany, Industrial Conglomerate

SCOPE BB STABLE

## Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios** | **2021** | **2022** | **2023E** | **2024E** |
| Scope-adjusted EBITDA/interest cover | 10.3x | 8.9x | 8.5x | 6.2x |
| Scope-adjusted debt/EBITDA | 1.3x | 1.3x | 1.5x | 1.9x |
| Scope-adjusted funds from operations/debt | 49% | 53% | 33% | 32% |
| Scope-adjusted free operating cash flow/debt | 9% | -24% | 11% | -1% |

## 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: a relatively weak market position as indicated by the weak profitability in the Automotive division, the group's largest division with 59% of total revenues in 2022; a high dependence on subsidiary Funkwerk for cash flow and profitability; concentration on individual customers; weak end-market diversification; and a weak international presence.

## Outlook and rating-change drivers

The Stable Outlook reflects our expectation that revenue and Scope-adjusted EBITDA will increase and Scope-adjusted FOCF will become positive in 2023; Scope-adjusted debt/EBITDA will remain at below 2.0x in 2023-24; and that the liquidity position will remain adequate after the early refinancing of the EUR 50m bond in 2023. It also reflects the stabilisation of earnings in the Automotive division and the solid business development in the Communication division, supported by Funkwerk, which should help to largely compensate for the assumed weakness in the Automotive and Intralogistics divisions 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 the Automotive division or a return to significantly positive and steady free operating cash flow. Alternatively, a positive rating action could be justified by an improved business risk profile, e.g. through an improved profitability on the group level.

We 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 deterioration of Funkwerk's strong market position.

## Rating history

| Date | Rating action | Issuer rating & Outlook |
|---|---|---|
| 27 March 2024 | Affirmation | BB/Stable |
| 28 March 2023 | New | BB/Stable |

### Ratings & Outlook

| | |
|---|---|
| Issuer | BB/Stable |
| Senior unsecured debt | BB |


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### Related Methodology and Related Research

General Corporate Rating Methodology; Oct 2023

European Automotive Suppliers Rating Methodology; Feb 2024


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| Positive rating drivers | Negative rating drivers |
|---|---|
| • Good positioning in a profitable niche communications market, especially through subsidiary Funkwerk<br>• Diversified product offering<br>• Strong leverage as measured by a Scope-adjusted debt/EBITDA ratio of around 1.5x in 2019-22 and around 1.5x-2.0x expected for 2023-25 | • Relatively weak position in automotive, the group's largest segment with 59% of group revenues in 2022<br>• Weak profitability in automotive, the biggest contributor to group revenues, reflected in a reported EBIT margin of less than 1% in 2017-22<br>• Heavy reliance on one subsidiary (Funkwerk) regarding cash flow and profitability<br>• Volatile and weak cash flow cover<br>• Customer concentration: top three customers account for more than 35% of revenues in 2023<br>• 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<br>• 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 more than 35 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 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 2,800 employees and reported EUR 686m in revenues and EUR 35m of EBITDA in 2022. 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 (14%) and Hörmann Holding GmbH & Co. KG (1%), whose company shares are held by the Hörmann family.

## Financial overview

| | | | | Scope estimates | | |
|---|---|---|---|---|---|---|
| **Scope credit ratios** | **2020** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
| Scope-adjusted EBITDA/interest cover | 7.4x | 10.3x | 8.9x | 8.5x | 6.2x | 6.9x |
| Scope-adjusted debt/EBITDA | 1.4x | 1.3x | 1.3x | 1.5x | 1.9x | 1.9x |
| Scope-adjusted funds from operations/debt | 63% | 49% | 53% | 33% | 32% | 32% |
| Scope-adjusted free operating cash flow/debt | 20% | 9% | -24% | 11% | -1% | -3% |
| **Scope-adjusted EBITDA in EUR m** | | | | | | |
| EBITDA | 25.5 | 45.3 | 35.2 | 36.6 | 34.4 | 38.0 |
| add: operating lease payments in respective year | 14.0 | 10.0 | 14.0 | 8.9 | 15.4 | 17.3 |
| Other[1] | - | - | - | 6.6 | - | - |
| **Scope-adjusted EBITDA** | **39.5** | **55.3** | **49.2** | **52.1** | **49.8** | **55.3** |
| **Funds from operations in EUR m** | | | | | | |
| EBITDA | 39.5 | 55.3 | 49.2 | 52.1 | 49.8 | 55.3 |
| less: (net) cash interest paid | -3.1 | -3.4 | -3.3 | -3.9 | -5.6 | -5.6 |
| less: interest component on leases | -2.3 | -1.9 | -2.2 | -2.2 | -2.4 | -2.4 |
| less: cash tax paid per cash flow statement | -6.0 | -13.7 | -7.8 | -14.2 | -12.1 | -15.2 |
| add: provisions | 13.8 | 4.0 | 9.4 | 0.8 | 1.3 | 2.0 |
| less: profit on disposals | -0.1 | -0.7 | -0.4 | -6.6 | - | - |
| Other[2] | -7.7 | -4.4 | -7.0 | - | - | - |
| **Funds from operations** | **34.1** | **35.2** | **37.9** | **26.0** | **30.8** | **34.0** |
| **Free operating cash flow in EUR m** | | | | | | |
| Funds from operations | 34.1 | 35.2 | 37.9 | 26.0 | 30.8 | 34.0 |
| Change in working capital | 13.0 | -12.6 | -34.0 | 0.6 | -10.0 | -3.4 |
| Non-operating cash flow | -10.1 | 3.2 | -2.8 | 3.8 | 10.2 | -3.7 |
| less: capital expenditure (net) | -14.2 | -11.3 | -6.3 | -15.2 | -19.0 | -15.4 |
| less: amortisation of leases | -11.7 | -8.1 | -11.8 | -6.7 | -13.0 | -14.9 |
| **Free operating cash flow** | **11.1** | **6.4** | **-17.0** | **8.5** | **-1.0** | **-3.3** |
| **Net cash interest paid in EUR m** | | | | | | |
| Net cash interest per cash flow statement | 3.1 | 3.4 | 3.3 | 3.9 | 5.6 | 5.6 |
| add: interest component on leases | 2.3 | 1.9 | 2.2 | 2.2 | 2.4 | 2.4 |
| **Net cash interest paid** | **5.4** | **5.4** | **5.6** | **6.1** | **8.1** | **8.0** |
| **Scope-adjusted debt in EUR m** | | | | | | |
| Reported gross financial debt | 60.0 | 59.4 | 57.8 | 55.7 | 71.2 | 68.7 |
| less: cash and cash equivalents | -83.2 | -93.7 | -73.1 | -65.1 | -69.6 | -56.8 |
| add: non-accessible cash | 26.3 | 38.0 | 25.4 | 20.4 | 25.0 | 25.0 |
| add: pensions | 21.2 | 21.2 | 20.3 | 19.2 | 19.2 | 19.2 |
| add: operating lease obligations | 30.0 | 47.3 | 41.4 | 47.6 | 49.4 | 48.5 |
| **Scope-adjusted debt** | **54.3** | **72.2** | **71.8** | **77.7** | **95.2** | **104.7** |

[1] Other items in the Scope-adjusted EBITDA include one-off expenses from the sale of Hörmann Automotive Eislingen GmbH
[2] Other items in the FFO include other non-cash operating items

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## Environmental, social and governance (ESG) profile[3]

| 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%), Hans Hörmann Holding GmbH & Co. KG (14%) and Hörmann Holding GmbH & Co. KG (1%). 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).

[3] 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 continues to reflect a moderate market position, supported in particular by the good position in a profitable niche communications market of subsidiary Funkwerk AG, which provides train radio modules on analogue and digital networks. The business risk profile is limited by Hörmann's relatively weak position in Automotive, the group's largest segment with 59% of revenues in 2022. We note in particular the very weak profitability reflected in an EBIT margin of less than 1% in 2017-22, which we believe indicates rather weak pricing power. Market positioning is nevertheless supported by the fact that 30-40% of revenues are generated with products where Hörmann is a single- or double-source supplier.

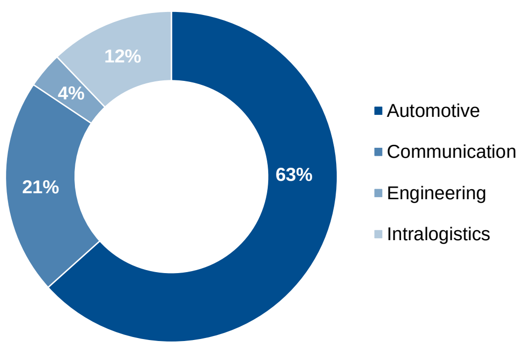
**Relatively diversified product offering is a rating support**

The business risk profile is supported by a relatively diversified product offering. Although automotive parts accounted for 59% of total revenues in 2022, the products are also somewhat diversified.

**Low share of aftermarket business**

On the negative side, the aftermarket business, which tends to be less volatile and contributes higher operating margins, is very small, accounting for less than 5% of total revenues (mainly maintenance and service of products and systems supplied under Communication).

**Figure 1: 9M 2023 revenue split by division**




Sources: Hörmann, Scope

**Figure 2: Group revenue by product category**

| Product category | Revenue EURm | % of total revenue |
|---|---|---|
| Automotive parts | 475 | 57% |
| Frame mounting parts | 137 | 17% |
| Body-in-white components | 117 | 14% |
| Longitudinal frame members | 81 | 10% |
| Module & chassis | 19 | 2% |
| Flaps & tanks | 12 | 1% |
| Other | 109 | 13% |
| Train radio modules | 90 | 11% |
| Engineering services | 138 | 17% |
| Siren systems | 43 | 5% |
| Conveyor systems | 5 | 1% |
| Detectors | 11 | 1% |
| Video security systems | 15 | 2% |
| Other | 51 | 6% |
| **Total** | | **100%** |

Sources: Hörmann, Scope

**Dependency on individual customers**

The overall diversification is held back by the dependency on individual customers. The largest single customer, MAN Truck & Bus SE, accounted for around 45% of Automotive revenues and 27% of group revenues. The second largest customer, Daimler Truck, accounted for 8% of Automotive revenues and 5% of group revenues. Outside of Automotive, the customer structure is more granular. Deutsche Bahn is the largest customer accounting for around 3% of total revenues.

**Low end-market diversification**

End-market diversification is another restraining factor, as around 70% of total revenues are exposed to only two sectors: the cyclical automotive market and railway. The remaining 30% of total revenues are spread across public transportation, buildings, public spaces, industrial properties and facilities, shipping and airports, parcel distribution centres, and hospitals.

**Weak international presence**

Furthermore, Hörmann has a weak international presence, with Germany accounting for around 70% of total revenues in 2022.

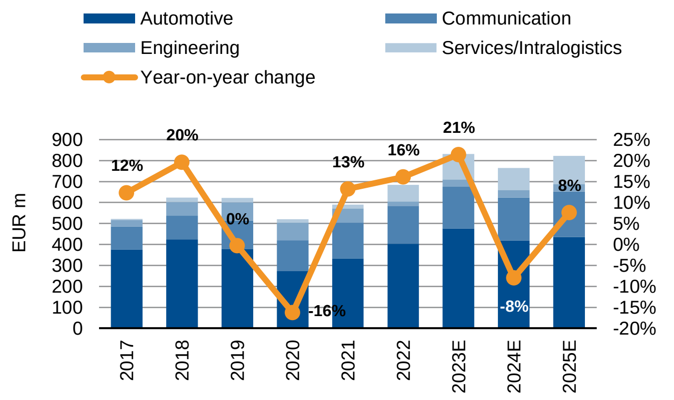
**Low operating profitability in Automotive weighs on Group's total profitability**

In view of the relative size of the Automotive division, the division's very weak profitability (EBIT margins of less than 1% in 2017-22) has a significant negative impact on the Group's total profitability, making profitability a further constraint on the business risk profile. The stronger profitability in Communication, on the other hand, has a supportive effect on Hörmann’s overall profitability. More than 85% of the division's EBIT is attributable to Funkwerk AG, which also makes the largest contribution to the Group's overall profitability.

**We expect slightly higher Scope-adjusted EBITDA in 2023**

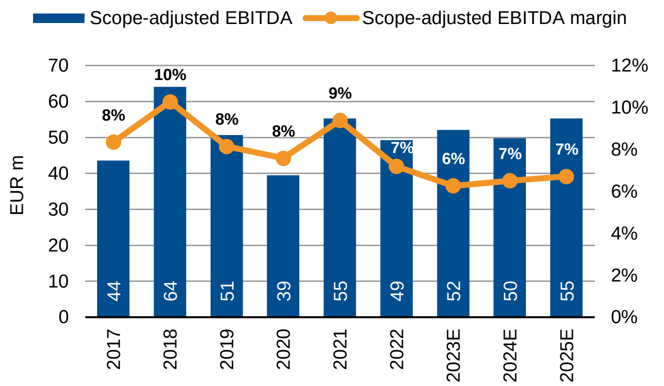
The group's Scope-adjusted EBITDA of around EUR 49m in 2022 was below the previous year's level of around EUR 55m, this despite the fact that the Group's revenue increased by 16% YoY. This is mainly due to the lower contribution from Communication and the fact that the 21% increase in sales in the Automotive segment did not lead to a significant increase in profits. Adjusted for the one-off expenses of EUR 6.6m from the sale of Hörmann Automotive Eislingen GmbH, we expect Scope-adjusted EBITDA of around EUR 52m in 2023.

**Figure 3: Trend in revenue, 2017 to 2025E**




Sources: Hörmann, Scope (estimates)

**Figure 4: Trend in Scope-adjusted EBITDA, 2017 to 2025E**




Sources: Hörmann, Scope (estimates)

**Stabilisation of earnings in Automotive**

The stabilisation of earnings in Automotive after three consecutive years of negative EBIT is a positive development. For 2023, we expect EBIT in Automotive to remain negative at around EUR -4m due to a one-off expense of EUR 6.6m from the sale of the loss-making Hörmann Automotive Eislingen GmbH, which was completed on 1 November 2023. Adjusted for this charges, the Automotive division's EBIT in 2023 was positive at around EUR 3m. In anticipation of lower demand in 2024, Hörmann is planning cost reductions, so that we also expect a positive Automotive EBIT for 2024.

We have learnt that Hörmann is no longer pursuing the sale of Hörmann Automotive Wackersdorf GmbH, but intends to use this site for the production of train driving displays.

**Communication to return to "normalised" earnings**

We assume that the Communication division will return to "normalised" earnings after the end of the rail economic stimulus programme. In particular, we expect Funkwerk's EBIT margin to decline to around 12% in 2023-24. Funkwerk's EBIT margin has already dropped to 12.5% after 9M 2023, compared to around 19% after 9M 2022. Overall, we assume an EBIT margin of around 12% for Communication in 2023-24.

Due to their size and relatively low profitability, the intralogistics and engineering businesses are currently of little impact on Hörmann's overall profitability.

**Solid 9M 2023 revenue and expected increase in revenue in 2023**

Hörmann posted a very solid revenue performance in the first nine months of 2023 (+20.8% to EUR 568.6m), supported by inflation-driven price increases and higher volumes in the commercial vehicle industry (Automotive with +24.9%). Group revenue was also supported by a 39% increase in intralogistics due to the completion of several major projects. Based on the strong revenue figures for 9M 2023, we expect revenue for the full year 2023 to reach around EUR 830m (+21% YoY).

**Expected lower revenue in 2024 due to weakness in Automotive and Intralogistics**

For 2024, we have factored in a decline in Group revenue to around EUR 765m (-8% YoY), which mainly reflects the expected decline in revenue in the Automotive division to around EUR 420m (-12% YoY) due to the expected lower demand from key customers, as evidenced by the decline in order intake in Q4 2023. The sale of 100% of the shares in Hörmann Automotive Eislingen GmbH in November 2023 will only have a minor impact on revenue (approx. EUR 12m in revenue in 2023) due to the relatively small size of the subsidiary and will be largely offset by the price increases recently agreed with key customers. We have also factored in a decline in revenue in Intralogistics of around 13% compared to the previous year due to lower project execution.

**We expect higher revenue in Communication due to consolidation effects and order intake in 2023**

In contrast, we expect revenue in the Communication division to increase to around EUR 205m (+3% YoY) in 2024, supported by consolidation effects of around EUR 10m from Funkwerk's acquisitions of 60% of the shares in Radionika Sp. z o.o. in April 2023 and Elektrotechnik und Elektronik Oltmann GmbH in December 2023 as well as the good order situation at Funkwerk.

It is worth mentioning that the acquisition of Radionika is a strategic step, as the Polish government plans to upgrade the Polish network to the GSM-R radio standard by 2025, similar to Germany, and this acquisition, together with the local partner remaining a shareholder, will enable Funkwerk to participate in the corresponding tenders. According to Hörmann, these tenders have a volume of EUR 70-80m.

Funkwerk also concluded several new contracts in 2023. In December 2023, Funkwerk received an order worth EUR 19m from Renfe to retrofit over 500 Spanish rail vehicles with GSM-R train radio systems. Deliveries will begin in 2024 and are scheduled to be completed by 2027. Funkwerk is also supplying train radio systems for around 400 new vehicles to several vehicle manufacturers in Spain. This order has a sales volume of around EUR 8m. Funkwerk has also won several new framework agreements in the field of passenger information systems in the DACH region. The project will start this year and run until at least 2026, with the sales volume of the framework agreements totalling up to EUR 50m over the entire term.

**We expect higher order backlog in Communication at YE 2023**

The Communication division should also benefit from the demand for siren warning systems in Eastern European countries as a result of the war in Ukraine. Overall, we expect the order backlog in the Communication division in 2023 to be significantly higher than the figure of around EUR 174m in 2022.

For 2025, we have factored in revenue of EUR 820m (+7.5% YoY).

**Expected solid earnings performance in Communication to support Scope-adjusted EBITDA in 2024**

For 2024, we expect Scope-adjusted EBITDA of around EUR 50m thanks to the expected solid earnings performance in Communication, the Group's main earnings and cash flow contributor, as a result of the recent acquisitions and the order backlog at the end of 2023. For 2025, we have priced in a slight improvement in Scope-adjusted EBITDA to around EUR 55m due to the assumed sales growth.

## Financial risk profile: BBB-

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

The financial risk profile continues to be supported by the strong leverage, as measured by the Scope-adjusted debt/EBITDA ratio of around 1.5x in 2019-22, but restrained by weak cash flow cover.

**Almost all debt is managed centrally; no cross guarantees**

Financial debt came to EUR 56.1m at end-September 2023 (EUR 57.8m at end-December 2022). Apart from a credit line for Hörmann Klatt Conveyors GmbH in the amount of EUR 2.5m, all debt is managed centrally by Hörmann Industries GmbH, which provides loans and other types of financing for affiliated companies. There are no cross guarantees.

**Available debt largely comprises a bond and a syndicated loan**

In July 2023, Hörmann Industries GmbH placed its new corporate bond with a total volume of EUR 50m. This bond has a coupon of 7.0% and a term of five years maturing in July 2028. The net issue proceeds of the new bond were used to refinance the outstanding bond 2019/2024.

The remaining debt comprises:

- an entrepreneur loan with German development bank KfW,
- credit line provided to Hörmann Klatt Conveyors GmbH in the amount of EUR 2.5m, of which EUR 1.2m is currently utilised,
- a five-year syndicated loan in the amount of EUR 40.0m of which EUR 0.2m were utilized at end-September 2023. 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.

**Covenant associated with syndicated loan**

The syndicated loan in the amount of EUR 40.0m has a covenant that requires an adjusted equity ratio of more than 22%, calculated at the level of the parent company Hörmann Holding GmbH & Co. KG. This covenant is tested on a quarterly basis. At the end of 2023, the ratio was around 33%.

**Covenant associated with the new bond**

The new bond has an incurrence covenant, which is fulfilled if the leverage ratio is below 2.75x at the respective point in time. In contrast to a maintenance covenant, which must be complied with regularly on certain key dates, an issuer only has to fulfil the financial tests for an incurrence covenant if it initiates a financial transaction such as the payment of a dividend, a takeover or the raising of further loans.

**50% of Funkwerk's cash is deemed trapped**

In order to calculate Scope-adjusted debt, we have added i) pensions totalling EUR 19m; and ii) leases totalling EUR 48m. In addition, the 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 would also like to point out that Funkwerk only holds a 60% stake in Radionika Sp. z o.o.. We therefore assume that 50% of Funkwerk's cash is trapped.

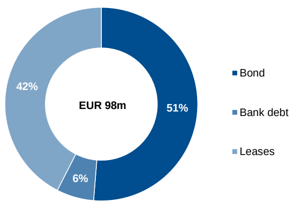
**Scope-adjusted debt expected to increase to around EUR 95m in 2024**

We expect a slight increase in Scope-adjusted debt from EUR 72m at YE 2022 to around EUR 78m at YE 2023, as the acquisitions by Funkwerk will weigh on the liquidity position. For 2024, we have factored in an increase in Scope-adjusted debt to around EUR 95m. Due to the expected increase in NWC and capex, we have assumed a Scope-adjusted FOCF of around zero, further add-on transactions in the order of EUR 10m and dividends of around EUR 5m.

**Promissory note issued in 2024**

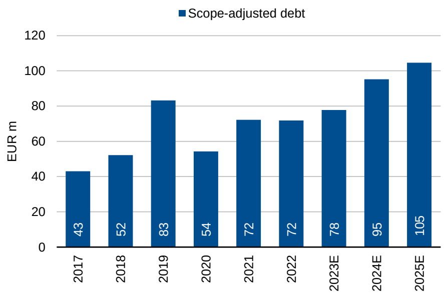
In order to create a liquidity buffer, Hörmann recently issued a promissory note totalling around EUR 18m with a coupon of 5%. Of the total amount, around EUR 8m is due for repayment in 2027 and EUR 10m in 2030. The promissory note has the same covenant as the syndicated loan.

**Figure 5: Funding structure at end-September 2023**



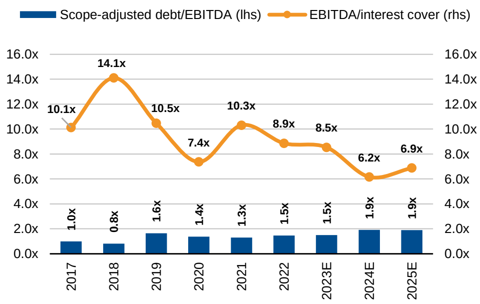

Sources: Hörmann, Scope

**Figure 6: Scope-adjusted debt, 2017 to 2025E**




Sources: Hörmann, Scope (estimates)

**Figure 7: Scope-adjusted debt/EBITDA EBITDA/interest cover, 2017 to 2025E**




Sources: Hörmann, Scope (estimates)

**Scope-adjusted debt/EBITDA ratio close to 2.0x in 2024**

We expect that Scope-adjusted debt/EBITDA to be more or less unchanged in 2023 compared to 1.5x in 2022, as the expected slight increase in Scope-adjusted debt should be offset by a slightly higher Scope-adjusted EBITDA. We assume that the Scope-adjusted debt/EBITDA ratio will deteriorate to close to 2.0x in 2024 due to the expected increase in Scope-adjusted debt, a level that is still commensurate with the current rating.

We expect the Scope-adjusted debt/EBITDA ratio to be roughly flat at YE 2023 compared to 1.5x in 2022, as the expected slight increase in Scope-adjusted debt is likely to be offset by a slightly higher Scope-adjusted EBITDA. We also expect the Scope-adjusted debt/EBITDA ratio to deteriorate to nearly 2.0x in 2024 due to the expected increase in Scope-adjusted debt, which is still commensurate with the current rating.

**Interest cover expected between 6x-7x after refinancing**

Interest cover remained strong at around 9x in 2022. Supported by the expected higher Scope-adjusted EBITDA, we project the interest coverage ratio to remain strong at around 8.5x in 2023. The recent refinancings were carried out at a higher interest rate: i) the refinancing of the bond led to an increase in the coupon from 4.5% to 7%, and the promissory note has a coupon of 5%. In addition, the interest costs are negatively impacted by the higher interest rates for reverse factoring, which is based on a floating interest rate. As a result, we expect interest costs to increase to more than EUR 7m in 2024. Overall, we anticipate an interest coverage ratio in the range of 6x-7x in 2024.

In 2022, the Scope-adjusted FFO improved slightly from EUR 35.2m in 2021 to EUR 37.9m, which is due in particular to lower tax payments. As expected, Scope-adjusted FOCF in 2022 was negative at around EUR -17m (2021: EUR 6.4m), which is attributable to the sharp increase in net working capital.

**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 five years. In our view, this indicates that the automotive business in particular is a cash loss business. This heavy reliance on one company within the group is a credit weakness.

**We expect Scope-adjusted FFO to decline in 2023**

Due to the expected higher cash taxes due to higher profits at Funkwerk, with which there are no profit transfer agreements, and the charges from the sale of Hörmann Automotive Eislingen GmbH, we expect Scope-adjusted FFO to decline to around EUR 26m in 2023.

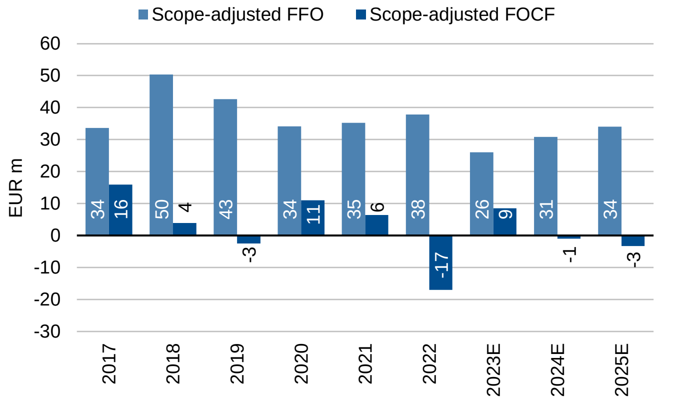
**We expect higher gross capex in 2023-24**

We expect gross capex in 2023-24 to increase compared to previous years due to planned investments, such as the construction of new production and administration buildings at Funkwerk AG's headquarters in Kölleda and the reorganisation of the frame-length production facility.

**Scope-adjusted FOCF is set to remain volatile**

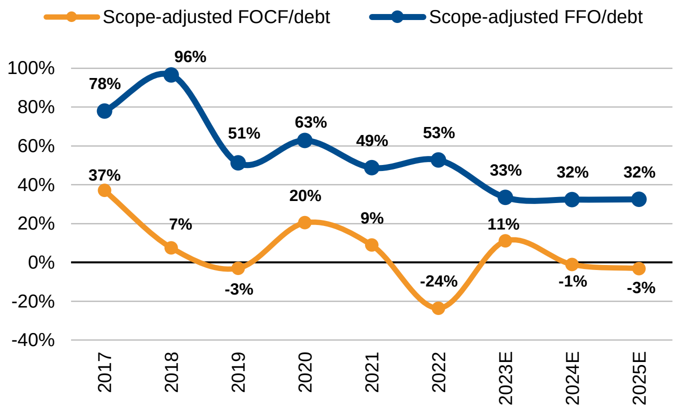
We also expect NWC to be more or less unchanged at YE 2023, compared to around EUR 113m at YE 2022. Therefore, despite the expected lower Scope-adjusted FFO, we anticipate Scope-adjusted FOCF to improve to around EUR 9m in 2023. For 2024, we have factored in a slight improvement in Scope-adjusted FFO to around EUR 30m, mainly supported by the non-recurrence of charges related to disposals. We expect NWC to increase in 2024, driven by the assumed solid business at Funkwerk and the execution of projects in Intralogistics. We note that both segments account for more than 40% of Hörmann's total NWC. Overall, we expect Scope-adjusted FOCF to be around zero in 2024.

**Figure 8: Scope-adjusted FFO and Scope-adjusted FOCF, 2017 to 2025E**




Sources: Hörmann, Scope (estimates)

**Figure 9: Scope-adjusted FFO/debt and Scope-adjusted FOCF/debt, 2017 to 2025E**




Sources: Hörmann, Scope (estimates)

Scope-adjusted FFO/debt increased from 49% in 2021 to 53% in 2022. Due to the lower Scope-adjusted FFO, we expect the Scope-adjusted FFO/debt ratio to deteriorate to around 33% in 2023. For 2024, we project the Scope-adjusted FFO/debt ratio to remain in the range of 30%-35%.

**Cash flow cover to remain volatile**

Cash flow cover was volatile in the past due to the volatile Scope-adjusted FOCF. With negative Scope-adjusted FOCF, cash flow cover turned negative in 2022 as expected. We expect cash flow cover to remain volatile in 2023-24, improving to around 10% in 2023 and turning negative in 2024.

**Neutral view on capital allocation**

We have a neutral view on Hörmann's capital allocation. In recent years, Hörmann has used its capital primarily for bolt-on acquisitions. Dividend payments have been relatively small (EUR 4-5m per annum) 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', which is supported by the available liquidity sources and the absence of major short-term maturities after the refinancing of the EUR 50m bond in 2023.

| Balance in EUR m | 2023E | 2024E | 2025E |
|---|---|---|---|
| Unrestricted cash (t-1) | 47.7 | 44.8 | 44.6 |
| Open committed credit lines (t-1) | 40.0 | 39.8 | 39.8 |
| Free operating cash flow (t) | 8.5 | -1.0 | -3.3 |
| Short-term debt (t-1) | 3.4 | 3.5 | 3.6 |
| **Coverage** | **>200%** | **>200%** | **>200%** |

Cash sources

**Principal cash sources comprise:**

- Cash on the balance sheet of EUR 38.7m as of 30 September 2023. We anticipate bank balances of around EUR 65m at YE 2023. Our liquidity calculation excludes 50% of the cash at the Funkwerk level, which we consider as restricted.
- EUR 39.8m undrawn funds under the 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.
- EUR 1.2m undrawn funds under the EUR 2.5m credit facility, which can be used as an overdraft facility and a surety facility
- Expected Scope-adjusted FFO of around EUR 30m 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:**

- Working capital related cash outflow of around EUR -10m in 2024
- Capex of around EUR 19m in 2024
- Dividend payments of around EUR 5m in 2024
- M&A-related payout of around EUR 10m in 2024
- Debt repayments of EUR 2.5m in 2024

## Long-term debt rating

Senior unsecured debt rating: BB

Senior unsecured debt is rated BB, based on an ‘average’ recovery prospect in a simulated default event. Our recovery analysis incorporates a distressed going-concern enterprise value of around EUR 50m in a simulated event of default in 2025.

Hörmann’s debt instruments totalled around EUR 98m at end-September 2023, comprising a bond, a corporate loan with the German development bank KfW, a syndicated loan and credit line at the level of Hörmann Klatt Conveyors GmbH, of which EUR 56m has been drawn.

Hörmann Industries has provided a guarantee for the credit line of Hörmann Klatt Conveyors GmbH. As this line was established at the level of the operating company, we consider this line to be structurally senior. The other debt instruments are unsecured and rank pari passu.

We expect Hörmann to repay the KfW loan in full by the end of 2025.

We also assume that the EUR 40.0m syndicated loan and the credit line of EUR 2.5m made available to Hörmann Klatt Conveyors GmbH will be fully utilised at the simulated point of default.

In 2024, Hörmann Industries raised around EUR 18m in promissory notes. This promissory note is unsecured and ranks pari passu with Hörmann’s other unsecured debt.

Beyond this, we assume that the business plan will be executed as planned with no additional bank debt or other financing.

Hörmann and its parent company both make use of guaranteed, though unsecured, credits. However, Hörmann is a co-obligor or co-borrower for financings of its parent Hörmann Holding GmbH & Co. KG regarding guaranteed credits and leasing obligations.

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