Hörmann Industries GmbH

Germany, Industrial Conglomerate

Issuer
BB
Outlook
Stable
Senior unsecured debt
BB

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Related methodologies

General Corporate Rating Methodology, Feb 2025
European Automotive Suppliers Rating Methodology, Feb 2024

Rating composition

Business Risk Profile		
Industry risk profile	BBB-	B+
Competitive position	B+	
Financial Risk Profile		
Credit metrics	BBB	BBB
Liquidity	+/-0 notches	
Standalone credit assessment		**BB**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB**

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	10.9x	16.8x	10.8x	7.4x
Scope-adjusted debt/EBITDA	1.1x	1.0x	1.1x	1.3x
Scope-adjusted funds from operations/debt	74%	78%	64%	58%
Scope-adjusted free operating cash flow (FOCF)/debt	-35%	19%	26%	12%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenario(s) for the rating and Outlook (collectively):

- Improved business risk profile, e.g. through reduced dependency on Funkwerk
- Maintenance of good credit metrics, with debt/EBITDA settling around 1.5x or below on a sustained basis

The downside scenario(s) for the rating and Outlook:

- Debt/EBITDA deteriorating to around 2.5x on a sustained basis (deemed remote), e.g. from lower profitability, the more ambitious use of liquidity for M&A activities or a worsening of Funkwerk's strong market position

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Good positioning in profitable niche communications market, especially through subsidiary Funkwerk • Strong leverage as measured by a Scope-adjusted debt/EBITDA ratio of around 1.0x in 2019-23 and an expected range of 1.0x to 1.5x in 2024-26 • Solid order backlog in Communication and Intralogistics	• Relatively weak position in Automotive (the group's largest segment, with 57% of group revenues in 2023), as indicated by weak profitability (a reported EBIT margin of less than 1% in 2017-23) • Heavy reliance on one subsidiary (Funkwerk) for cash flow and profitability • Volatile Scope-adjusted free operating cash flow (FOCF) and consequently cash flow cover • Customer concentration: top three customers accounted for over 35% of revenues in 2023 • Weak end-market diversification and international presence

2. Rating Outlook

The Stable Outlook reflects the very solid expected cash position on the balance sheet at year-end 2024 and a solid order situation in Communication and Intralogistics, which we expect will more than offset revenue decline in Automotive in 2025. The Outlook also reflects our projection of Scope-adjusted debt/EBITDA in the range of 1.0x to 1.5x in 2024-26, supported by cash on the balance sheet and backlog execution in Communication and Intralogistics.

3. Corporate profile

An industrial conglomerate with four divisions

Since its foundation in 1955, Hörmann has developed into a conglomerate of more than 35 companies, which are divided into four 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, a 78% subsidiary, accounts for more than 70% of the segment's revenues. It offers 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 generate a further EUR 30-50m of revenues.
- **Intralogistics:** 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:** Engineering services such as the planning and realisation of new factories, the re-engineering and/or relocation of existing factories, and 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. It has over 2,900 employees and reported EUR 831m in revenues in 2023. Hörmann Industries GmbH is 100% owned by the Hörmann family.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
31 MARCH 2025	Affirmation	BB/Stable
28 MARCH 2024	Affirmation	BB/Stable
28 MARCH 2023	New	BB/Stable

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	13.4x	10.9x	16.8x	10.8x	7.4x	7.1x
Scope-adjusted debt/EBITDA	0.8x	1.1x	1.0x	1.1x	1.3x	1.4x
Scope-adjusted funds from operations/debt	84%	74%	78%	64%	58%	53%
Scope-adjusted FOCF/debt	15%	-35%	19%	26%	12%	4%
Liquidity	>200%	>200%	>200%	>200%	>200%	>200%
Scope-adjusted EBITDA						
EBITDA	45.3	35.2	44.5	36.4	37.8	36.0
add: operating lease payments in respective year[1]	9.8	11.2	11.4	11.1	11.9	13.2
add/less: other items	-	-	-	-	-	-
Scope-adjusted EBITDA	**55.1**	**46.4**	**55.9**	**47.5**	**49.8**	**49.2**
Scope-adjusted funds from operations						
Scope-adjusted EBITDA	55.1	46.4	55.9	47.5	49.8	49.2
less: Scope-adjusted interest	-4.1	-4.3	-3.3	-4.4	-6.7	-7.0
less: cash tax paid	-13.7	-7.8	-16.4	-6.3	-5.8	-5.2
add: provisions	4.0	9.4	9.9	-	-	-
less: profit on disposals	-0.7	-0.4	0.3	-	-	-
Other non-operating charges before FFO[2]	-4.4	-7.0	-4.4	-4.0	0.0	0.0
Scope-adjusted funds from operations (FFO)	**36.2**	**36.4**	**42.0**	**32.8**	**37.2**	**37.1**
Scope-adjusted FOCF						
Scope-adjusted FFO	36.2	36.4	42.0	32.8	37.2	37.1
Change in working capital	-12.6	-34.0	1.9	6.1	-4.6	-8.2
Non-operating cash flow	3.2	-2.7	-3.9	-4.7	-0.6	-1.6
less: capital expenditures (net)	-11.3	-6.3	-19.4	-11.0	-14.0	-13.0
less: lease amortisation	-9.1	-10.3	-10.3	-9.9	-10.4	-11.5
Scope-adjusted FOCF	**6.4**	**-16.9**	**10.2**	**13.4**	**7.5**	**2.8**
Scope-adjusted net cash interest paid						
Net cash interest per cash flow statement	3.4	3.3	2.3	3.2	5.3	5.3
Interest component on operating leases	0.7	0.9	1.1	1.2	1.5	1.7
Scope-adjusted Net cash interest paid	**4.1**	**4.3**	**3.3**	**4.4**	**6.7**	**7.0**
Scope-adjusted debt						
Reported financial (senior) debt	59.4	57.8	55.7	73.2	70.5	70.5
less: cash and cash equivalents	-93.7	-73.1	-64.9	-90.5	-87.9	-83.0
add: non-accessible cash	38.0	25.4	20.3	24.5	27.3	29.1
add: pensions	21.2	20.3	19.2	19.2	19.2	19.2
add: operating lease obligations[3]	18.4	18.5	23.6	24.8	34.5	33.9
Scope-adjusted debt (SaD)	**43.4**	**49.0**	**54.0**	**51.3**	**63.6**	**69.6**

[1] Leases adjusted retrospectively based on new information

[2] Other items in FFO include other non-cash expenses/income

[3] Operating leases in the past have been adjusted to reflect new information on operating leases

6. Environmental, social and governance (ESG) profile[4]

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)

ESG factors: credit positive credit negative credit neutral

Scope sees no company-specific ESG factors that have a substantial impact on credit risk.

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

No advisory or supervisory board in place

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. the 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).

[4] 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.

7. Business risk profile: B+

Hörmann's business risks are largely mitigated by its solid positioning in the profitable niche rail communication market and a good order book development in Communication and Intralogistics in 2024. However, business risks are amplified by: i) a relatively weak market position as indicated by weak profitability in the Automotive division; ii) a high dependence on subsidiary Funkwerk for cash flow and profitability; iii) the concentration on individual customers; iv) a weak end-market diversification; and v) a weak international presence.

Hörmann's product portfolio is exposed to different industries with a different industry risk profile: automotive suppliers (assessed BB), capital goods (BBB) and business services (BBB). We have applied a blended industry risk profile of BBB-, as we believe that close to 100% of Hörmann's earnings are exposed to the capital goods sector. However, this good industry risk profile does not provide a credit uplift within our assessment of Hörmann's business risk profile. This is due to Hörmann's set-up in the capital goods related part of the business, which, combined with its relatively small size and mainly project-related business, tends to be more cyclical and has low barriers to entry compared to the average capital goods sector.

Product portfolio is exposed to different industries, blended industry risk profile of BBB-

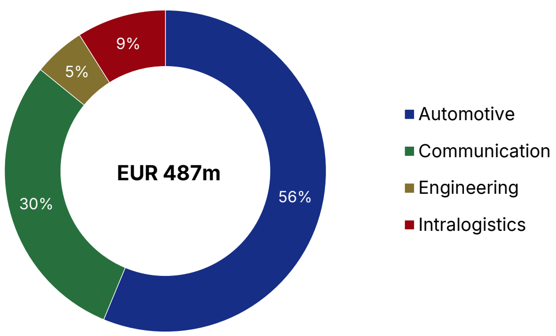
Hörmann holds a good position in profitable niche markets in the communication segment, especially through its subsidiary Funkwerk, which provides train radio modules on analogue and digital networks. While Funkwerk itself would justify a stronger market position assessment, the weaker parts of the group, such as Automotive (the group's largest segment with around 55% of revenue), dilute its aggregated market position. In particular, very weak profitability, reflected in an EBIT margin of less than 1% in 2017-23, indicates rather weak pricing power.

Good position in profitable niche markets in Communication diluted by weak position in Automotive

As an industrial conglomerate, Hörmann has a relatively diversified product offering. On the negative side, there is heavy dependence on subsidiary Funkwerk for cash flow and profitability. In addition, 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 the maintenance and service of products and systems supplied under Communication).

High dependence on subsidiary Funkwerk for cash flow and profitability

Figure 1: Automotive is Hörmann's dominant division in terms of revenue (9M 2024 figures)



Source: Hörmann, Scope

Table 1. Industrial conglomerate with a relatively diversified product offering (2023)

Product category	Revenue EURm	% of total revenue
Automotive parts	475	57%
o/w frame mounting parts	137	16%
o/w body-in-white components	117	14%
o/w longitudinal frame members	81	10%
o/w module & chassis	19	2%
o/w flaps & tanks	12	1%
o/w 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%
Others	54	6%
Total	**831**	**100%**

Sources: Hörmann, Scope

Overall diversification is held back by a dependency on individual customers. The largest single customer, MAN Truck & Bus SE, accounts for around 45% of Automotive revenues and 27% of group revenues. The second largest customer, Daimler Truck, accounts for 8% of Automotive revenues and 5% of group revenues. However, we believe that the customer risk is mitigated by mutual dependence. Outside of Automotive, the customer structure is more granular. Deutsche Bahn is the largest customer, accounting for about 3% of total revenues.

Dependency on individual customers

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

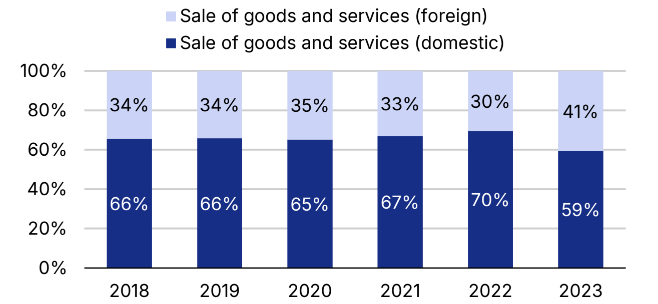
Low end-market diversification

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

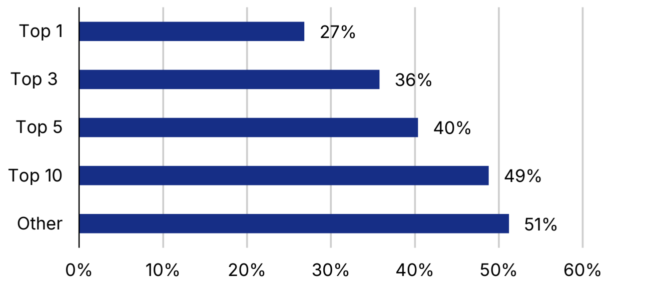
Despite the recent acquisition of Radionika Sp.z o.o. in Poland, Hörmann still has a relatively weak international presence, with Germany accounting for around 60% of total revenues in 2023. This strong domestic exposure is especially due to Automotive and Intralogistics. Funkwerk also generates the vast majority of its revenue in Germany. We understand that Hörmann is looking to increase its geographical presence in the future through add-on acquisitions.

Figure 2: Still dependent on domestic customers, despite recent acquisition in Poland



Sources: Hörmann, Scope

Figure 3: Relatively concentrated customer site
Revenue split by customers



Sources: Hörmann, Scope

Significant dilutive effect from Automotive's weak profitability

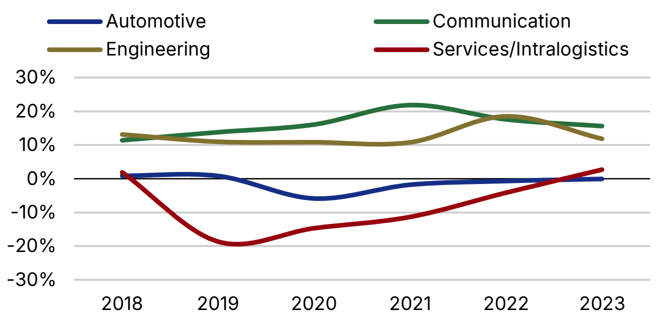
In view of the relative size of the Automotive division, its very weak profitability (EBIT margins of less than 1% in 2017-23) has a significant negative impact on the group's total profitability. Profitability is therefore a further constraint on the business risk profile.

Since 2019, Hörmann has been focussing on the sale of loss-making businesses and production relocations in order to improve Automotive's profitability. Most recently, in 2023, Hörmann disposed of 100% of its stake in the loss-making Hörmann Automotive Eislingen GmbH. After the failed sale of Hörmann Automotive Wackersdorf GmbH (Wackersdorf) in 2023, Wackersdorf was used for the production of other goods such as sirens and train driving displays in 2024. In 2025, Wackersdorf will be transferred from the Automotive segment to the Communication segment. These measures have stabilised Automotive's profitability at a very low level.

Communication's stronger profitability supports overall profitability

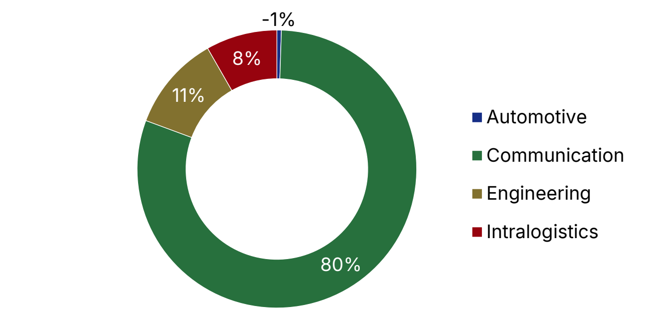
The stronger profitability in Communication, on the other hand, supports overall profitability. More than 85% of the division's EBIT is attributable to Funkwerk, which also makes the largest contribution to the group's overall profitability.

Figure 4: Automotive's EBIT margin around 0%



Sources: Hörmann, Scope

Figure 5: Weak Automotive profitability dilutes overall profitability

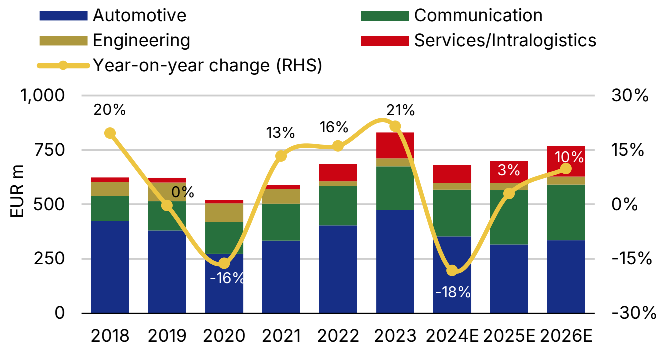


Sources: Hörmann, Scope

Revenue revision in 2024 on weak Automotive revenue, growth in Communication

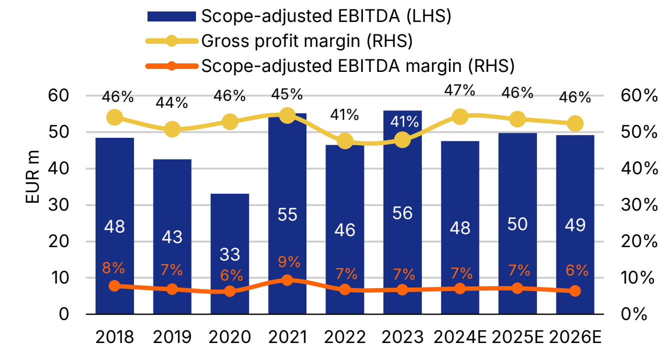
Based on the 9M 2024 revenue figure (down 14.3% to EUR 487m), we anticipate revenue of around EUR 680m in 2024 (down 18% YoY). This particularly reflects the sharp decline in Automotive's revenue (down 24% YoY in 9M 2024), due to a significant reduction in call-off orders from OEM customers as a result of the decline in truck production. In addition, the Intralogistics division (down 36% YoY in 9M 2024), was negatively impacted by the continued reluctance to invest and the postponement of projects. These negative effects were partially offset by higher revenue in Communication (up 20% YoY in 9M 2024), primarily due to Funkwerk. In addition to overall solid business development, Funkwerk benefited from the consolidation effects of Elektrotechnik und Elektronik Oltmann GmbH in March 2024 and the Polish company Radionika Sp.z o.o. in June 2023.

Figure 6: Communication and Intralogistics to drive revenue in 2025; upturn in Automotive in 2026



Source: Hörmann, Scope estimates

Figure 7: Higher gross profit margin to support profitability in 2024-25



Sources: Hörmann, Scope estimates

Order backlog growth in Communication and Intralogistics in 2024 to drive revenue in 2025

For 2025, we have factored in revenue of EUR 700m, up 3% YoY on the back of the higher expected revenue in Communication and Intralogistics. Communication reported strong growth in the order backlog: to EUR 290m at end-September 2024 from EUR 216m at end-September 2023. This was mainly due to a new contract to install around 100 radio masts along the Hamburg-to-Berlin railway line, which is being upgraded to a high-capacity corridor. Communication's revenue will also benefit from the transfer of Wackersdorf from the Automotive and Intralogistics divisions. The expected revenue growth in Intralogistics mainly reflects two large orders received in Q4 2024. Based on our discussions with management, the order backlog in Intralogistics at year-end 2024 was around 50% above the previous year's level. We expect Automotive revenue to decline due to the transfer of Wackersdorf from Automotive to Communication (around EUR 30m in revenue in 2023) and still subdued market demand, indicated by the decline in the order backlog to EUR 100.7m at end-September 2024 from EUR 133.0m in the previous year. Assuming a recovery in Automotive and continued solid revenue growth in Intralogistics due to project execution, we have factored in revenues of around EUR 770m in 2026 (up 10% YoY).

Higher expected gross profit margin in 2024 mitigates revenue decline

As Hörmann still reports under the German Commercial Code (HGB), the reported figures include operating lease expenses. Adjusted for leasing expenses, we expect Scope-adjusted EBITDA to decline to around EUR 48m in 2024 from around EUR 56m in 2023 due to the revised revenue expectation. A larger decline will be prevented by slightly higher projected profitability (revised to around 7% from about 6.5%) driven by the higher expected gross profit margin. We project that the gross profit margin will increase to over 47% (45.7% in 9M 2024 vs. 40.7% in 9M 2023), mainly supported by: i) the product mix (less revenue from the low-margin Automotive business); and ii) compensation payments from Hörmann's main customers. This level is comparable to that prior to 2022, before the gross profit margin was negatively impacted by: i) a higher share of the less profitable Automotive business; ii) raw material inflation; and iii) an increase in temporary labour.

Gross profit to remain solid in 2025 but lower revenue projected

We have also revised our 2025 expectation for Scope-adjusted EBITDA to EUR 50m from EUR 55m previously, due to the new revenue expectation. We project that the gross profit margin will remain at a solid level of above 46% in 2025, supported by: i) the favourable product mix due to the subdued Automotive revenue; ii) price increases agreed with the main Automotive customers; and iii) a further reduction in temporary labour.

Higher Scope-adjusted EBITDA in 2026 due to higher revenue; product mix and costs will weigh

The projected upturn in Automotive in 2026 is expected to reduce the gross margin. Hörmann anticipates that positive effects from the start of deliveries of higher-margin frame parts for electric trucks will mitigate the negative impact on the gross margin. It remains to be seen whether or not this is the case. We expect more wage increases, which will raise personnel costs further. In addition, Hörmann plans to increase its headcount in 2026, which is likely to weigh on profitability. Overall, we expect a lower Scope-adjusted EBITDA margin in 2026, but this should be offset by higher revenue, leading to a slight increase in Scope-adjusted EBITDA.

8. Financial risk profile: BBB

Financial risk profile revised to BBB from BBB-

The upward adjustment to Hörmann's financial risk profile to BBB from BBB- is based on: i) our Scope-adjusted debt revision to reflect new information on operating leases; and ii) our changed leverage expectation for 2024-26, given the high anticipated cash balances at year-end 2024. Hörmann's financial risk profile continues to be supported by good-to-strong debt protection but remains constrained by volatile cash flow cover due to net working capital (NWC) fluctuations.

Reported debt increased in 2024

The issuance of a promissory note loan in the amount of EUR 17.5m increased Hörmann's reported financial debt to EUR 70.7m at end-September 2024 from EUR 55.7m at end-December 2023.

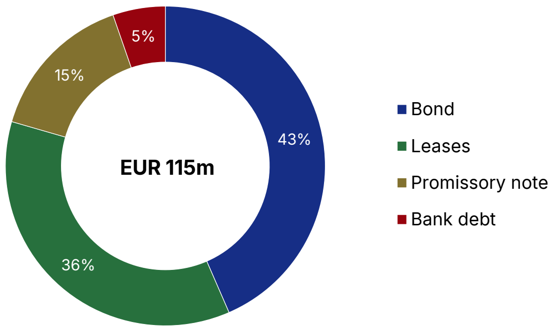
Our reported debt adjustments

In order to calculate Scope-adjusted debt, we have added: i) uncovered pensions totalling EUR 19m; and ii) leases totalling EUR 25m. In addition, we assume that 50% of Funkwerk's cash is trapped. 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 also note that Funkwerk only holds a 60% stake in Radionika Sp. z o.o.. We therefore assume that 50% of Funkwerk's cash is trapped.

Significant increase in cash balance expected in Q4 2024 to reduce Scope-adjusted debt YoY

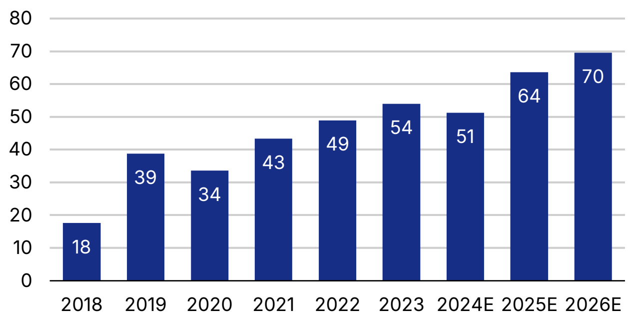
We expect Scope-adjusted debt of around EUR 51m at YE 2024. The downward revision from our previous expectation of EUR 95m reflects a lower amount for operating leases (EUR 25m vs EUR 49m previously) and a higher projected cash balance at year-end 2024, thanks to the expectation of higher Scope-adjusted FOCF and lower M&A cash outflow compared to last year's assumptions. In 2025, we foresee Scope-adjusted debt increasing slightly to around EUR 64m, mainly due to the adjustment for higher expected cash at Funkwerk and higher expected leases. Based on our discussions with management, Hörmann plans to continue to make small add-on acquisitions with a focus on the Communication and Intralogistics segments. Larger M&A transactions are possible, but not currently in the pipeline. We have factored around EUR 5m per year for M&A into our forecast.

Figure 8: Bonds and leases dominate funding structure (end-September 2024)



Sources: Hörmann, Scope

Figure 9: Scope-adjusted debt at around EUR 50m in 2024 thanks to high cash balance expected at year-end 2024



Source: Hörmann, Scope estimates

Continued strong EBITDA-based leverage

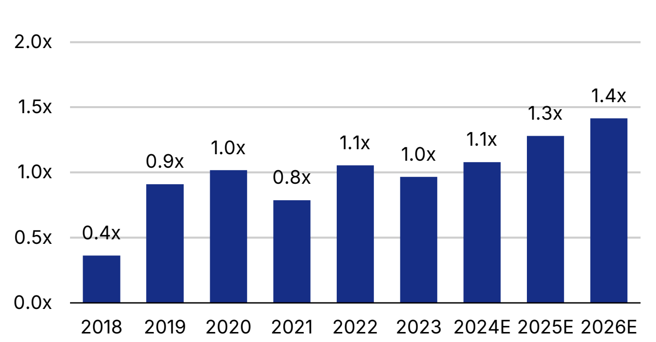
We project that Hörmann's Scope-adjusted debt/EBITDA in 2024 will settle at the 2019-23 level of around 1.0x, as lower Scope-adjusted debt should offset the negative impact of lower Scope-adjusted EBITDA. We expect Scope-adjusted debt/EBITDA to remain between 1.0x and 1.5x over the 2025-26 period, tending towards the upper end of this range in 2026 as a result of the assumed increase in debt.

Strong FFO-based leverage

Hörmann's funds from operations (FFO)-based leverage of above 60% in 2024 is very strong. In view of the revised Scope-adjusted EBITDA in 2024, we expect Scope-adjusted FFO to decline to around EUR 33m in 2024. Lower expected cash taxes and extraordinarily high interest income of around EUR 4m from the fixed-term deposit of a high level of cash and cash equivalents will have a supporting effect. In 2025, we project Scope-adjusted FFO at around EUR 37m. We expect the Scope-adjusted FFO/debt ratio to remain strong, tending towards around 50% in 2026 as a result of the projected increase in debt.

Figure 10: Leverage expected to remain around 1.0x in 2024-25 before peaking in 2026

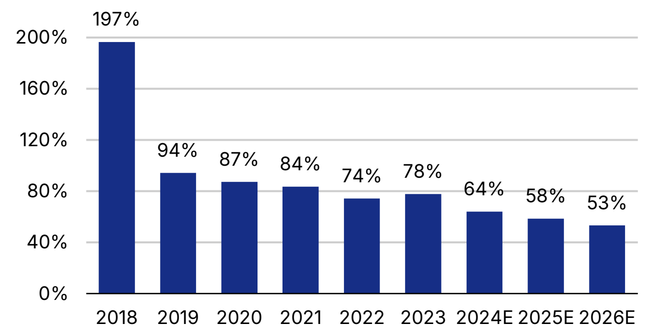
Scope-adjusted debt/EBITDA



Sources: Hörmann, Scope estimates

Figure 11: Strong FFO-based leverage

Scope-adjusted FFO/debt



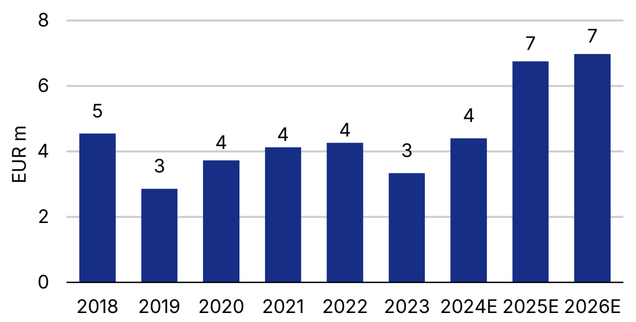
Sources: Hörmann, Scope estimates

Strong interest cover

The recent refinancings have a higher interest rate. The refinancing of the bond has led to a coupon increase from 4.5% to 7% and the promissory note has a coupon of 5%. In 2024, we expect Hörmann to book exceptionally high interest income of around EUR 4m from the fixed-term deposit of its high level of liquid funds. Overall, we expect Scope-adjusted interest costs (incl. interest on leasing) of around EUR 4m in 2024 and interest cover of around 11.0x. In 2025-26, we have factored in Scope-adjusted interest costs of around EUR 7m and foresee a continued strong interest coverage ratio of above 7x.

Figure 12: Net interest in 2024 benefits from very high interest income, higher interest rates in 2025-26

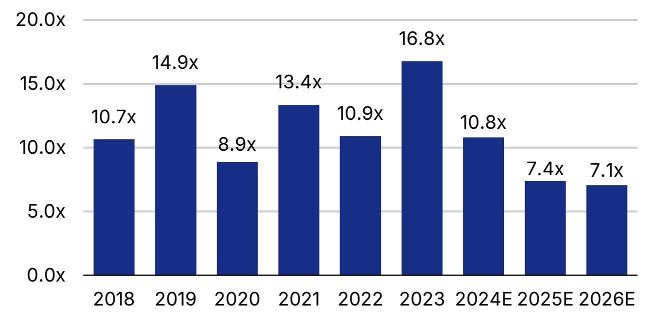
Scope-adjusted interest



Sources: Hörmann, Scope estimates

Figure 13: Strong debt protection metric despite higher interest rates

Scope-adjusted EBITDA/interest cover



Sources: Hörmann, Scope estimates

Volatile Scope-adjusted FOCF and dependency on Funkwerk

Hörmann's overall financial risk profile is somewhat constrained by volatile Scope-adjusted FOCF, in particular as a result of volatile NWC. It is worth noting that Funkwerk has generated most, and at times all, of the group's cash flow over the last four years, which is a credit weakness.

Positive Scope-adjusted FOCF projected in 2024-25

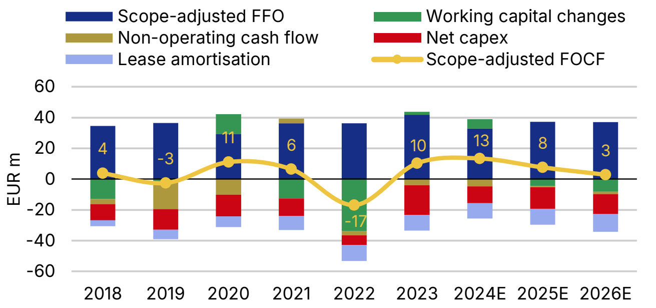
In 2024, we expect NWC to decrease slightly, mainly as a result of significant prepayments for the new orders received in Q4 2024 and the new factoring agreement. We have revised our expectation for net capex in 2024 to EUR -12m from EUR -19m due to high proceeds, mainly from the sale and lease back transaction. Overall, we project positive Scope-adjusted FOCF in 2024 at around EUR 13m (previous projection: EUR -1m). As the construction work at Funkwerk's headquarters in Kölleda and the reorganisation of frame-length production have been completed, we expect capex to level off to EUR 14.0m in 2025. However, we anticipate a slight increase in NWC in 2025, driven by solid expected business in Communication, which accounts for 60%-80% of Hörmann's total NWC. We project that Scope-adjusted FOCF will decline to around EUR 8m in 2025.

We have also factored in lease amortisation of EUR 10m in 2024 and EUR 11m in 2025.

In line with the Scope-adjusted FOCF expected in 2024-25, we project that cash flow coverage will be solid in these years but that it will fall below 5% in 2026.

Positive cash flow cover in 2024-25

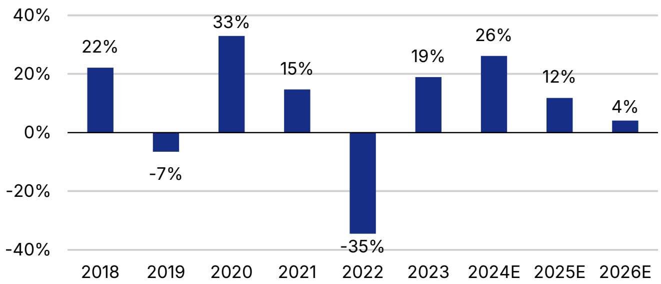
Figure 14: Swings in working capital and non-operating cash flow drive Scope-adjusted FOCF volatility



Sources: Hörmann, Scope estimates

Figure 15: Cash flow cover to remain volatile

Scope-adjusted FFO/debt



Sources: Hörmann, Scope estimates

Hörmann's liquidity is adequate, supported by available liquidity sources and the absence of major short-term maturities in 2025-26 and no major external funding needs for the company's investments. Overall, available cash sources, in particular cash on the balance sheet and undrawn credit lines, cover cash uses in the next 12-18 months by well over 300%.

Adequate liquidity

Table 2. Liquidity sources and uses (in EUR m)

	2024E	2025E	2026E
Unrestricted cash (t-1)	44.5	66.0	60.6
Open committed credit lines (t-1)	39.8	37.0	37.0
Other liquidity sources (t-1)[5]	0.0	0.0	0.0
Free operating cash flow (t)	13.4	7.5	2.8
Short-term debt (t-1)	3.8	5.7	3.0
Liquidity	**>200%**	**>200%**	**>200%**

Sources: Hörmann, Scope estimates

Principal cash sources comprise:

Cash sources

- An anticipated cash balance of around EUR 90m at year-end 2024. Our liquidity calculation excludes 50% of the cash at the Funkwerk level, which we consider restricted.
- EUR 37m of undrawn funds under the EUR 40.0m syndicated loan with a term until end-2027, of which up to EUR 15m can be used as a current account credit line and up to EUR 25m as a revolving line.
- Expected Scope-adjusted FOCF of around EUR 8m in 2025 and around EUR 3m in 2026.
- Cash inflows of EUR 2.5m per year in 2025-26 from the repayment of a EUR 20m loan granted in 2019.

Expected cash uses comprise:

Cash uses

- Yearly dividend payments of around EUR 5m in 2025-26
- Yearly M&A-related payout of around EUR 5m in 2025-26
- Debt repayments of EUR 2.7m in 2025, no maturities in 2026

The next major maturities are in 2027 when the EUR 7.5m promissory note and the EUR 40.0m syndicated loan agreement are due for repayment. The EUR 50m bond is due for repayment in 2028. Hörmann's refinancing strategy envisages repaying the promissory note loan from cash,

Refinancing strategy for maturities in 2027 and 2028

[5] Portion of liquid inventories (25%).

renegotiating the syndicated loan agreement and tapping the capital market in 2027 to refinance the bond.

Covenant associated with syndicated loan and promissory notes

The syndicated loan and promissory notes have 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 2024, the ratio was around 34.5% (year-end 2023: 33%). It should also be noted that, given the currently low utilisation of the syndicated loan agreement, the liquidity risk of a covenant breach is fairly limited.

Covenant associated with the new bond

The bond has an incurrence covenant, which is tested if Hörmann initiates a financial transaction such as the payment of a dividend or the raising of further loans and is fulfilled if the leverage ratio is below 2.75x at the respective point in time. The calculation of the covenant does not take into account off-balance sheet items such as operating leases and pensions, which are quite substantial. It is also calculated with 100% of Funkwerk's cash.

Full covenant compliance expected going forward

In view of the liquidity situation and the earnings forecast, we expect compliance with both covenants in 2025-26.

9. Supplementary rating drivers: +/- 0 notches

Credit-neutral financial policy

We have a neutral view on Hörmann's capital allocation. In recent years, Hörmann has primarily used its capital for bolt-on acquisitions. Dividend payments have been relatively small (EUR 4-5m per annum) and include payments from Funkwerk to its minority shareholders and from Hörmann to its parent company.

Continuation of add-on acquisitions

We expect Hörmann to continue to make small add-on acquisitions, as it has done recently, with a focus on the Communication and Intralogistics segments. There are currently no major M&A transactions in the pipeline.

10. Debt rating

Senior unsecured debt rating: BB

Senior unsecured debt is rated BB, based on an 'average' recovery prospect in a simulated default event in 2026. Our recovery analysis incorporates a distressed going-concern enterprise value of around EUR 60m.

Hörmann's debt instruments total around EUR 112m, of which EUR 73m are drawn, comprising in particular:

- A EUR 50m bond with a coupon of 7.0% and a term of five years, maturing in July 2028
- A EUR 18m promissory note with a coupon of 5%. Of the total amount, around EUR 8m is due for repayment in 2027 and EUR 10m in 2030.
- A five-year syndicated loan in the amount of EUR 40.0m due in 2027 of which around EUR 3.0m are utilised.

Our recovery analysis also takes aval credit lines into consideration, as Hörmann is a co-obligor or co-borrower for financings of its parent Hörmann Holding GmbH & Co. KG.

Apart from a credit line for Hörmann Klatt Conveyors GmbH in the amount of EUR 2.5m, which was established at the level of the operating company and guaranteed by Hörmann Industries GmbH, 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.

We consider the credit line for Hörmann Klatt Conveyors GmbH to be structurally senior. The other debt instruments are unsecured and rank pari passu.

We assume that the EUR 40.0m syndicated loan and the EUR 2.5m credit line made available to Hörmann Klatt Conveyors GmbH will be fully utilised at the simulated point of default. Beyond this, we assume that the business plan will be executed as planned with no additional bank debt or other financing.

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