# Franz Haniel & Cie. GmbH
# Germany, Investment holdings

SCOPE BBB- STABLE

## Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios** | **2022** | **2023** | **2024E** | **2025E** |
| Total cost cover | 1.0x | 1.3x | 1.2x | 1.2x |
| Scope-adjusted loan/value (LTV) | 14.0% | 13.5% | <20% | <20% |
| Liquidity | 187% | 147% | 133% | >200% |

## Rating rationale

The rating reflects Haniel's solid financial structure as displayed by a total cost cover consistently above 1.0x and a modest market value gearing as displayed by an LTV of less than 20%. While Haniel's income-generating portfolio companies are strongly diversified themselves, the income generation of the holding remains concentrated around a few portfolio companies and financial assets which overall constrains the rating.

## Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Haniel will maintain a sustained total cost cover in the range of 1.0-1.3x. Our rating case incorporates a total cost cover ratio of 1.2x for 2024 and 2025, which implies that cash income from portfolio companies and financial investments would have to be approximately 25% below our forecasts to be unable to fully cover recurring holding company costs, including expected shareholder remuneration (i.e. before total cost cover falls below 1.0x).

A positive rating action could be justified if Haniel were to reduce the concentration risks associated with its income-generating portfolio companies while keeping its financial position at least unchanged. This could be the result of more portfolio companies entering into dividend payment status or profit sharing from more than the strongest three ventures at present. Alternatively, a higher rating could be considered if total cost cover is maintained above 1.3x while keeping LTV below 20%.

A negative rating action could result if the holding company's total cost cover is expected to deteriorate below 1.0x on a sustained basis, or if concentration risks to recurring income streams and gross asset value increase significantly.

## Rating history

| Date | Rating action/monitoring review | Issuer rating & Outlook |
|---|---|---|
| 19 Apr 2024 | Affirmation | BBB-/Stable |
| 17 Apr 2023 | Affirmation | BBB-/Stable |
| 25 Apr 2022 | Affirmation | BBB-/Stable |

### Ratings & Outlook

| | |
|---|---|
| Issuer | BBB-/Stable |
| Short-term debt | S-2 |
| Senior unsecured debt | BBB- |

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### Related Methodologies

General Corporate Rating Methodology; Oct 2023

Investment Holding Companies Rating Methodology, May 2023

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## Rating and rating-change drivers

| Positive rating drivers | Negative rating drivers |
|---|---|
| • Buy-and-hold investment approach with primary focus on recurring dividend/income streams; Controlling stakes in investment companies allows for strategic influence on subsidiaries' operations and dividend policy<br>• Balanced industry allocation in the investment portfolio, which contains largely uncorrelated exposure to non-cyclical and cyclical industries. Highest single industry exposure stands at ~20%<br>• Portfolio companies which are largely market leaders in their respective industries/niches and with well-established business models in mature markets. Sharpened investment focus on companies which follow global megatrends (healthcare and well-being, circular economy, climate change, robotics and automation) which is seen credit-positive from an ES(G) perspective<br>• Strong geographical diversification across revenue streams in the investment portfolio<br>• Ongoing rebalancing of investment portfolio and potential gradual reduction of concentration risks in line with investment strategy, bolstered by further debt headroom<br>• Expectation of a sustained total cost cover above 1.0x, which has even been kept in 2020 – a year which was characterised by liquidity management of portfolio companies and dividend cuts<br>• Good leverage (LTV of 13.5% at YE 2023) and continued commitment to keeping net financial debt up to EUR 1bn over the medium-to-long term, even after new investments which still provides good debt headroom of up to EUR 0.6-0.7bn (also considering the release of financial assets)<br>• Strong liquidity and limited short-term refinancing needs, allowing for substantial acquisitions | • Number of shareholdings remains limited (thereof 3-4 income generating) resulting in high concentration risks in terms of income and asset value concentration<br>• Weak portfolio liquidity due to large share of unlisted subsidiaries which may not be sold immediately if liquidity is urgently needed. This is partly offset by the buy-and-hold investment approach and Haniel's comfortable liquidity position<br>• Investment focus on SMEs resulting in stronger earnings volatility, partly offset by improved diversification within the investment portfolio<br>• Focus on SME investments is paired with a higher likelihood for business failures and write-offs compared to investment focus on well-established bigger companies<br>• Naturally volatile leverage (LTV) stemming from market volatility<br>• No commitment to relative leverage threshold which, however, is offset by absolute ceiling level on net financial debt |

| Positive rating-change drivers | Negative rating-change drivers |
|---|---|
| • Sustained total cost cover of above 1.3x, paired with a more balanced income contribution from different portfolio companies while keeping LTV below 20% | • Total cost cover below 1.0x on a sustained basis<br>• Increasing concentration risks with regards to TOP income-generating portfolio companies |

## Corporate profile

Franz Haniel & Cie. GmbH is an investment holding founded in 1756. The company is privately owned by more than 750 members of the Haniel family. Haniel does not have any own operating activities. Its cash inflows entirely stem from dividend payments, profit-and-loss transfers from its shareholdings and income from financial assets. While the company's focus is on the accrual of cash inflows from its portfolio companies, additional cash flows can be generated by the (partial) sale of stakes in the different shareholdings. The holding owns a controlling share in CWS, Takkt, BekaertDeslee, ROVEMA, Emma, KMK Kinderzimmer and BauWatch as well as minority stakes in Ceconomy and Metro.

## Financial overview

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios** | **2022** | **2023** | **2024E** | **2025E** |
| Total cost cover (from recurring income) | 1.0 | 1.3 | 1.2 | 1.2 |
| Total cost cover without dividend payments (recurring) | 1.7 | 2.2 | 1.8 | 2.0 |
| Scope-adjusted loan/value | 14.0% | 13.5% | <20% | <20% |
| Liquidity | 187% | 147% | 133% | >200% |
| **Cash flows in EUR m** | **2022** | **2023** | **2024E** | **2025E** |
| **Recurring cash income** | **194** | **196** | **190** | **222** |
| thereof recurring cash inflows from portfolio companies | 166 | 172 | 171 | 205 |
| thereof recurring income from financial assets (interest income) | 28 | 24 | 19 | 17 |
| **Non-discretionary cash outflows** | **-192** | **-147** | **-154** | **-179** |
| thereof holding cost | -40 | -47 | -50 | -55 |
| thereof shareholder remuneration | -128 | -63 | -54 | -75 |
| thereof interest payments | -24 | -37 | -50 | -49 |
| thereof taxes | - | - | - | - |
| **Balance sheet/indebtedness in EUR m** | **2022** | **2023** | **2024E** | **2025E** |
| Scope-adjusted debt (including pension adjustments) | 694 | 747 | <1,000 | <1,000 |
| Portfolio market value | 4,966 | 5,539 | n/a | n/a |
| Net asset value | 4,340 | 4,806 | n/a | n/a |

## Table of Content



## Environmental, social and governance (ESG) profile[1]

| 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)

**Strong focus on ES(G)-relevant investments**

Haniel's rating is supported by our view on the company's investment approach along its detailed investment strategy which focuses on investments in controlling stakes of mature SMEs that meet specific criteria. More specifically, such investments need to match a business purpose that is in line with Haniel's 'People, Planet, Progress' strategy. This strategy focuses on companies/investments that serve global and sustainable megatrends in the areas of healthcare&well-being, circular economy, climate change and robotics&automation (ESG factor: credit-positive factor that is likely to support a sustained business profile and valuations).

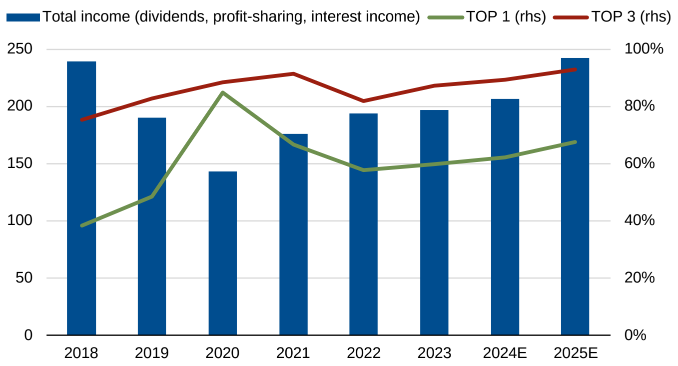
[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

## Business risk profile: BBB-

**High concentration risks pertaining income and gross asset value**

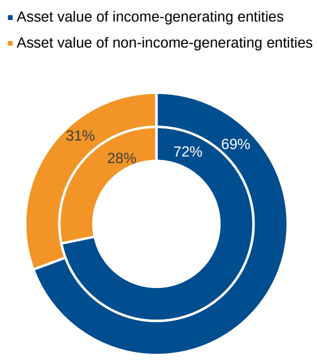
Haniel's business risks continue to be determined by its portfolio structure and investment philosophy. While Haniel has to some extent used its financial leeway for investments in stakes of smaller companies at different development stages, e.g. such as KMK Kinderzimmer and BauWatch in 2021, the recurring income at the holding level remains strongly geared towards the TOP3 portfolio companies CWS, Takkt and BekaertDeslee. The TOP3 portfolio companies continue to account for around 90% of recurring income and around 70% of gross asset value (see Figures 1 and 2). While Haniel's portfolio includes a number of smaller ventures that could start contributing income to the holding in the medium term, concentration risks are likely to remain for the foreseeable future, as the amount of income from such companies will remain rather insignificant. As a result, any reduction in concentration risk is likely to be gradual only. At the same time, some past investments could prove to be less successful and lead to a write-down/disposal, as in the case of Optimar International in early 2024. However, we judge that Haniel's portfolio with a gross asset value of EUR 5.5bn at YE 2023 can absorb less successful investments.

**Figure 1: Total income at holding level (EUR m) and concentration risk as measured by income contributions from TOP portfolio companies (rhs)**




Sources: Haniel, Scope estimates

**Figure 2: Income generating portfolio (% of GAV) - inner circle: 2022; outer circle: 2023**

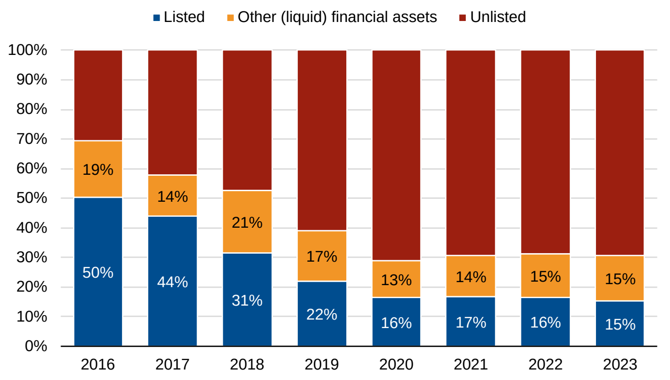



Sources: Haniel, Scope

**Strong diversification within the portfolio companies**

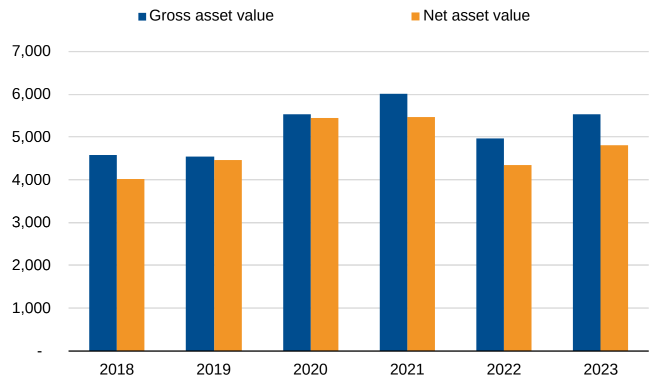
On the positive side, we emphasise that concentration risks are somewhat offset by the strong diversification of income generation across the portfolio companies that provide recurring income to the holding company. Thus, the income at the holding level is supported by a diversified exposure at the portfolio company level to different markets, primarily across Europe, North and Latin America and Asia, but also to varied sectors with no substantial concentration risks.

**Figure 3: Significant asset transformation towards an increased share of unlisted portfolio companies (measured by gross asset value)**




Sources: Haniel, Scope

**Figure 4: Robust development of asset values (EUR m)**




Sources: Haniel, Scope

**Portfolio liquidity not deemed overly important for a holding with a buy-and-build approach**

While portfolio liquidity – as measured by the share of liquid assets and the ability to easily sell portfolio assets (see Figure 3) – remains another negative rating factor, we continue to attach less importance to the limited exposure to liquid/listed portfolio companies, given i) the investment holding's long-term investment approach, and ii) no expected need for short-term asset sales in light of a sustained sufficient total cost cover and adequate liquidity. Therefore, the share of 15-30% of listed and other liquid assets (listed portfolio ventures + financial assets) of the gross asset value is not deemed as strongly detrimental to the credit profile. Moreover, we point to the relative stability of the holding's asset value over time (see Figure 4) and little need for selling assets for the purpose of raising liquidity in light of the company's solid total cost cover and good leverage.

**Risk-averse and long-term oriented investment philosophy**

On the contrary, we regard the company's investment philosophy and the associated financial policy as credit-positive. Haniel's investment philosophy is characterised by a long-term investment horizon and a focus on holding majority stakes in its portfolio companies, which supports the holding's 'buy-and-build' approach. Such approach focuses on keeping and developing portfolio companies over the medium to long term (sometimes over decades) and it does not require frequent portfolio rebalancing which provides good transparency about the long-term structure of the investment portfolio. In addition, the investment strategy focuses on companies/investments that serve global and sustainable megatrends in the area of: i) health & wellbeing; ii) the circular economy; iii) climate change; and iv) robotics & automation. New portfolio investments are selected using a clearly defined ESG-oriented process (positive ESG factor), which increases the likelihood of a sustained investment portfolio. This qualitative investment approach is complemented by the holding's very prudent financial investment approach, which goes hand in hand with a self-imposed maximum on the holding's net financial debt of EUR 1.0bn.

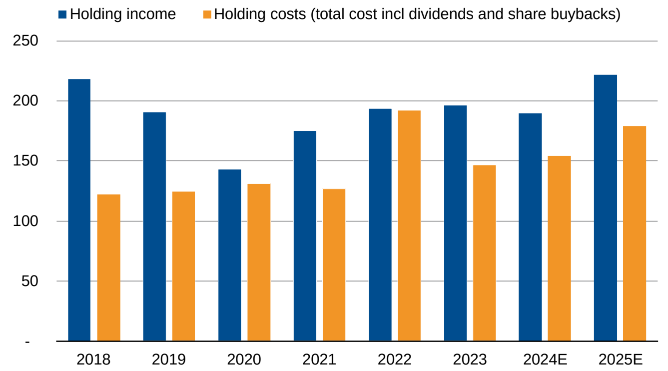
## Financial risk profile: BBB

The investment holding's credit strength continues to be underpinned by its solid financial position, as evidenced by a consistently good total cost cover within a range of 1.0-1.3x as well as low and robust leverage.

Solid total cost cover

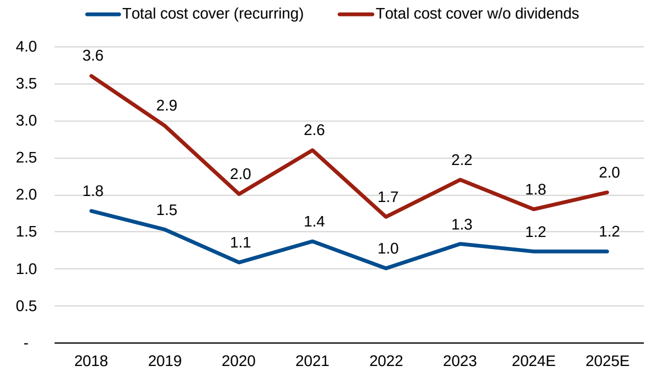
Total cost cover recovered to 1.3x in 2023 (after 1.0x in 2022) following a normalisation of cash outflows for share buybacks. Despite the above-mentioned concentration risks around Haniel's core income-generating portfolio companies, their cash contributions to the holding company are largely sufficient to cover recurring holding costs including shareholder remuneration. In 2024 and 2025, we expect a total cost cover at a level of around 1.2x, bolstered by continued cash income of EUR 190m – EUR 220m stemming from its core portfolio companies and interest income from financial assets (see Figures 5 and 6). Such cash inflows can largely cover the lean holding costs, interest payments and distributions to shareholders, which are expected to amount to EUR 150m – EUR 180m in 2024 and 2025. In addition, we note that Haniel is likely to use its flexibility in shareholder remuneration in order to ensure full cost cover should cash inflows fall short of expectations. However, we project that cash inflows would have to fall short of forecasts by around 25% before total cost cover would fall below 1.0x.

**Figure 5: Total cash income vs total cash outflow (EURm)**




Sources: Haniel, Scope estimates

**Figure 6: Total cost cover**

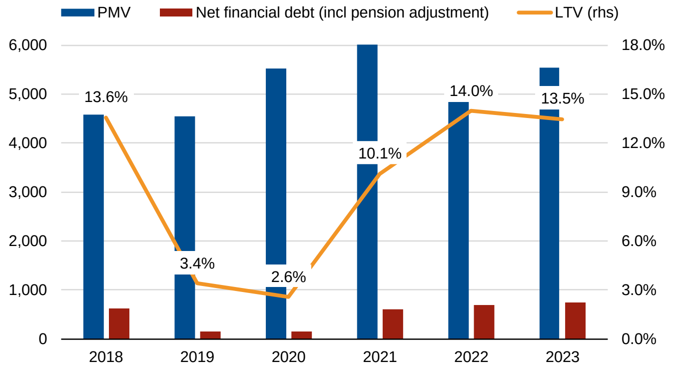



Sources: Haniel, Scope estimates

Modest LTV

Similarly, leverage, as measured by LTV, remains supportive of the rating. LTV remained at an unchanged level at 13.5% at YE 2023 (compared to 14% at YE 2022), despite the slight increase in Scope-adjusted debt to around EUR 750m, thanks to the robust development of the investment portfolio's market value at around EUR 5.5bn (see Figure 7). We point out that the company retains its solid headroom to its self-imposed net debt ceiling of EUR 1.0bn, providing further scope for portfolio additions. We also emphasise that there is a significant buffer for the development of Haniel's portfolio market value, which – all else being equal – would have to deteriorate by 30% before an LTV of more than 20% would be exceeded (see Figure 8).

**Figure 7: Portfolio market value vs Scope-adjusted debt (EUR m) and corresponding LTV**




Sources: Haniel, Scope

**Figure 8: LTV sensitivity**

Portfolio market value (EURbn)

| Scope-adjusted debt (EURbn) | | 6.1 | 5.8 | 5.5 | 5.0 | 4.4 | 3.9 | 3.3 | 2.8 |
|---|---|---|---|---|---|---|---|---|---|
| | *change in %* | *10%* | *5%* | ***0%*** | *-10%* | *-20%* | *-30%* | *-40%* | *-50%* |
| **0.75** | ***0%*** | **12.3%** | **12.8%** | **13.5%** | **15.0%** | **16.9%** | **19.3%** | **22.5%** | **27.0%** |
| **0.78** | *5%* | 12.9% | 13.5% | **14.2%** | 15.7% | 17.7% | 20.2% | 23.6% | 28.3% |
| **0.82** | *10%* | 13.5% | 14.1% | **14.8%** | 16.5% | 18.5% | 21.2% | 24.7% | 29.7% |
| **0.86** | *15%* | 14.1% | 14.8% | **15.5%** | 17.2% | 19.4% | 22.2% | 25.9% | 31.0% |
| **0.90** | *20%* | 14.7% | 15.4% | **16.2%** | 18.0% | 20.2% | 23.1% | 27.0% | 32.4% |
| **0.93** | *25%* | 15.3% | 16.1% | **16.9%** | 18.7% | 21.1% | 24.1% | 28.1% | 33.7% |
| **0.97** | *30%* | 15.9% | 16.7% | **17.5%** | 19.5% | 21.9% | 25.1% | 29.2% | 35.1% |
| **1.01** | *35%* | 16.6% | 17.3% | **18.2%** | 20.2% | 22.8% | 26.0% | 30.4% | 36.4% |

Sources: Scope computations

**Adequate liquidity**

Haniel's liquidity remains strong despite the significant amount of short-term debt at YE 2023. Upcoming debt maturities in 2024 and 2025 (EUR 629m ad EUR 60m respectively) are well covered, mainly by a significant amount of committed and undrawn multi-year credit lines in an amount of around EUR 750m supplemented by positive free operating cash flow (positive total cost cover) and a small cash buffer of EUR 9m at YE 2023. As a result, we do not see any refinancing risk that would necessitate the sale of any shareholdings or financial assets.

| Balance in EUR m | 2023 | 2024E | 2025E |
|---|---|---|---|
| Unrestricted cash (t-1) | 12 | 9 | 16 |
| Open committed credit lines (t-1) | 725 | 740 | 740 |
| Free operating cash flow[2] (t) | 112 | 90 | 118 |
| Short-term debt (t-1) | 579 | 629 | 60 |
| **Coverage** | **147%** | **133%** | **>200%** |

## Long-term and short-term debt ratings

Debt is issued at the level of Franz Haniel & Cie. GmbH (under a EUR 500m commercial paper programme) and its financing subsidiaries Haniel Finance Deutschland GmbH and Compartment Haniel Enkelfähig of NowCM Luxembourg S.A. under a EUR 5bn debt issuance programme. Debt issued by the two financing subsidiaries benefits from an unconditional and irrevocable guarantee from Franz Haniel & Cie. GmbH. Currently, no long-term public debt such as bonds or hybrids are outstanding.

**Short-term debt rating: S-2**

The S-2 short-term debt rating is based on the underlying BBB-/Stable issuer rating and reflects the more than adequate liquidity position as well as solid access to bank funding and the capital markets.

**Senior unsecured debt rating: BBB-**

Senior unsecured debt is rated at BBB-, in line with the underlying issuer rating.

[2] Taking into account the total cash flow excl discretionary spending as for investments and shareholder remuneration.

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