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Research Update:

France-Based SEB S.A. 'A-2' Short-Term Rating Affirmed Following Acquisition Of WMF Group

Primary Credit Analyst:
Remi Bringuier, Paris +33(0)1 44 20 67 96; remi.bringuier@spglobal.com

Secondary Contact:
Nicolas Baudouin, Paris (33) 1-4420-6672; nicolas.baudouin@spglobal.com

Table Of Contents

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Overview

- SEB has announced that it has agreed to acquire WMF for €1.6 billion, including the assumption of debt, to be financed with cash on the balance sheet and new debt issuance.
- Although this will increase the group's debt and weaken its debt protection metrics, we believe that SEB will be able to deleverage over the medium term, owing to its strong track record in free cash flow generation.
- We are therefore affirming our 'A-2' short-term rating on SEB.

Rating Action

On May 31, 2016, S&P Global Ratings affirmed its 'A-2' short-term corporate credit rating on France-based small domestic appliances manufacturer SEB S.A.

Rationale

This follows SEB's acquisition of the German group WMF, which will increase the group's fully adjusted ratio of debt to EBITDA to above 3x immediately after the transaction completes, before declining to the 2x-3x range over the next two years. We do not expect this will have an impact on the short-term rating. However, we have revised downward our assessment of the group's financial risk profile.

We believe that the acquisition of WMF will widen SEB's strategic product scope to include professional automated coffee machines. It will also further enhance its geographic diversification through direct exposure to the German market, where WMF has a well-established position and recognized brands. WMF's operations should benefit from SEB's strong research and development capability, but also from its low-cost manufacturing facilities in China. In particular, WMF's profitability should benefit from greater operating efficiencies in its more competitive cutlery and tableware division. The cross-fertilization stemming from this acquisition should also enable SEB to attain some new technologies especially within the area of automated coffee machines. On a smaller scale, SEB has recently acquired a German household products specialist, EMSA, as part of its strategy to expand in both the important German market and in the overall kitchen utensils and food storage containers space. SEB has established a track record of successful integration of acquisitions, as demonstrated by the operational turnaround of the Moulinex portfolio of brands in France and the more recent integration of Supor in

China. However, despite these positive factors, the group is still relatively modest in size and lacks some product diversification compared to peers. We therefore continue to assess the group's business risk profile comfortably within the satisfactory category.

We forecast that, after the acquisition of WMF, SEB's fully adjusted debt-to-EBITDA ratio should stay below 3x on a five-year weighted-average basis. This is owing to the group's solid free cash flow generation and its financial policy, which targets near-term debt repayment. Our base-case financial scenario factors in a gradual improvement in our adjusted debt-to-EBITDA ratio from 3.3x in 2016 to 2.4x in 2018. From the liquidity standpoint, SEB has already secured a bridge loan largely covering the acquisition price.

In our base case, we assume:
- Consolidated revenue post the WMF acquisition of about €6 billion in 2016.
- Adjusted EBITDA in the €675 million-€700 million range in 2016, slightly improving to above €725 million in 2017.
- A slight enhancement of the group's adjusted EBITDA margin in 2016 by only 10 basis points (bps), although we forecast a gradual improvement from 11.7% in 2016 to 13.2% in 2020 stemming from further rationalization in production costs and other cost-reduction initiatives.
- Annual working capital outflow of about €40 million in 2016, excluding the WMF acquisition, and €300 million after consolidation of WMF working capital.
- Capital expenditures (capex) of about €200 million in 2016, increasing to €250 million in 2017.
- €90 million of dividend distribution, although the company has not provided guidance.

Based on these assumptions, we arrive at the following credit measures:
- An adjusted EBITDA margin of about 11.7% in 2016.
- An adjusted debt to EBITDA of about 3.3x in 2016, improving to 2.4x in 2018 and returning to 1.5x in 2020 (the same level as in 2014).
- An adjusted debt to EBITDA below 3x on a five-year weighted-average basis.
- Funds from operations (FFO) of 37% on a five-year weighted-average basis.

Liquidity

We continue to assess SEB's liquidity position as of March 31, 2016, as strong, which factors in a ratio of liquidity sources to uses to above 1.5x over the next 12 months, remaining above 1.0x over the subsequent 12-month period.

Principal liquidity sources are:
- Almost €550 million of annually generated FFO.
- €1 billion cash and short-term investments as of Dec. 31, 2015.
- €610 million undrawn bank credit lines available with more than 12 months of maturity, comprising a €560 million renewed syndicated facility

maturing in December 2020 and a bilateral loan of €50 million maturing in 2017.
- €490 million of commercial paper (CP) available under a €600 million CP program.
- A bridge loan largely covering the acquisition price.

Principal liquidity uses are:
- €623 million of debt maturities comprising commercial paper (CP) for an outstanding amount of €110 million, bond repayment of €300 million, €40 million of "Schuldschein" repayment, and €173 million of other short-term debt.
- €200 million in capex.
- €90 million in dividend distribution, although no guidance has been provided.
- €300 million of working capital outflow linked to the WMF acquisition.
- A total amount of €1.645 billion paid for acquisitions (WMF, EMSA).

Ratings Score Snapshot

Corporate Credit Rating: --/--/A-2

Business risk: Satisfactory
- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Related Criteria And Research

Related Criteria

- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Consumer Durables Industry - December 12, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013

Ratings List

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Ratings Affirmed

SEB S.A.
 Corporate Credit Rating                --/--/A-2
 Commercial Paper                       A-2
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Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.