

Research Update:

Wendel SE Outlook Revised To Stable On Debt Reduction; 'BBB' Ratings Affirmed

March 31, 2025

Rating Action Overview

- France-based investment holding company Wendel SE disposed of a 6.7% stake in Bureau Veritas SA (BV), equivalent to 30.4 million shares, through a forward sale for a total net cash consideration of €748 million.
- As a result, we estimate that Wendel's S&P Global Ratings-adjusted loan-to-value (LTV) ratio reaches about 17% pro forma the forward sale, from close to 23% in October 2024 when it announced the planned acquisition of U.S.-based private debt asset manager Monroe Capital LLC for \$1.13 billion, which is expected to close in the first or second quarter of 2025.
- We anticipate that Wendel will manage its capital allocation strategy while prioritizing some organic deleveraging in the next 12-18 months to keep its S&P Global Ratings-adjusted LTV ratio below our 20% downside threshold for the rating.
- Therefore, we revised our outlook on Wendel to stable from negative and affirmed our 'BBB' long-term issuer credit and issue ratings on its unsecured debt as well as its 'A-2' short-term issuer credit rating.
- The stable outlook indicates that we expect Wendel will maintain LTV comfortably below our 20% threshold over the next 12-18 months, while redeploying capital.

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Rating Action Rationale

Wendel has restored some LTV headroom with the BV stake sale. We estimate that Wendel received €748 million of net proceeds from the transaction, leading to a reduction in its S&P Global Ratings-adjusted LTV to about 17.1%, from closer to 23.0% after the announcement of the acquisition of Monroe Capital which is expected to close in the first or second quarter of 2025. We think this leaves Wendel with some room to maneuver in the next 12-18 months compared with our 20% LTV downside threshold, especially in a scenario of volatile market conditions and asset valuations. In addition to the forward sale proceeds, our pro forma adjusted LTV calculation includes a \$1.13 billion cash consideration for the acquisition of third-party asset manager Monroe; a maximum \$255 million deferred consideration based on the next three years' performance; capital commitments toward Monroe's future funds to be

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deployed shortly after closing of about \$200 million; and the put option on the 25% remaining capital (today's estimated value of about \$350 million). We also consider €500 million of investment commitments already allocated to IK funds and the €131 million deferred acquisition payment due in 2027.

We view the forward sale of BV shares as an asset disposal. This is because Wendel retains none of the market risk associated with these shares, and because we estimate that no contingent or indirect liability will arise from the transaction. This is also supported by the shares being only deliverable physically at contract maturity and because any potential unwinding of the transaction would also only result in a physical delivery of the shares, with the lending bank having no other recourse to Wendel. As a result, we deduct the €748 million net proceeds from our S&P Global Ratings figure, while deducting the 6.7% stake sold from our adjusted portfolio value. We also incorporate Wendel's call spread on the BV shares, with an initial value of about €48 million added to our adjusted portfolio.

We anticipate Wendel's financial policy will prioritize LTV headroom. We view the investment holding's rapid initiative to reduce its net debt position after the Monroe Capital acquisition announcement as a positive signal of its commitment to maintain some headroom under the 20% maximum LTV level for the rating. The investment holding's financial policy framework includes a commitment to maintain an investment-grade rating, based on which we think that management will aim to keep its S&P Global Ratings-adjusted LTV well below 20% in the next 12-18 months as it focuses on integrating Monroe Capital into its third-party asset management platform. We view Wendel's track record of active asset rotation and prudent LTV management (average of about 10% since 2017 to date) as favorable. We expect Wendel's dividend policy to remain relatively balanced as its targeted payout increase (from 2.5% of its reported net asset value [NAV] in 2025 to 3.5% in the medium term) is tied to a planned growth in recurring fee related earnings (FRE) from its asset management arm above €150 million by 2027 (on a pre-tax basis and pro-rated at Wendel's ownership), from the about €100 million expected in 2025 (assuming a full-year contribution of Monroe Capital and an euro to U.S. dollar exchange rate of about 1.05).

The growth of Wendel's asset management platform supports its recurring income and cash flow adequacy ratio. With the acquisition of Monroe Capital, we think that Wendel's third party asset management platform will gain critical mass, with total pro forma assets under management (AUM) of about €33 billion. Monroe Capital's AUM has notably grown at a compound annual growth rate of about 30% since 2013, from about \$1.5 billion-\$20.2 billion as of Dec. 31, 2024, while IK Partners' AUM increased to €13.8 billion as of Dec. 31, 2023, from €3.7 billion in 2014. We anticipate future fund raises at the two entities to likely support steady growth in FRE, which should ultimately support Wendel's share of recurring cash income and cash flow adequacy ratios. Pro forma the acquisition of Monroe, we estimate that Wendel's asset management platform pre-tax FRE will increase to about €100 million in 2025 from about €35 million with IK Partners alone (pro-rated at Wendel's ownership). We anticipate this will result in a cash flow adequacy ratio of about 1.2x in 2025, assuming a slightly lower dividend income from BV of about €81 million from €100 million in 2024 due to the additional stake sale and no special dividends from other principal investments.

Wendel is funding its new investments from active asset rotation and value creation. The recent acquisitions of principal investments in Scalian for €557 million and Globeducate for €607 million have been funded by the €1.1 billion sale of Constantia Flexibles completed in January

2024 and which represented proceeds of about 2.0x of Wendel's initial investment. In addition, the two consecutive 6.7% and 9.0% BV stake sales completed in March 2025 and April 2024 for total net proceeds of about €1.85 billion more than cover the initial investments for the acquisition of IK Partners and Monroe Capital. Overall, we view Wendel's value portfolio rotation and value creation track record as favorable, reflected by its reported net asset value per share increasing to €185.7 as of Dec. 31, 2024, from €162.3 a year before.

We view Wendel's increasing asset and sector diversity as favorable. Pro forma the forward sale transaction, Wendel reduced its concentration on BV to about 28% of its portfolio from 45% as of Dec. 31, 2023, and increased its exposure to the asset management industry. We estimate that Wendel's three largest assets now represent about 57% of its pro forma portfolio value, declining from about 73% as of Dec. 31, 2023. We treat Wendel's acquisitions of IK Partners and Monroe Capital as regular portfolio investments because we anticipate that they will continue to operate as separate entities for now, with the aim to provide recurring dividend income at the investment holding level.

Outlook

The stable outlook indicates that we expect Wendel will maintain LTV comfortably below our 20% threshold over the next 12-18 months, while redeploying capital.

Downside scenario

We could lower our rating on Wendel if its adjusted LTV ratio stayed above 20% with no prospect of a rapid recovery. Although less likely with the acquisitions of IK Partners and Monroe Capital, we could also lower the rating over the medium term if Wendel's cash flow adequacy dropped below 0.7x and its cash position diminished such that cash reserves did not abundantly compensate its operating deficit.

Upside scenario

Given the nature of Wendel's investment portfolio and business model, we regard a potential positive rating action as unlikely over the next 12-18 months. However, we would consider upgrading Wendel if its portfolio value and diversity increases in favor of listed assets such that the portfolio share of liquid assets is above 60% on a structural basis or if the average creditworthiness of its assets materially improves.

Company Description

Wendel is a France-based investment holding company, tracing its history back to the eighteenth-century steel industry in eastern France. As of Dec. 31, 2024, we estimate that its adjusted investment portfolio was about €10.4 billion pro forma the BV stake forward sale, the planned acquisition of Monroe Capital, and investment commitments. The holding is invested in diversified sectors such as business services, chemicals, asset management, flooring materials, and telecommunications across Europe, North America, and Africa. Key investments include a 20.1% stake in publicly listed testing, inspection, and certification business BV (about 28% of pro forma portfolio value), and a 68.1% stake in leather chemicals and specialty coatings producer Stahl.

Wendel is publicly listed on the Paris stock exchange. With 39.6% as of Dec. 31, 2024, Wendel-Participations SE, a family vehicle representing the individual interests of more than 1,300

Wendel family members, holds the largest stake in the company and has 52.6% of voting rights. Six members of the Wendel family are on the supervisory board.

Our Base-Case Scenario

Assumptions

- LTV of about 17% pro forma the BV stake forward sale and the acquisition of Monroe Capital and staying well below 20% in the next 12-18 months as Wendel prioritizes keeping financial headroom.
- Dividend income of about €140 million in 2025, supported by about €80 million dividends from BV and growth in FRE.
- Annual holding operating costs and tax expenses below €100 million.
- Net interest expense €15 million-€20 million in 2025 after a €36 million income in 2024 linked to Wendel's temporary high net cash position following the Constantia Flexibles disposal.
- Cash dividends to Wendel's shareholders of about €200 million in 2025 (€4.7 per share based on 2024 results), in line with the company's payout target of 2.5% of its NAV. Dividends paid were €4.0 per share in 2024, up from €3.2 in 2023. We anticipate future dividend growth to be tied to Wendel's asset management platform FRE growth.
- Limited share repurchases under the company's new €100 million share buyback program in the next several months.

Key metrics

Wendel SE--Key metrics

Period ending	2017a	2018a	2019a	2020a	2021a	2022a	2023a	2024e*	2025e*
LTV (%)	12.2	6.6	6.7	7.2	11.1	6.9	10.7	22.5	about 17
Cash flow adequacy (x)	1.0	0.6	0.0	0.0	0.5	0.7	1.8	3.4	1.1-1.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. *Pro forma the acquisition of Monroe Capital and investment commitments. **Pro forma the BV stake forward sale. LTV--Loan to value. a--Actual. e--Estimate.

Liquidity

Our short-term issuer credit rating on Wendel is 'A-2'. Our assessment of Wendel's liquidity as strong reflects our expectation that its liquidity sources will likely exceed liquidity uses by about 2.0x in the next 12-month period started Jan. 1, 2025, and about 1.8x over the subsequent 12 months. Wendel's generally good access to the bond market, solid relations with banking counterparties, and comfortable headroom under covenants further support our assessment.

Principal liquidity sources

- Net cash and cash equivalents of about €2.4 billion;

Principal liquidity uses

- No debt maturities in first 12 months and about €960 million in the subsequent 12 months;

- Full availability under the €875 million revolving credit facility (RCF) expiring in 2029;
- Dividend income of €140 million annually; and
- Net cash proceeds from the BV stake forward sale of €748 million.
- Operating and tax expenses below €100 million annually;
- Interest expenses of €15 million-€20 million annually;
- Annual dividend payment to Wendel's shareholders of at least €200 million; and
- About €1.7 billion of cashout for the acquisitions of Monroe Capital, as well as for investment commitments toward IK Partners and Monroe Capital.

Covenants

Wendel's €875 million RCF bears two LTV covenants, tested semiannually only if the line is drawn down. As the line is undrawn, there is no obligation of covenant headroom reporting, but we estimate that the headroom would be comfortable in the case of RCF drawdowns

Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of Wendel. The holding benefits from a diversified portfolio of assets, with a concentration on business services through its stake in BV, which accounts for close to 28% of the portfolio value, and limited exposure of investee companies to environmental or social risks. We regard Wendel's governance as robust enough to sustain the holding's investment and divestment policies and as such consider it neutral to our ratings on Wendel.

Issue Ratings--Subordination Risk Analysis

Capital structure

On Dec. 31, 2024, Wendel's capital structure consisted of about €2.4 billion of senior unsecured debt issued at the holding company level, including the €750 million issue of bonds exchangeable into BV shares. Wendel's undrawn RCF is also unsecured.

Analytical conclusions

The issue rating on Wendel's senior unsecured notes is 'BBB', the same as the long-term issuer credit rating, because there are no significant elements of subordination risk present in Wendel's capital structure.

Rating Component Scores

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Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/Stable/A-2
Business risk	Fair
Country risk	Low
Industry risk	Intermediate
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Economic Outlook Q2 2025: Spike In U.S. Policy Uncertainty Dampens Growth Prospects, March 27, 2025
- Wendel SE Outlook Revised To Negative On Increasing LTV From The Planned Acquisition Of Monroe Capital; Ratings Affirmed, Oct. 31, 2024

Ratings List

Ratings list

Ratings Affirmed; Outlook Action		
	To	From
Wendel SE		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
Ratings Affirmed		
Wendel SE		
Senior Unsecured	BBB	

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