Creditreform Corporate Rating

Zeppelin GmbH (Group)

Creditreform Rating
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Rating Object	Rating Information	
Zeppelin GmbH (Group) **- Zeppelin Group -**	Rating: **A-**	Outlook: **stable**
Creditreform ID: 8210000013 Incorporation: 22 July 1950 (Main) industry: Commercial distribution of mechanical equipment incl. leasing Management : Peter Gerstmann, 55 years of age Michael Heidemann, 59 Christian Dummler, 53	Prepared on: **18 August 2017** Monitoring until : 17 August 2018 Disclosure: 21 August 2017 Type of rating: Solicited Rating methodology: Corporate rating Rating history: www.creditreform-rating.de	

Contents

Abstract 1
Rating-Relevant Factors 2
Business Development and Outlook ... 3
Regulatory requirements 5

Analysts
Christian Konieczny
Lead Analyst

Klaus Geukes
Co-Analyst

Neuss, Germany

Abstract

Company

Zeppelin is one of Europe’s leading commercial distributors of construction machinery, agricultural equipment, ship motors, combined heat and power stations, train engines and other applications. As a licensed dealer, the group primarily distributes products of the manufacturer CATERPILLAR. The company distributes its goods across large areas of Central and Eastern Europe and Central Asia, selling new machinery, accessories, spare parts and used equipment as well as rent out construction machineries, related equipment and providing a comprehensive range of related services. The Group is also a leading international provider of high-quality bulk material plants.

In 2016, Zeppelin Group generated sales revenues of EUR 2,361.5 million (2015: EUR 2,328.4 million; + 1.4 %) and an annual surplus (EAT) of EUR 59.1 million (2015: EUR 56.1 million; +5.3 %), a slightly better result than forecast in the previous rating. In the light of high liquidity reserves and a robust cash flow, the financial situation of Zeppelin Group appears altogether solid. Based on the business statistics for the first six months of 2017, the Group expects to generate sales revenues of approx. EUR 2,500 million for the entire business year and a net annual surplus of EUR 47.5 million, slightly below last year’s figures. This largely reflects the increase in expenses for the structural and strategic development of the Group.

Rating Result

This rating attests Zeppelin Group good financial strength, an assessment that places the Group significantly above the average of companies both within its own industry and in the economy at large. Despite continuously difficult circumstances in the crisis regions of Russia and the Ukraine and financial pressures that result from the challenges of strategic business development, Zeppelin Group has continued to present convincing results, based on solid financial ratios. The Group has so far succeeded in generating sufficient cash flows from its operative business while preserving its ability to operate on the capital markets and its sound financial management. The rating also reflects the Group’s position of market leadership. We hold the view that the business of Zeppelin Group remains fundamentally strong and that it will be sustainable in the future despite current challenges. We believe that the company’s position and its financial stability are not under threat in the medium term.

Outlook

The one-year outlook for the rating is stable. This assessment reflects the structural and economic development of the business, which represents – together with not specifically dynamic, but sound balance sheet ratios and financial ratios – the necessary framework for the company’s long-term success. The strength of the market position has also been a factor for both the rating assessment and our qualification of the outlook as “stable”. This qualification also depends on the continued

stability of the economic and geopolitical environment which provides the framework for our assessment of the company's international business activities.

Rating-Relevant Factors

Assessment
+ Asset coverage ratio
+ Levels of liquidity
+ Equity base
+ Liabilities structure
+ Leverage ratio
+ Profitability
+ Internal financing capacity

- High proportion of tied-up capital (equipment for hire and inventory)
- High level of off-balance-sheet liabilities

Excerpts from the financial ratio analysis Based on the Group's consolidated annual statement as per 31 December (HGB)	Standardized balance sheet analysis	
	2015	**2016**
Revenues	EUR 2,328.4 million	EUR 2,361.5 million
EBITDA	EUR 192.5 million	EUR 197.1 million
EBIT	EUR 103.9 million	EUR 108.0 million
EAT	EUR 56.1 million	EUR 59.1 million
Balance sheet total	EUR 1,386.1 million	EUR 1,512.2 million
Equity ratio	39.5 %	41.4 %
Return on assets	5.5 %	5.1%
Return on sales	2.4 %	2.5 %
Net debt / EBITDA (adj.)	4.2	4.2
Ratio of interest expenses to debt	2.8 %	2.4%

General Rating Factors

Suggestion:
General Rating Factors summarize the key issues that – in the view of the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

Current Rating Factors are the key factors that have, in addition to the Underlying Rating Factors, an impact on the current rating.

+ High-quality management with many years of experience in the industry
+ Market leadership in important target countries
+ Premium partner of CATERPILLAR
+ Conservative financial strategy and distribution policy
+ Well-developed organizational structures
+ Highly diversified portfolio of products and services

- High level of vulnerability to the cyclical sensitivity
- High level of competition
- Dependency from the main supplier (CATERPILLAR)
- High level of presence in potentially unstable countries of Eastern Europe and Central Asia

Current Rating Factors (Factors for the 2017 Rating)

+ Stable financial ratios, solid financial situation
+ Generally profitable development of the individual strategic business units (SBUs)
+ Good order situation
+ The company is looking forward and in the process of building up a modern infrastructure and modern systems

- It is expected that the result for 2017 will fall slightly short of the previous year's level
- Perspectives for a sustained increase of the results appear restricted in the medium term
- Financial pressures in the wake of the Group's strategic development
- Challenges in the CIS distribution areas, specifically in Russia

Prospective Rating Factors

Prospective Rating Factors are factors and possible events that – in the view of the analysts as per the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

+ Sustained improvements of results and financial ratios
+ Sustained improvements of the market conditions and reduced risks for the CIS business unit
+ Profitable development of new strategic business areas
+ Future-oriented development of the organizational structures

- Deterioration of financial ratios; increase of debt through acquisitions
- Insufficient development of certain business units
- Pressure on results in the wake of strategic development efforts
- Sustained economic downturn or increase of (geo-)political risks
- Need for comprehensive write-downs

Business Development and Outlook

With revenues of EUR 2,361.5 million in the business year 2016 (+1.4 %), Zeppelin Group generated EAT of EUR 59.1 million (+5.4 %). This improved result reflects an increased gross profit as well as a disproportionately small increase of the structural costs and a stable financial result. Seen in the context of the severe challenges of recent years, specifically in the SBUs Facility Construction and CIS, we believe that the overall stable development of the Group's financial ratio is a positive indicator.

Zeppelin Group continued its basically positive business development in the first six months of 2017. Both revenues (EUR 1,190.5 million) and EBT (EUR 17.0 million) slightly exceeded their targets. As a consequence, Zeppelin Group raised its revenue forecast for 2017 to EUR 2,500 million, but stuck to the EBT target of EUR 72.5 million which falls some way short of the previous year's figure (EUR 85.9 million). This expectation reflects a number of factors including the payment of employee bonuses (EUR 4.3 million), adjustments to the pension provisions (EUR 4.0 million), and extraordinary expenses for digitalization (EUR 8.0 million). Key business statistics look as follows:

Group EUR million	Forecast 2017	%	Target 2017	%	Δ (EUR m)	Δ (%)
Sales	2,500.0	100.0	2,350.0	100.0	150.0	6.4
Material costs	1,704.8	68.2	1,575.6	67.0	129.2	8.2
Personnel costs	474.0	19.0	452.5	19.3	21.5	4.8
EBIT	89.0	3.6	88.8	3.8	0.2	0.2
EBT	72.5	2.9	72.5	3.1	0.0	0.0
EAT	47.8	1.9	49.3	2.1	-1.5	-3.0
Group EUR million	**Forecast 2017**	**%**	**Actual 2016**	**%**	**Δ (EUR m)**	**Δ (%)**
Sales	2,500.0	100.0	2,361.5	100.0	138.5	5.9
Material costs	1,704.8	68.2	1,580.0	66.9	124.8	7.9
Personnel costs	474.0	19.0	441.4	18.7	32.6	7.4
EBIT	89.0	3.6	108.0	4.6	-19.0	-17.6
EBT	72.5	2.9	85.9	3.6	-13.4	-15.6
EAT	47.8	1.9	59.1	2.5	-11.3	-19.1

Assuming that the economic and political environments remain stable, we believe that Zeppelin Group will once again reach its business targets for the year. The current order situation also stimulates the positive development of the company. Incoming orders (EUR 1.447.1 million) and existing orders (EUR 934.6 million) as per 30 June 2017 exceed both the current targets and the previous year's figures, reflecting mainly two large orders for the CIS business unit and the generally good order situation for the SBUs Power Systems and Facility Construction. Although the total volume of orders that has been forecast for the business year 2017 is slightly below the previous year's figure, this should allow the Group to reach the 2017 revenue target of EUR 2,500 million. The forecast predicts, however, that the 2017 ratio of incoming orders to sales revenues (book-to-bill) of 0.992 will be lower than the actual value for 2016 (1.064), which reflected the success of the "bauma" industrial trade fair.

in EUR million	Actual 06/2016	Actual 06/2017	Target 06/2017	Actual 2016	FC 2017	Target 2016
Incoming orders	1,356.2	1,477.1	1,137.8	2,512.3	2,479.3	2,307.6
Existing orders	779.7	934.6	616.9	647.9	627.2	531.9

Bearing in mind the global economic and political risks as well as the dimension of future challenges, Zeppelin takes a rather subdued view of the immediate future. For 2018, the company has targeted sales revenues of only EUR 2,420 million with EBT of EUR 80 million, for 2019 revenues of EUR 2,500 million and EBT of EUR 87.5 million. In the light of the Group‘s secure structures and various contingent factors, however, we hold the view that the targets are fairly conservative and should therefore be reached.

We used scenarios to subject the business structures of Zeppelin Group to various levels of stress, building our best case scenario on the assumption that the company's business targets will be reached. The mid case and worst case scenarios were based on different levels of falling revenues and profits. Even in the latter scenarios, the Group remained capable of generating a positive result and of maintaining its levels of financial stability, provided it resorted to adequate measures such as optimizing its costs or reducing its working capital.

Regulatory requirements

The management of Zeppelin GmbH requested us on 9 March 2017 to perform this follow-up rating of Zeppelin GmbH (Group).

The rating reflects our analysis of quantitative and qualitative factors as well as an assessment of industry-specific parameters. The quantitative analysis has been based on the consolidated annual financial statements for the years from 2013 to 2016.

One important source of information for the rating process was the interview with senior management representatives conducted on 26 July 2017 at Achim near Bremen (Germany) where Zeppelin Power Systems GmbH & Co. KG is domiciled. This interview was attended by:

- Peter Gerstmann (CEO, Chairman of the Board of Zeppelin GmbH)
- Michael Heidemann (COO, Deputy Chairman of the Board of Zeppelin GmbH)
- Christian Dummler (CFO, Head of Operations for Zeppelin GmbH)
- David Freidl (Head of the Group Treasury)
- Volker Possögel (Head of the SBU Power Systems)
- Dieter Brücher (Deputy Head of the SBU Power Systems)

The rating was performed by the Senior Analysts Christian Konieczny and Klaus Geukes.

In order to complement the documents that had been submitted to Creditreform for previous ratings, the Zeppelin Group provided the following information:

Documents
Accounting and controlling
▪ Consolidated accounts of Zeppelin GmbH for the business year 2016 ▪ Reporting about the business development of the Zeppelin Group as per 30 June 2017 ▪ Business plans for the years 2017 to 2019 ▪ Detailed information about other operating expenses and income for 2016 ▪ Detailed information about other liabilities for 2016
Financial documents
▪ List of business relationships with banks ▪ Cash flow and investment plans ▪ Final term sheet for the note loan from 28 July 2017 ▪ Sample contract for the note loan
Other documents
▪ Comprehensive corporate presentation from 26 July 2017

The documents and information provided by the company under review complied with the requirements of the Creditreform Rating AG methodology that are outlined on the corporate website (www.creditreform-rating.de).

The rating was presented by the analysts to the Rating Committee on 18 August 2017 and determined in a conclusive resolution. The result of the rating and the Rating Report were communicated to Zeppelin GmbH on the same day. In addition to the Rating Report, Zeppelin also received a Rating Certificate and a Rating Summary.

The rating will be monitored for the duration of one year following the date of its initial release and can be updated during this period. After one year, a follow-up rating will be needed to maintain the validity of the rating.

The rating methodology of Creditreform Rating AG is comprehensively described on our website (www.creditreform-rating.de).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

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Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The “Basic data” information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

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An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

Please note:
A Summary of this rating report (Summary) has been prepared in German and English. Both language versions are legally valid and binding.

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Creditreform Rating AG

Contact Details

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss
Germany

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

email info@creditreform-rating.de
www.creditreform-rating.de

CEO:
Dr. Michael Munsch

Chairman of the Supervisory Board:
Prof. Dr. Helmut Rödl
HR Neuss B 10522

Zeppelin GmbH
Graf-Zeppelin-Platz 1
D-85748 Garching
Germany

Phone +49-89-32000-205
Fax +49-89-32000-235

email: info@zeppelin.com
www.zeppelin.com

Management:
Peter Gerstmann (CEO), Michael Heidemann (CSO), Christian Dummler (CFO)

Chairman of the Supervisory Board:
Andreas Brand
HR Ulm B 630217