Creditreform Corporate Issuer Rating

Summary

Zeppelin GmbH (Group)

Creditreform Rating
www.creditreform-rating.de

Rating Object	Rating Information	
Zeppelin GmbH (Group)	Corporate Issuer Rating: **A- / stable**	Type: Monitoring Solicited
Creditreform ID: 8210000013 Incorporation: 22 July 1950 (Main) industry: Commercial distribution of mechanical equipment incl. leasing Management: Peter Gerstmann, 56 years of age Michael Heidemann, 60 Christian Dummler, 54 Alexandra Mebus, 41	Prepared on: 17 August 2018 Monitoring until: 16 August 2018 Publication: 21 August 2018 Rating methodology: CRA corporate rating Rating history: www.creditreform-rating.de	

Contents

Analysts
Holger Becker
Lead Analyst
h.becker@creditreform-rating.de

Marie Watelet
Analyst
m.watelet@creditreform-rating.de

Neuss, Germany

Abstract

Company

Zeppelin Group 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. Much of its revenue is generated through a distribution agreement with CATERPILLAR. The company distributes its goods across large areas of Central and Eastern Europe and Central Asia, selling new machinery, accessories, spare parts and second-hand equipment as well as leasing mechanical and construction equipment and providing a comprehensive range of related services. The Group is also a leading international provider of high-quality bulk material facilities.

In 2017, Zeppelin Group generated sales revenues of EUR 2,751 million (2016: EUR 2,361.5 million; +16.5 %) and an annual surplus (EAT) of EUR 57.6 million (2016: EUR 59.1 million; -2.5 %), a slightly better result than forecast in the previous rating. The 2.5 % drop in year-on-year profits exclusively reflects a higher level of taxes on income and earnings, a result of precautionary tax provisions in the light of the ongoing tax audit. Earnings before tax (EBT) of EUR 96.3 million exceeded the previous year's figure by approx. EUR 7.8 million. In the light of high liquidity reserves and a robust cash flow, the financial situation of Zeppelin Group appears altogether solid. Based on the half-year figures for the first six months of 2018, the Group expects to generate sales revenues of approx. EUR 2,600 million for the entire business year and a net annual surplus (EBT) of EUR 92.5 million. For the business year 2018, Zeppelin will convert its accounting system from HGB standards to IFRS. This conversion has already been implemented for the first six months of the year, which means that the most recent business plans and the current projections already follow the new standards.

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 the company's 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 survive and prosper 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

Table 1: Financial ratios of the Group I Source: Annual financial statement of Zeppelin GmbH, standardized by CRA

Zeppelin GmbH Selected financial ratios Based on the Group's annual financial statement as per 31 December (HGB)	CRA standardized figures	
	2016	**2017**
Revenues	EUR 2,361.5 million	EUR 2,751.5 million
EBITDA	EUR 197.1 million	EUR 214.1 million
EBIT	EUR 108.0 million	EUR 111.4 million
EAT	EUR 59.1 million	EUR 57.6 million
Balance sheet total	EUR 1,512.2 million	EUR 1,654.1 million
Equity ratio	41.4%	40.5%
Return on assets	5.1%	4.4%
Return on sales	2.5%	2.1%
Net debt / EBITDA (adj.)	4.2	4.5
Ratio of interest expenses to debt	2.4%	1.5%

Excerpts from the financial ratio analysis 2017
+ Equity-to-fixed-assets 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 (leasing contracts)

Underlying Rating Factors

+ 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 (shareholder: Zeppelin Foundation owned by the municipality of Friedrichshafen)
+ Well-developed organizational structures
+ Highly diversified portfolio of products and services

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

Hinweis:
Underlying 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.

Current Rating Factors (Factors for the 2018 Rating)

+ Stable financial ratios, solid financial situation
+ Generally profitable development of the individual strategic business units (SBUs)
+ Good order situation (both incoming orders and the volume of orders in hand increased for yet another year)
+ The company is looking forward and in the process of building up a modern infrastructure and modern business systems

- It is expected that the result (EBT) for 2018 will fall slightly short of the previous year's level based on IFRS figures. In 2018, the accounting standards will be converted from HGB to IFRS.
- 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

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 improvement of results and financial ratios
+ Sustained improvement 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
+ Continued digitalization of the business

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

Business Development and Outlook

With revenues of EUR 2,751.5 million in the business year 2017 (+16.5 %), Zeppelin Group generated EAT of EUR 57.6 million (-2.5 %). This slight drop in earnings after tax reflects a year-on-year increase in the tax rate which itself is the result of tax provisions of EUR 5.9 million made to cover tax risks in the light of an ongoing corporate audit. The audit will probably be completed by 2019.

The Zeppelin Group, meanwhile, managed to increase its earnings before tax by 8.8 %. This rise essentially reflects an increase in sales revenues following the successful completion of a large order in 2017. All business units increased their sales revenues in 2017, if not their profits. 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 sign.

The accounting systems of the Group will be converted from HGB standards to IFRS in 2018. The 2018 business plans and targets that were submitted to us already follow the new standards, which means that the target-actual comparison as per 30 June 2018 also reflects the use of IFRS. The HGB / IFRS business figures for the first six months of 2018 (as per 30 June) show that Zeppelin managed to sustain the positive business development trends of the recent past. Both sales revenues (EUR 1,285.2 million under HGB, EUR 1,329.4 million under IFRS) and EBT (EUR 33.2 million under HGB, EUR 47.0 million under IFRS) exceeded the figures in the business plan. As a consequence, the Zeppelin Group has raised its sales revenue forecast for the full business year 2018 by EUR 100 million to EUR 2,600 million (IFRS) and its EBT forecast by EUR 5 million to EUR 92.5 million. Earnings before tax are still expected to fall short of the previous year's value of EUR 99.2 million (converted into IFRS from the original HGB figure), reflecting partly the overall expectation of a slight fall in earnings, partly Zeppelin's fundamentally cautious and conservative business planning philosophy.

Assuming that the economic and political environments remain stable, we believe that the Zeppelin Group will once again reach its business targets for the year. The current order situation sustains the positive development of the company for 2018. As per 30 June 2018, incoming orders amounted to a value of EUR 1,523.3 million, orders in hand to EUR 990.6 million. Even though the total volume of orders that has been forecast for the business year 2018 falls (slightly) short of the previous year's level, this should allow the Group to reach the 2018 revenue target of EUR 2,600 million. It should also be noted that the business year 2017 was characterized by an extraordinarily high volume of orders.

Table 2: Business development of Zeppelin GmbH (Group) I Source: Zeppelin GmbH

Group EUR million	Actual 06/2017 (HGB)	Actual 06/2017 (IFRS)	Actual 2017 (IFRS)	Forecast 2018 (IFRS)	Target 2018 (IFRS)
Incoming orders	1,477.1	1,523.3	2,806.3	2,418.3	2,309.8
Orders in hand	934.6	990.6	796.7	615.3	611.6

Bearing in mind the global economic and (geo-)political risks as well as the dimension of future challenges, Zeppelin takes a rather cautious view of the immediate future. For the business year 2018, the company has – based on the figures for the first six months – targeted sales revenues of EUR 2,600 million (2017: EUR 2,630 million) with EBT of EUR 92.5 million (2017: EUR 99.2 million), for 2019 and 2020 revenues of EUR 2,500 million / 2,700 million and EBT of EUR 97.5 million / EUR 107.5 million respectively. In the light of the Group's secure structures and of various contingent factors, we hold the view that these 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 revenues and profits will increase. 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.

Financial Ratio Analysis

Financial Ratios

Table 3: Financial ratios of the Group I Source: Annual financial report of Zeppelin GmbH for 2017, standardized by CRA

Asset structure	2014	2015	2016	2017
Investment intensity (%)	31.73	33.94	34.61	37.67
Asset turnover	1.76	1.70	1.63	1.74
Fixed assets ratio (%)	145.33	160.21	156.11	143.35
Liquidity ratio (%)	9.16	9.13	11.28	5.51
Capital structure				
Equity ratio (%)	37.98	39.53	41.39	40.53
Short-term-debt-to-equity-ratio (%)	38.77	32.56	36.50	32.80
Long-term-debt-to-equity-ratio (%)	8.13	14.85	12.64	13.47
Capital lock-up (duration of period in days)	12.50	9.53	12.75	14.60
Ratio of accounts payable (%)	5.90	4.39	5.46	6.65
Short-term capital lock-up (%)	5.96	3.70	5.56	2.51
Gearing	1.39	1.30	1.14	1.33
Debt ratio	2.62	2.58	2.47	2.44
Financial strength				
Ratio between cash flow and aggregate operating performance (%)	4.33	5.40	5.13	5.18
Cash flow ROI (%)	7.53	9.00	8.02	8.63
Debt / EBITDA adj.	5.58	4.98	5.14	4.96
Net debt / EBITDA adj.	4.75	4.23	4.15	4.50
ROCE (%)	10.47	10.77	11.03	10.44
Cash-flow-to-total-debt ratio (years)	4.39	7.12	4.72	9.98
Profitability				
Gross profit margin (%)	32.34	32.89	33.23	31.90
EBIT interest coverage	3.82	4.42	5.04	5.80
EBITDA interest coverage	6.97	8.18	9.19	11.14
Ratio of personnel costs to total costs (%)	18.15	18.70	18.67	17.72
Ratio of material costs to total costs (%)	67.97	66.87	66.82	68.14
Cost income ratio (%)	96.94	95.01	95.71	96.21
Ratio of interest expenses and total capital mod. (%)	3.02	2.81	2.42	1.54
Return on investment (%)	4.93	5.51	5.13	4.44
Return on equity (%)	9.09	10.64	10.08	8.89
Return on sales (%)	1.97	2.43	2.50	2.09
Interest charge (%)	78.00	80.99	81.95	86.43
Operating profitability (%)	4.11	4.50	4.57	4.04
Liquidity				
Cash ratio (%)	23.64	28.03	30.91	16.81
Quick ratio (%)	79.35	95.26	86.59	90.14
Current ratio (%)	176.09	202.86	179.15	189.99

Appendix

Rating History

Event	Rating date	Publication date	Monitoring until	Rating
Initial rating	05/02/2001	--	--	A-
Monitoring	24/07/2002	--	--	A-
Monitoring	29/08/2003	--	--	A
Monitoring	10/11/2004	--	--	A
Monitoring	16/11/2005	--	--	A+
Monitoring	20/09/2006	--	--	A+
Monitoring	12/09/2007	--	--	A+
Monitoring	26/08/2008	--	--	A+
Monitoring	30/09/2009	--	--	A- (watch)
Monitoring	26/08/2010	--	--	BBB+
Monitoring	30/09/2011	--	--	A-
Monitoring	05/09/2012	--	--	A
Monitoring	05/09/2013	--	--	A
Monitoring	12/03/2014	--	04/09/2014	A (watch)
Monitoring	05/09/2014	--	--	BBB+
Monitoring	16/09/2015	--	--	BBB+ (watch)
Monitoring	19/08/2016	23/08/2016	18/08/2017	A- / stable
Monitoring	18/08/2017	21/08/2017	17/08/2017	A- / stable
Monitoring	17/08/2018	21/08/2018	16/08/2018	A- / stable

Regulatory Disclosure

The management of Zeppelin GmbH requested us on 28 March 2018 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 2014 to 2017.

One important source of information for the rating process was the interview with senior management representatives conducted on 26 July 2018 at Zeppelin Group’s corporate HQ in Garching. 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)
- Alexandra Mebus (Director for Industrial Relations, Member of the Board of Zeppelin GmbH)
- Karin Graf (Deputy Head of the Group Treasury)
- Jürgen Aubele (Head of Group Consulting, Accounting & Tax)

The rating was performed by the Senior Analysts Holger Becker and Marie Watelet.

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 2017 ▪ Reporting about the business development of the Zeppelin Group as per 30 June 2018 ▪ Business plans for the years 2018 to 2020 ▪ Detailed information about other operating expenses and income for 2017 ▪ Calculations of how to convert the 2017 annual financial statement and P&L from HGB into IFRS
Financial Documents
▪ List of business relationships with banks ▪ Cash flow and investment plans
Other
▪ Comprehensive corporate presentation from 26 July 2018

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 performed in compliance with the system and methodology for corporate ratings. Certain sections of this assessment also refer to documents that had been submitted for previous rating reports. Due to the huge amount of data contained in some of the documents, certain analyses were conducted in the form of sample-based plausibility checks. For a detailed description of Creditreform Rating's systems and the internal guidelines of how to perform ratings ("Fundamental Elements and Principles of the Rating Process"), please click on the following link:

https://www.creditreform-rating.de/de/regulatory-requirements/

The rating was presented by the analysts to the Rating Committee on 17 August 2018 and determined in a conclusive resolution. The result of the rating and the Rating Report were communicated to Zeppelin GmbH on 20 August 2018. In addition to the Rating Report, Zeppelin also received a Rating Certificate and a Rating Summary. The issuer and all stakeholding parties who had been issued with a copy of the report were free to contest the rating decisions for at least one full working day and to submit additional information. Following this process of examination, the ratings were not amended.

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.

Since 2011, Creditreform Rating AG has been registered as a rating agency and is allowed to perform rating activities in compliance with EU Regulation (EU) No 1060/2009 (the "EU Rating Regulation"). This registration allows Creditreform Rating AG ("CRA") to perform ratings in the countries of the European Union while obliging it to comply with the rules and provisions of the EU Rating Regulation.

Please note:

This summary has been prepared in a German and in an English version. Both versions are equally authentic.

Conflicts of Interest

The rating process failed to identify any conflicts of interest liable to influence the analyses and assessments of the rating analysts, of CRA members of staff or of other natural persons who provide services to CRA or who are controlled by CRA and who are directly involved in rating activities, or of the persons who approve ratings and rating outlooks.

CRA shall always disclose any ancillary services that may have been provided in addition to the rating activities and specify any such services in the Rating Report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of ratings shall be governed by the internal process regulations for the Rating Committee. All ratings and rating outlooks shall be unanimously approved by the Rating Committee.

CRA used the following key information sources in the preparation of this rating:

1. Annual financial statement

2. Website

3. Internet research

When disclosing the credit rating, CRA stated clearly and prominently any attributes and limitations of the credit rating or rating outlook. CRA considers satisfactory the quality of information available on the rated entity (the rating object). The available historical data of the rating object were equally deemed satisfactory by CRA.

The rating was not changed in the period between the announcement of the rating to the rated entity and the publication of the rating on the CRA website.

The "Basic Data Card" specifies the main methodology that was used for the purposes of the rating or the version of the rating methodology and details of where to find a comprehensive description of the method(s) in question.

If more than one method has been used for the purposes of the rating or if the specification of a single main method is liable to misguide the investor – i.e. to lead him to overlook or misconstrue important aspects of the rating including important amendments and modifications – CRA shall have to identify such use of multiple methods in the Rating Report and explain in what way these methods or these other aspects have been taken into account for the purposes of the rating. The Rating Report shall have to include a note to this effect.

The Report explains the relevance of the various rating categories, the definitions of default or debt collection and suitable risk warnings, including a sensitivity analysis of the relevant basic assumptions such as mathematical or correlation assumptions, and ratings for worst case and best case scenarios.

The date on which the rating was first published and the date of the rating's most recent update including any rating outlooks (if applicable) are clearly and prominently identified in the "Basic Data Card". This Card clearly identifies the date on which the rating was first published under "initial rating" and specifies any amendments or updates of rating and rating outlook as (for example) "update, "upgrade or downgrade", "not rated", "confirmed", "selective default", or "default", where applicable.

If a rating outlook is provided, the time horizon for this outlook (the date by which an amendment of the rating may be expected) is specified in the "Basic Data Card".

According to Article 11 (2) of EU Regulation (EU) No 1060/2009, registered and duly certified credit rating agencies shall make available in a central repository established by ESMA information on their historical performance data including the ratings transition frequency and information about credit ratings issued in the past and on their changes. The credit rating agencies shall provide information to that repository on a standard form as provided for by ESMA. ESMA shall make that information accessible to the public and shall publish summary information on the main developments observed on an annual basis. This information can be accessed by using the following link:

https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Default definitions and their explanations for each relevant rating methodology are displayed on the CRA website. Additional information is available in the document on "Fundamental Elements and Principles of the Rating Process", which is also available on the CRA website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the “Verhaltenskodex der Creditreform Rating AG“ (“The Creditreform Rating AG Code of Behaviour“) which has been published on the web pages of Creditreform Rating AG. In this Code of Behaviour, Creditreform Rating AG commits itself to – systematically and with due diligence – establishing its independent and objective opinion about the sustainability, the risks and the opportunities of the enterprise / the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client were complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Creditreform Rating AG

Contact Details

Creditreform Rating AG Hellersbergstraße 11 D-41460 Neuss Germany	Zeppelin GmbH Graf-Zeppelin-Platz 1 D-85748 Garching Germany
Phone +49 (0) 2131 / 109-626 Fax +49 (0) 2131 / 109-627	Phone +49-89-32000-205 Fax +49-89-32000-235
email info@creditreform-rating.de www.creditreform-rating.de	email: info@zeppelin.com www.zeppelin.com
CEO: Dr. Michael Munsch	Management: Peter Gerstmann (CEO), Michael Heidemann (CSO), Christian Dummler (CFO)
Chairman of the Supervisory Board: Prof. Dr. Helmut Rödl HR Neuss B 10522	Chairman of the Supervisory Board: Andreas Brand HR Ulm B 630217