

Rating object	Rating information	
Zeppelin GmbH (Group) Creditreform ID: 8210000013 Incorporation: 22 July 1950 Based in: Garching, Germany (Main) Industry: Commercial distribution of mechanical equipment incl. leasing Management: Peter Gerstann, 57 years of age Michael Heidemann, 61 Christian Dummler, 55 Alexandra Mebus, 42 <u>Rating objects:</u> Long-term Corporate Issuer Rating: Zeppelin GmbH (Group)	Corporate Issuer Rating:	Type: Update solicited
	A / stable	
	Issues: n.r.	Other: n.r.
	Rating date: 11 October 2019 Monitoring until: 10 October 2020 Rating methodology: CRA ¹ "Corporate Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Summary

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Company

The Zeppelin Group is a leading trading company in Europe for construction equipment and agricultural machinery, as well as for marine engines, cogeneration units, locomotives, and other applications. As an authorized dealer, the Company primarily distributes products of the Caterpillar brand. The Company's distribution area includes large parts of Central and Eastern Europe, as well as Central Asia. In addition to new machinery, the Group also trades in accessories and spare parts, and in pre-owned equipment. Other main areas of business include leasing of machines and construction equipment, and the provision of comprehensive services. The Group is a global leader in the field of plant construction for high-quality bulk materials.

With revenues amounting to EUR 2,897m (PY: EUR 2,621.6m, +10.5%), the Zeppelin Group achieved an annual surplus (EAT) of EUR 90m in 2018 (PY: EUR 63.0m, +42.9%), thus exceeding the targets submitted at the time of the previous rating. The year-on-year increase in annual surplus was primarily a result of an increase in revenues, while cost structure remained comparatively stable in proportion. Earnings before tax (EBT) reached EUR130.8m, a y-o-y increase of approx. EUR 33m. With its existing liquidity reserves and good cash flow, the Group's financial position remains solid. Based on the half-year figures for 2019, the Company expects an EBT of EUR 120m for the overall year with a revenue of EUR 2,900m, which is approx. 8.3% below the previous year's earnings. Zeppelin changed its accounting standard in 2018 from HGB to IFRS, whereby the conversion took place at the end of the first half-year 2018. Thus the figures for 2017 were also changed to IFRS, ensuring an accurate y-o-y comparison.

Rating result

This rating attests the Zeppelin Group to have a high degree of creditworthiness, corresponding to a well-above-average rating assessment in comparison with its industrial sector and the overall economy. Despite the ongoing difficult situation in the crisis-hit regions of Russia and

¹ Creditreform Rating AG (CRA)

Ukraine, the weakening of the overall global economy, and challenges arising from the Company's further strategic development, the Zeppelin Group continues to remain strong, based on its stable and solid financial ratios. The Group has thus far displayed sufficient cash flows, good ability to access capital markets, and prudent financial management in its operating business. The rating is also supported by the Company's position as a market leader; even against the background of currently existing challenges, we assess the Zeppelin Group as having a promising and sustainable future. There may, however, be potential burden arising from the acquisition of new distribution areas from another Caterpillar sales partner, as integration into the overall Group has yet to occur. Nevertheless, we do not see any risks regarding the position or financial stability of the Company in the medium term.

Outlook

The one-year outlook for the rating is stable. This assessment is based on the continuing development of the Group's business and corporate structures which, along with solid financial and balance sheet ratios, provide the conditions for the long-term success of the business. The Company's market position is likewise a favourable factor for the rating assessment and stable outlook. This outlook is based on the assumption of an overall stable economic and geopolitical situation as a framework for our assessment of the Company as an internationally-operating business.

Relevant rating factors

Table 1: Financials of Zeppelin GmbH (Group) | Source: Consolidated financial statement 2018, standardized by CRA

Excerpts from the financial key figures analysis 2018

- + Liquidity
- + Equity
- + Leverage ratio
- + Gross profit margin
- + Cash flow
- + Internal financing capability
- High capital lock-up (rental park and inventories)
- Asset coverage ratio because of leasing
- high short-term capital lock-up

Zeppelin GmbH (Group) Selected key figures of the financial statement analysis Basis: Annual report as per 31.12. (IFRS, Group)	CRA standardized figures ²	
	2017	2018
Sales (million EUR)	2,621.60	2,896.95
EBITDA (million EUR)	165.76	204.72
EBIT (million EUR)	110.51	143.55
EAT (million EUR)	63.00	90.00
EAT after transfer (million EUR)	62.22	88.46
Total assets (million EUR)	2,183.41	2,292.92
Equity ratio (%)	29.66	31.38
Capital lock-up period (days)	15.33	16.77
Short-term capital lock-up (%)	16.12	14.66
Net total debt / EBITDA adj. (Factor)	9.29	7.73
Ratio of interest expenses to total debt (%)	1.36	1.19
Return on Investment (%)	3.53	4.54

² For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Please note:

General rating factors summarize the key issues that – according to 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.

Prospective rating factors are factors and possible events that – according to 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, if they occurred. 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.

General rating factors

- + Good management, experienced within the industrial sector
- + Leading market position in its target markets
- + Premium partner of CATERPILLAR
- + Conservative Financial and withdrawal policies (Shareholder: Zeppelin Foundation owned by the municipality of Friedrichshafen)
- + Well-developed organizational structures
- + Diversified product and service portfolio

- High degree of economic sensitivity, albeit to a lesser degree in the construction industry
- High level of competition
- Dependency on CATERPILLAR as main supplier
- Substantial presence in countries with political uncertainty in Eastern Europe and Central Asia, albeit at a declining rate due to planned expansion to sales regions outside of these areas

Current rating factors (rating 2019)

- + Stable financial ratios, solid financial situation
- + Generally profitable development of individual SGEs
- + Good order situation (increase in incoming orders and order backlog)
- + Adequately future-oriented, development of modern infrastructure and IT-systems
- + Favourable development of revenue and earnings expected in 2019

- Temporarily limited prospective earnings in the medium term, which will improve based on expansion into the new sales regions
- Partially insufficient business development in individual SGEs

Prospective rating factors

- + Sustainable improvement of earnings and financial ratios in the medium and long term
- + Sustainable improvement of market conditions and risks in the SGEs
- + Profitable development of new strategic business areas
- + Future-oriented organizational development
- + Continued upgrading of digitization in business areas

- Deterioration of financial ratios, partially due to acquisition-related debt
- Potential negative effect on earnings as a result of strategic development and integration of new sales regions
- Sustained economic downturn or increased geopolitical risk
- Trade risks due to tightening global trade barriers

Business development and outlook

With revenues of EUR 2,897.0m (previous year: EUR 2,621.6m; +10.5%), the Zeppelin Group achieved an annual surplus (EAT) of EUR 90.0m in 2018 (previous year: EUR 63.0m; +42.9%), exceeding the forecast made in the previous rating. The higher-than-expected annual surplus came mainly as a result of increased revenues, while cost structures remained stable in proportion.

New revenue growth was achieved in all SGEs in the 2018 fiscal year; however, this only partially contributed to an increase in earnings. Against the background of the challenges which the Group continues to face, in particular in the SGEs Plant Construction and CIS, we assess the overall development of the financial ratios as positive.

A comparison of the development of key figures in the 2018 and 2017 fiscal years is shown in the following table:

Table 2: Business development of Zeppelin GmbH (Group). Source: Consolidated financial statement 2018

Zeppelin GmbH (Group)				
In million EUR	2017	2018	Δ	Δ %
Sales	2,621.60	2,896.95	275.35	10.50
EBITDA	165.76	204.72	38.96	23.50
EBIT	110.51	143.55	33.04	29.90
EBT	97.72	130.83	33.11	33.88
EAT	63.00	90.00	27.00	42.86

The figures reflect the favourable business development of the Zeppelin Group, whereby the actual figures exceeded the target figures for 2018 (targeted revenue: EUR 2,500m; EBT target: EUR 87.5m) submitted in the course of the previous rating.

In 2018, the accounting standard was changed from HGB to IFRS. Within the framework of this conversion, the figures for the year 2017 were also converted to IFRS, enabling a basis for comparison with the previous year's figures. The half-year figures for 2019 showed continuing favourable business development for the Zeppelin Group. With revenues of EUR 1,377.5m (previous year: EUR 1,329.4m) and an EBT of EUR 43.0m (previous year: EUR 47.0m), the figures exceeded the targets; EBT, however, dropped slightly year-on-year, primarily due to one-off expenses related to BAUMA 2019. Accordingly, the Zeppelin Group raised its revenue forecast for 2019 to EUR 2.900m (original forecast: EUR 2,700m), while the original target for EBT was raised from EUR 105m to EUR 120m. While the revenue forecast is slightly above the actual value of the previous year, projected earnings (EBT) remain below the corresponding actual value of the previous year of EUR 130.9m. This is primarily based on comparatively conservative planning on the part of Zeppelin. The individual ratios for the 2019 fiscal year are as follows:

Table 3: Budget and Forecast 2019 of Zeppelin GmbH (Group) | Source: Zeppelin GmbH (Group)

Group million EUR	Forecast 2019	%	Budget 2019	%	Δ	Δ (%)
Sales	2,900.0	100.0	2,700.0	100.0	200.0	7.4
Cost of sales	2,433.5	83.9	2,270.0	84.0	163.5	7.2
Gross profit	466.5	16.1	430.0	15.9	36.5	8.5
EBIT	136.9	4.7	120.2	4.5	16.7	13.9
EBT	120.0	4.1	105.0	3.9	15.0	14.3
EAT	84.6	2.9	77.4	2.9	7.2	9.3

Group million EUR	Forecast 2019	%	Actual 2018	%	Δ	Δ (%)
Sales	2,900.0	100.0	2,896.9	100.0	3.1	0.1
Cost of sales	2,433.5	83.9	2,456.5	84.8	-23.0	-0.9
Gross profit	466.5	16.1	440.4	15.2	26.1	5.9
EBIT	136.9	4.7	144.9	5.0	-8.0	-5.5
EBT	120.0	4.1	130.8	4.5	-10.8	-8.3
EAT	84.6	2.9	90.0	3.1	-5.4	-6.0

Assuming that the economic and political environment will remain stable, the Zeppelin Group should again be able to meet its targets. Developments in the current year which have exceeded the targeted figures are supported by the current order situation. Thus, incoming orders amounted to EUR 1,678.3m as of 30 June 2019 (previous year: EUR 1,598.9m), and the order backlog came to EUR 1,192.4 (previous year: EUR 1,076.9m). Although the forecast for incoming orders for the full year 2019 lies below that of the previous year, this should nevertheless be sufficient to realize the annual forecast with revenues of EUR 2,900m.

Table 4: Business development of Zeppelin GmbH (Group) | Source: Zeppelin GmbH (Group)

Group million EUR	Actual 06/2018	Actual 06/2019	Actual 2018	Forecast 2019	Target 2019
Incoming orders	1,598.9	1,678.3	2,981.2	2,778.4	2,607.8
Orders in hand	1,076.9	1,192.4	891.7	770.0	805.6

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/de/ratings/published-ratings/>

Table 5: Corporate issuer rating of Zeppelin GmbH (Group)

Event	Rating date	Publication date	Monitoring period	Result
Update	11.10.2019	www.creditreform-rating.de	10.10.2020	A / stabil
Initial rating	05.02.2001	05.02.2001	--	A-

Regulatory requirements

Creditreform Rating AG was mandated on 23 April 2019 by Zeppelin GmbH to conduct a corporate issuer rating³ of the company.

The rating is based on the analysis of quantitative and qualitative factors as well as the assessment of industry-relevant factors. The quantitative analysis refers to the consolidated financial statements for the years 2013 to 2018.

Important sources of information in the context of the rating were, in addition to the submitted documents, a due diligence meeting in Garching on 24 July 2019. The meeting was attended by:

³ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

- Peter Gerstmann (CEO, Chairman of the Board of Zeppelin GmbH)
- Alexandra Mebus (Director for Industrial Relations, Member of the Board of Zeppelin GmbH)
- David Freidl (Head of Group Treasury)

The rating was carried out by analysts Holger Becker and Artur Kapica, all based in Neuss/Germany.

Within the framework of the rating process, the following information has been provided to us:

List of documents

Accounting and controlling

- Consolidated accounts of Zeppelin GmbH for the business year 2018
- Reporting about the business development of the Zeppelin Group as per 30 June 2019
- Business plans for the years 2019 to 2021
- Detailed information about other operating expenses and income for 2018
- Business plan regarding new sales area

Finance

- List of business relationships with banks
- Cash flow and investment plans
- Credit agreements
- Assignable loan agreements

Additional documents

- Comprehensive corporate presentation from 24 July 2019

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on Creditreform Rating AG's "Corporate Ratings" methodology, as well as on the "Rating Criteria and Definitions".

A complete description of Creditreform Rating AG's rating methodologies and Creditreform Rating AG's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was submitted by the analysts to the Rating Committee for the first time on 04 September 2019, and subsequently set. The rating assessment was communicated to the Company on the same day. The draft of the rating report was also made available to the Company on this date. Subsequently, objections on the part of the Company regarding the rating were heard, following which additional information and documents were provided. Based on this information, both the rating and the rating report were revised.

The rating was again presented to the Rating Committee on 11 October 2019 and subsequently upgraded by one notch.

The rating result was communicated to the Company on 11 October 2019. The draft of the adjusted rating report was also made available on the same date. No change was made to the rating score. In addition to the rating report, the Company was provided with a rating certificate and a rating summary.

This rating is subject to a monitoring period of one year, within which the rating may be updated. After the one-year period, a follow-up rating will be necessary in order to maintain the validity the rating.

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

Please note:

This report exists in a German and an English version. The German version is the only binding version.

Conflict of interests

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 in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of 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 cases 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 report and indicates how the different methodologies or 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 and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial 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 the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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

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