

CREDIT OPINION

8 November 2016

Update

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RATINGS

KION Group AG

Domicile	Germany
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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KION Group AG

Update following closure of review process

Summary Rating Rationale

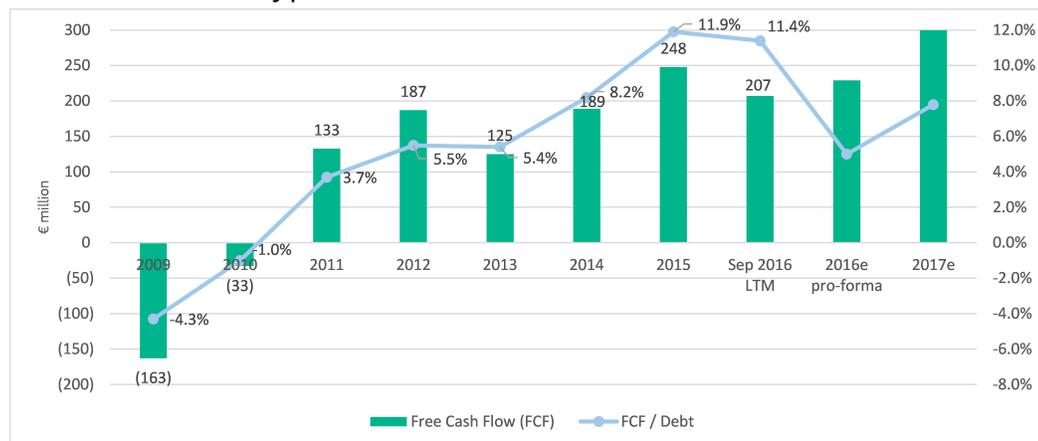
Kion's Ba1 corporate family rating (CFR) balances the improved business profile resulting from the integration of Dematic with the substantial increase in leverage resulting from this partly debt funded acquisition.

The main constraints for the Ba1 CFR are KION's (1) high leverage proforma for the Dematic acquisition with a debt/EBITDA of above 4.0x initially (Moody's adjusted), (2) exposure to economic cycles, which may lead to above average revenue and margin volatility, notwithstanding the increasingly flexible cost structure and the wide range of different industrial sectors supplied; (3) fairly high proportion of revenues generated in Europe, particularly Western Europe, although with higher than group average share of more stable service business there; (4) profitability, that albeit improving, is still somewhat below average in the similarly rated manufacturing peer group; and (5) strategy to grow externally, incorporating some M&A risk.

The Ba1 CFR is supported by KION's (1) number two market position in the industrial truck industry worldwide, with a clear market leadership in Europe and selected regions in Asia and Latin America, underpinned by technological leadership, especially for electric trucks; (2) large installed base of around 1.2 million trucks, with wide product and services offering through multiple brands, supported by a dense network of more than 1,400 service centers worldwide, which creates an important barrier to entry and a large share of service revenues (around 45% in the truck business), which are more profitable and less volatile than new truck business; (3) consistently positive free cash flow generation over the past five years, (4) strengthened business profile resulting from the acquisition of Dematic, which also enjoys a sizeable installed base and is benefitting from the growing e-commerce businesses of its customers; (5) strategy to increase its footprint in growing emerging markets; and (6) high customer and end-market diversification.

We note that KION is increasingly using its balance sheet to offer vendor financing to its customers, which, so far, has been well-managed with limited default rates in the past. Given the lower capitalisation of its vendor financing division, this business is weighing slightly negatively on the rating assigned to KION.

Exhibit 1

Free Cash Flow consistently positive since 2011

Source: Moody's Financial Metrics™, Moody's estimate

Credit Strengths

- » KION enjoys a strong position in a market with good underlying growth prospects serving a very diverse mix of end customer industries
- » Acquisition of Dematic will complement KION's business profile
- » Strategy to improve geographic diversification and reduce costs has required some investments that may boost margin expansion going forward
- » Since its IPO KION has continued to build a track record of conservative financial policies, notwithstanding the fact that external growth is part of its strategy

Credit Challenges

- » Cyclicity of new truck business partially mitigated by service business, with increasingly flexible cost structure
- » Cyclicity of Dematic's automation and supply-chain optimisation business mitigated by good order backlog
- » Initially high leverage following the acquisition of Dematic

Rating Outlook

The outlook on the ratings is negative. KION has strongly performed during the last two quarters, as has Dematic during the past nine months. If this trend continues into 2017 the combined group will very likely achieve a leverage ratio that would be in line with the ratios set for maintaining the current rating. However, initially the rating will be weakly positioned, and any negative deviation from the expected path could lead to downward pressure.

Factors that Could Lead to an Upgrade

Upward pressure on the ratings would develop if KION were to demonstrate the ability to sustainably generate a Moody's adjusted EBITA margin of around 10% and further build a track record of conservative financial policies, with Moody's adjusted debt/EBITDA sustainably well below 3.0x, while maintaining meaningful free cash flow generation through the cycle.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Factors that Could Lead to a Downgrade

Downward pressure might develop on the ratings if KION were unable to manage leverage below 3.5x debt/EBITDA by year-end 2017, if the expected second capital increase does not materialize during the next twelve months or if management were to employ more aggressive financial policies, as exemplified by further sizeable acquisitions before the Dematic takeover has been successfully integrated. Moody's would also consider a downgrade. Downward pressure would also build, if there is an evidence of permanent erosion of KION's profitability and sustained negative free cash flow.

Key Indicators

Exhibit 2

	12/31/2017e	9/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Revenue (USD Billion)	\$8.2 - \$8.6	\$5.9	\$5.7	\$6.2	\$6.0	\$6.1
EBITA Margin	9.7% - 10.2%	9.5%	9.4%	9.4%	9.2%	8.6%
EBITA / Interest Expense	3x - 3.5x	3.1x	3.2x	3.0x	2.0x	1.6x
Debt / EBITDA	3.4x - 3.8x	2.2x	2.7x	2.9x	3.1x	4.7x
Retained Cash Flow / Net Debt	12.5% - 13.5%	24.7%	16.7%	25.4%	18.1%	9.6%
Free Cash Flow / Debt	7.5% - 8.5%	11.4%	11.9%	8.2%	5.4%	5.5%

(1) All ratios are based on 'Adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics™

Detailed Rating Considerations

KION enjoys a strong position in a market with good underlying growth prospects serving a very diverse mix of end customer industries

KION has a strong and well-established position in the market for industrial trucks for material handling thanks to its multi-brand strategy with seven brands, a full range product offering and technological leadership, especially with regard to electric trucks. Based on revenues, KION is the market leader in Europe, where it generated more than 80% of its revenues in 2015, and is the second-largest industry player on a global basis close to the world market leader Toyota Industries which is a listed subsidiary of Toyota Motor Corporation (Aa3, stable). The third-largest player in the industry, Jungheinrich (unrated), has only about half the size of KION measured by revenues. The rest of the market is fairly fragmented, typically with smaller regional players.

We believe that the material-handling market offers solid growth prospects in the long term, driven by megatrends such as globalisation, growing population and goods production, growing international trade and shipping volumes, increasing fragmentation of supply chains, increasing levels of automated material handling and expanding E-commerce. Future growth will mostly be driven by increasing demand in growth markets, particularly in Eastern Europe, where KION already enjoys leadership positions, and China, where KION believes to be the third largest player and the largest non-domestic player (albeit in a highly fragmented market).

Acquisition of Dematic will complement KION's business profile

We believe that the acquisition of Dematic will complement KION's business profile. First, it will materially increase the scale of the company. On a combined basis KION would have reported around €6.7 billion revenues for 2015 compared to around €5.1 billion on a stand-alone basis, which would position KION among the largest companies in our Ba-rated global manufacturing universe. Furthermore, increased size could allow to reap some cost synergies, achieved for instance through common purchasing, which KION expects to reach 1%-2% of Dematic's sales on a run-rate basis.

Second, it will significantly improve KION's geographic footprint. KION has historically focused on Western European markets, especially Germany and France. But during the last decade it significantly strengthened its positions in Asia, China in particular, since 2012 further supported by its anchor shareholder, Chinese engineering group Weichai Power (unrated). However, its position in the Americas, US in particular, has always been fairly weak. In contrast, Dematic has a very strong presence in the US, where the company believes to be the leader in its niche of warehouse automation. As a result of the acquisition, KION's exposure to the Americas will increase to around 20% from 5% for 2015 on a combined basis.

Third, Dematic's portfolio is complementary to KION's offering. KION has traditionally focused on forklift trucks and similar material handling equipment and related services, but with acquisitions of Belgium-based Egemin in 2015, complemented by US-based

Retrotech in early 2016, KION entered the market for automated material handling solutions. Dematic will strengthen KION's position and widen its product and service offering in this market, which is experiencing fast growth driven by rising e-commerce and further fragmentation of the supply chain. It will enable KION to become a one-stop supplier offering a wide range of logistics solutions ranging from manually operated industrial trucks to fully automated warehouses. Furthermore, there is potential to reach some revenue synergies through strengthened product offerings and access to new customers. KION can leverage Dematic's installed base of more than 4,500 integrated systems, in particular in the US, and Dematic can benefit from KION's large service network in key markets in Europe, China and Brazil.

Strategy to improve geographic diversification and reduce costs has required some investments that may boost margin expansion going forward

KION's geographic diversification of revenues is still skewed towards Western Europe, which is KION's stronghold; in particular Germany and France, with roughly 40% of its revenues. Demand in these countries is driven predominantly by trucks in the premium segment, where customers require a dense service network and high operating efficiency, which many smaller truck providers competing primarily on price cannot offer. Moreover, the proportion of service revenues in these mature markets (around 50%) is even higher than the group average, which should help to reduce cyclicity and to provide more attractive margins.

Improved geographic diversification is a key part of KION's "Strategy 2020", in which KION tries to further strengthen its position in fast growing Asia and so far weak position in North America by utilizing a cross-brand and cross-regional modular and platform strategy. However, this initiative has required some investments, which has limited margin expansion in 2015 (Moody's adjusted EBITA remained broadly flat at around 9.5% year-on-year despite almost 10% revenue growth), but may boost profitability going forward. KION now targets 12% EBIT margin by 2018. We note that despite the high proportion of services and its strong market position, KION's current profitability is still somewhat below average in the similarly rated manufacturing peer group.

Since its IPO KION has continued to build a track record of conservative financial policies, notwithstanding the fact that external growth is part of its strategy

Despite the large size of the Dematic acquisition we do not expect that KION's financial policies have become more aggressive.

KION does not commit to formal capital structure targets and only communicates its goal of maintaining a strong cross-over credit profile with good access to capital markets. Given that the acquisition of Dematic will take a toll on KION's currently very solid leverage, we do not expect that KION will undertake additional sizeable acquisitions before Dematic has been fully integrated and deleveraging is on track. However, smaller bolt-on transactions within the limits of internal free cash flow generation cannot be excluded. These could be again in the market for warehouse automation, which is still fairly fragmented. We would consider them on a case-by-case basis depending on the strategic rationale and impact on credit metrics. KION's dividend policy, with dividend payout defined as 25%-35% of net income, remains unchanged. We also do not expect KION to engage in share buybacks at this point.

Cyclicity of new truck business partially mitigated by service business, with increasingly flexible cost structure / Cyclicity of Dematic's automation and supply-chain optimisation business mitigated by good order backlog

The market for new material handling trucks is cyclical and trends in this market are closely related to macroeconomic trends in general. In periods of lower economic activity, truck utilization rates decrease, which is further exacerbated by the fact that customers tend to postpone the replacement of the fleet. For example in the 2008-09 global economic downturn, which was admittedly unprecedented in its magnitude, KION's sales from new trucks collapsed by almost 45%. However, the top line recovered very quickly during 2011-2012 driven by pent-up demand through replacement purchases, since the fleet replacements cannot be deferred indefinitely. We also note that the end markets and customer base of KION are fairly diversified, which can help smoothen volatility of order intake.

The cyclicity of the new trucks business is partially mitigated by the service business, which accounted for around 45% group sales in 2015, comprising maintenance and repairs, spare and wear parts, as well as the rental business and the sale of used trucks. The service business is much less cyclical and more profitable than the new trucks business, since it is less dependent on utilization levels but rather operates according to fixed periods of time, with contracts of typically five years in duration. The stability of service revenues could be seen in the 2008-09 downturn when service sales decreased only by around 10%.

We also believe that the overall resilience of KION's business has improved and KION is now better positioned to withstand economic cycles. As part of its operational restructuring after the 2008-09 downturn, KION has rationalised its production footprint, closing seven facilities in Western Europe while adding sites in emerging markets for a total of currently 14 production locations worldwide. At the same time, it has relocated and expanded its production and R&D activities in emerging markets, which have a lower cost base, thereby improving its overall capacity utilisation. However, we note that KION retains the manufacturing of a substantial part of its components in-house, which may expose KION to the risk of underutilization of its capacities in a downturn scenario.

The purchase of Dematic is unlikely to reduce KION's cyclicality, given that Dematic's financial performance is highly reliant on customer capex levels and thus tend to be cyclical and fairly similar to KION. However, being to a large extent a company that delivers projects rather than manufacturing products, Dematic has a substantial order backlog (\$1.36 billion as of end-June 2016), which provides good revenue visibility for the next several months and partially compensates for the inherent volatility of order intake. In addition, roughly 25% of Dematic's revenues come from the aftermarket business, which is generally more resilient and profitable.

Liquidity Analysis

We consider KION's liquidity to be good over the next 12-18 months. KION refinanced its facilities in 1Q 2016 and now benefits from a new revolving line for €1.15 billion with a maturity of five years with two extension possibilities for one year each and subject to one net leverage covenant, currently with ample headroom. We expect that KION will continue to generate material free cash flow in next 12-18 months. The next major corporate debt maturity is €350 million term loan in 2019. As of end-September 2016 KION reported around €230 million cash and cash equivalents.

Profile

Headquartered in Wiesbaden, Germany, KION GROUP AG supplies forklift trucks, warehouse trucks and associated services and solutions for logistics, warehouse management and automation. The group holds the market-leading position in Europe and in most of the other markets it operates in and it ranks second on a global basis. As of LTM ended September 2016, KION generated revenues of around €5.3 billion with a workforce of around 23,506 employees. KION is a publicly listed company with market capitalization of around €6 billion as of 31 October 2016. Its largest shareholder is Chinese engineering group Weichai Power (unrated), holding around 40% following the capital increase in July 2016, with the remainder being in free float. Pro-forma combined with Dematic, KION generated revenues of around €7.0 billion and reported EBITDA of around €1.0 billion for the last twelve months ended 30 June 2016.

Rating Methodology and Scorecard Factors

Sizeable end customer finance business leads to adjustments

At the end of 2015, KION's end-customer finance business represented almost €1 billion of assets (around 15% of total assets). Such operations are fundamentally different from industrial operations in many respects, including margin structure, interest coverage or capital adequacy. Hence, we adjust KION's accounts to remove the customer-financing business in order to get credit metrics related solely to its industrial operations, which we then compare with other manufacturing peers. For instance, in 2015 we removed roughly €950 million captive finance debt and roughly €100 million of EBITDA.

So far KION has managed risks from the customer-financing division very prudently with losses comparable to other customer-financing operations, such as Siemens. Given the weak capitalization of that division with an equity ratio of around 5%, this business has a marginally negative influence on KION's overall credit profile.

Methodology grid

The principal methodology used in rating KION is the Global Manufacturing Companies Methodology, published July 2014. The grid indicates a Ba1 based on September 2016 financials prior to the acquisition of Dematic as well as for the combined entity in the first full year of operations, which is in line with the assigned rating.

Exhibit 3

Rating Factors

KION Group AG

Manufacturing Industry Grid [1][2]			Current LTM 9/30/2016		Moody's 12-18 Month Forward View As of 11/3/2016 [3]	
Factor 1 : Business Profile (20%)	Measure	Score	Measure	Score	Measure	Score
a) Business Profile	Ba	Ba			Baa	Baa
Factor 2 : Scale (20%)						
a) Revenue (USD Billion)	\$5.9	Baa			\$8.2 - \$8.6	Baa
Factor 3 : Profitability (10%)						
a) EBITA Margin	9.5%	Ba			9.7% - 10.2%	Ba
Factor 4 : Coverage and Leverage (40%)						
a) EBITA / Interest Expense	3.1x	Ba			3x - 3.5x	Ba
b) Debt / EBITDA	2.2x	Baa			3.4x - 3.8x	Ba
c) Retained Cash Flow / Net Debt	24.7%	Ba			12.5% - 13.5%	B
d) Free Cash Flow / Debt	11.4%	Baa			7.5% - 8.5%	Ba
Factor 5 : Financial Policy (10%)						
a) Financial Policy	Ba	Ba			Ba	Ba
Rating:						
a) Indicated Rating from Grid		Ba1				Ba1
b) Actual Rating Assigned						Ba1

(1) All ratios based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; (2) As of 9/30/2016(L); (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 4

Category	Moody's Rating
KION GROUP AG	
Outlook	Negative
Corporate Family Rating	Ba1
DH SERVICES LUXEMBOURG S.A.R.L	
Outlook	Negative
Senior Unsecured	Ba1/LGD4

Source: Moody's Investors Service

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