A
stable

Rating Committee: 10/31/2019

GRENKE AG (consolidated group)

Rating result

Strengths/Opportunities:

- Very solid capital base
- Compelling track record regarding earnings and new business
- Clearly focused strategy and successful implementation
- Lean processes thanks to highly developed standardization and automation
- Highly granular portfolio and broad risk diversification
- Application of successful business model to other asset groups

Weaknesses/Threats:

- Weakening macroeconomic environment and forecast of global rise in insolvencies with initial impact on defaults
- Significant portion of business volume in countries with a difficult economic and/or political landscape; Italy requires further monitoring
- Strong focus on growth entails challenges relating to organization, management and customer creditworthiness
- Elevated share of non-performing receivables inherent in business model

Financial data:

(Amounts in kEUR)	2018	2017*
Change in embedded value	86.063	82.420
Ordinary comprehensive income	155.530	132.033
Economic result	241.593	214.453
Total assets	5.876.491	4.763.175
Net profitability	4.1 %	4.5 %
Modified equity ratio	22.7 %	21.0 %

*2017 adjusted

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The rating result of GRENKE AG (consolidated group) is confirmed as A, outlook stable. Its altogether compelling financial profile reflects the company's very good capital position and continuing high profitability. Within the business profile, the clearly focused strategy and its implementation, as well as the efficient processes that exist, are worthy of particular note. The risk profile remains appropriate.

GRENKE Bank AG, which is a subsidiary of GRENKE AG, is a credit institution which, by engaging in the purchase of lease receivables, plays a key role in the refinancing strategy of the GRENKE consolidated group. As of July 26, 2019, GRENKE Bank AG has the same rating and high creditworthiness as GRENKE AG.

The business focus of GRENKE AG (consolidated group) and of the group (including franchise partners) consists of leasing operations with commercial clients in the small-ticket segment, primarily relating to IT products. It also offers factoring and banking services. Geographically highly diverse, the group is now represented in 147 locations in a total of 32 countries on five continents. Its core markets are Germany, France and Italy. In 2018 the group generated new business approaching €3bn; the consolidated group's economic result before taxes was almost 13% higher. In the medium term, the tremendous vigor of recent years, with growth rates often exceeding 20% for both new business and earnings after taxes, will be unsustainable. Given the increasingly challenging environment, there are already indications of a more moderate advance in 2019, but growth rates remain favorable.

The growth achieved to date reflects a clear strategic approach and its consistent and successful implementation. GRENKE is successfully diversifying its product portfolio by offering small machines and equipment as well as leased medical devices. The average ticket size is therefore rising slightly; from an overall perspective, however, the portfolio remains very granular. In view of the profit situation, the elevated proportion of non-performing receivables that typifies this business model is acceptable. Nevertheless, their development should be monitored because of the weakening economic climate.

Summary:

Rating criteria	Rating
Financial profile	strong
Business profile	
- Market	strong
- Organization	strong
- Risk profile	adequate

(strong > adequate > acceptable > deficient > problematic > insufficient)

Rating history:

Rating	Outlook	Date
A	**stable**	**10/31/2019**
A	stabil	11/05/2018
A	stabil	11/06/2017
A	stabil	12/15/2016
A	stabil	12/16/2015

Rating scale:

Rating	Rating categories
AAA	highest financial standing
AA+ / AA / AA-	very high financial standing
A+ / A / A-	high financial standing
BBB+ / BBB / BBB-	good financial standing
BB+ / BB / BB-	satisfactory financial standing
B+ / B / B-	financial standing scarcely adequate
CCC+ / CCC / CCC-	financial standing no longer adequate
CC / C	inadequate financial standing
D	moratorium / insolvency proceedings

Rating-sensitive factors

The material factors capable of stabilizing or improving the rating result are a sustained increase in credit quality as well as a reduction in risk expenses and the associated key figures (including the risk-income ratio).

With regard to the factors that could have a negative impact on the rating result, these include in particular a significant downturn in earnings (e.g. caused by a decline in new business or margins), a weakening of the quality of the assets in the portfolio (e.g. due to weaker/ more difficult economic and/or political conditions), and a sustained worsening of refinancing terms. The timely pricing of rising risks is a key factor in credit quality. Due to the high degree of process automation, the business depends to a large extent on functioning IT systems. Major IT problems or a missing/incorrect further development of the IT infrastructure could have a negative impact on business activities and ultimately on the rating result. Furthermore, the strong growth achieved to date presents a challenge. On the one hand, an increase in equity capital that does not go hand in hand with business growth could have a negative impact on the rating result. On the other hand, an adequate organization and IT structure that grows with the business and the availability of suitable skilled (IT) employees must be ensured.

Regulatory disclosure requirements

Name and function of analysts:

- Christina Weymann, Lead Rating Analyst, Senior Manager GBB-Rating, Cologne
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Members of the rating committee:

- Klaus Foro, Analyst, Manager GBB-Rating, Cologne
- Volker Jindra, Analyst, Senior Manager GBB-Rating, Cologne
- Stefan Groos, Analyst, Senior Manager GBB-Rating, Cologne

Date	Rating Committee	Notification	Issue
▪ First rating	10/01/2014	10/01/2014	10/06/2014
▪ Current rating	10/31/2019	10/31/2019	11/06/2019

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to the rated entity:

- none

Major sources of information for the rating:

- Annual report as at 12/31/2019
- Half year report as at 06/30/2019
- Answers provided by the company to a detailed questionnaire
- Further disclosures and company specific information

Statement about the quality of information available (including potential restrictions):

- The quality and extent of information (interviews and documents) were suitable to obtain a comprehensive picture of the company and to assign an objective, transparent and professional credit rating

Applicable rating methodology, rating type and release:

- Solicited Rating
- Methodology for Rating Leasing 2.3.03 Leasing
- https://gbb-rating.eu/en/ratings/methodik/Pages/default.aspx

Meaning of the rating category:

- https://gbb-rating.eu/en/ratings/ratingskala/Pages/default.aspx

Business relationship:

- Besides the rating mandate there are further business relationships with GRENKE BANK AG

Legal remarks

Since 28 July 2011 GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH has been registered with the European Securities and Markets Authority (ESMA) as a European rating agency and therefore complies with the applicable regulatory requirements of the European supervisory authorities for a European rating agency.

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Future events are uncertain. Ratings are based on predictions of these and thus inevitably rely upon estimates. Therefore, they solely represent statements of opinion rather than statements of fact or investment advice.

Credit ratings are performed with proficiency and due professional care. Ratings are based on the data and information provided by the applicant. This information is used in reaching an opinion about the future viability as well as the strengths and weaknesses of the rated company as of the date of rating issuance.

GBB-Rating puts focus on sustainability and is a signatory of the UN Global Compact since 2018. We support the 10 principles of the UN Global Compact relating to human rights, labor standards, the environment and anti-corruption.