

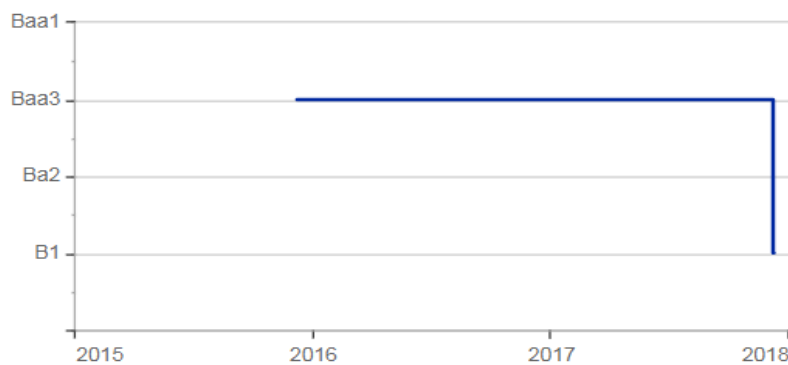
STEINHOFF – CREDIT IMPLICATIONS

Moody's cut Steinhoff International Holdings N.V. ratings by four notches on the global scale, and eight notches on the national scale

- Just before midnight last night, Moody's slashed Steinhoff's ratings by four notches on the global scale from Baa3/Stable to B1/Watch Neg.
- Its South Africa National Scale ratings were cut by eight notches from Aa1.za/Stable to Baa3.za/Watch Neg.

Chart 1: Steinhoff International Holdings N.V. Ratings History

Rating Class History: LT Issuer Rating (Domestic)



Source: Moody's

Chart 2: Steinhoff Corporate Family Tree

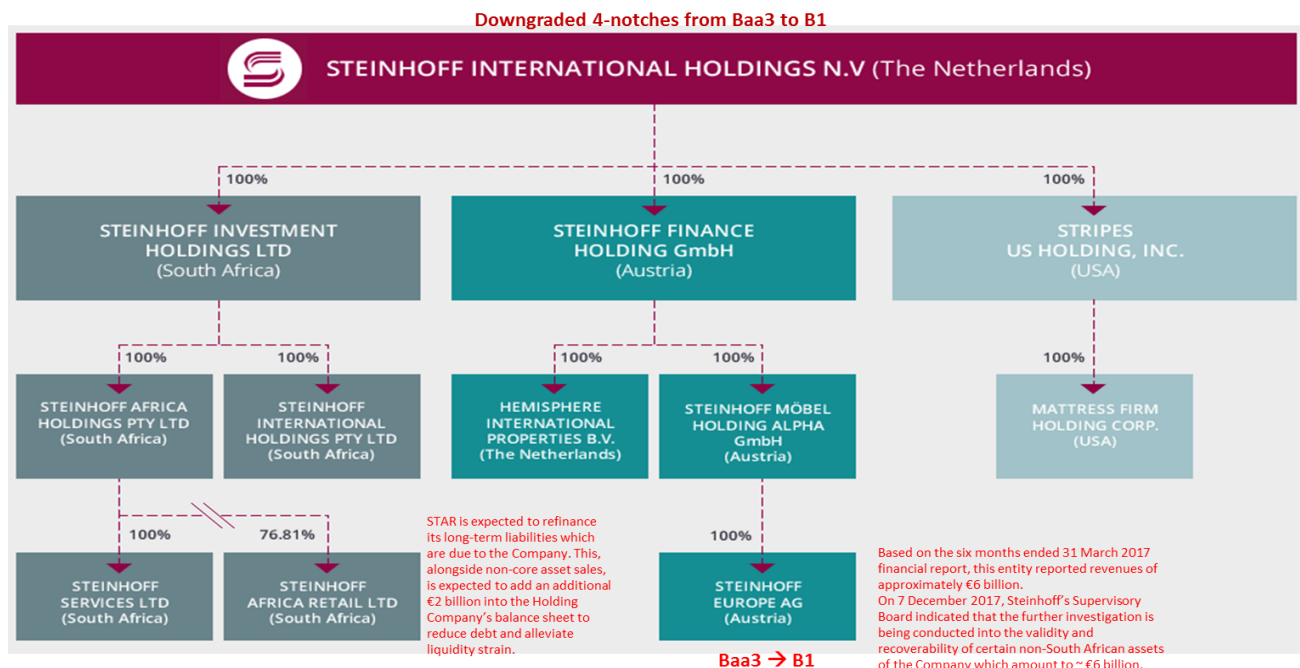
Parent/Subsidiary	Long Term Rating	Long Term Rating Type	Date	Domicile
Steinhoff International Holdings N.V.	B1, Possible Downgrade	LT Issuer Rating - Dom Curr	07 Dec 2017	NETHERLANDS
Steinhoff International Holdings Limited				SOUTH AFRICA
Steinhoff Investment Holdings Limited	B1, Possible Downgrade	LT Issuer Rating - Dom Curr	07 Dec 2017	SOUTH AFRICA
Steinhoff Africa Holdings Proprietary Limited				SOUTH AFRICA
Steinhoff Finance Holding GmbH				AUSTRIA
Steinhoff Europe AG	B1, Possible Downgrade	BACKED Senior Unsecured - Dom Curr	07 Dec 2017	AUSTRIA

Source: Moody's

- The downgrade, and review for further downgrade, reflects the uncertainties and implications of alleged accounting irregularities on Steinhoff's liquidity position, as well as questions around the sustainability of its debt capital structure.
- These accounting concerns resulted in the delayed publication of audited financial results and require further investigation. Specifically, Steinhoff's Supervisory Board is looking into the validity and recoverability of certain non-South African assets of the Company which amount to ~EUR 6 billion.

Chart 3 below illustrates the Corporate structure, and which core subsidiaries are of credit concern:

Chart 3: Group structure and overview of entity rating transitions



Source: Moody's, Steinhoff

- The underlying operations of the Group remain sound according to Moody's, and the ratings still consider the Group's credit strengths as being its large scale and strong market positions in various product segments and regions; its business and geographic diversity; and its volume-driven cost benefits derived from being a vertically integrated international retailer.
- However, the repeated rebuttal of alleged accounting irregularities by Steinhoff's management in August and November of this year calls into question the quality of oversight and governance at Steinhoff according to Moody's.
- As such, we think that the four-notch credit adjustments made by Moody's to the ratings were not to the core baseline model (See Table 1 below), but were discretionary or qualitative.
 - The last rating model grid was published as at 15th August 2016 and appeared to indicate that Steinhoff was on a positive credit trajectory towards a "Baa2" indicative rating from "Baa3". In addition, subsequent credit opinions by Moody's spoke of potentially credit positive benefits deriving from the Steinhoff Africa Retail (STAR) listing and the financial flexibility the Group enjoys through its other listed investments and mostly unencumbered European property portfolio spanning retail, warehousing and manufacturing. In our opinion, it is probably these investments that will likely be disposed of to realize the EUR 2billion liquidity injection into the Group.
 - Evidently, these credit benefits have all been negated by the agencies concerns over 1) Corporate Governance, 2) Financial Controls, 3) Liquidity Position and 4) Susceptibility to further event risk. These concerns could result in substantial financial implications (for instance, through the restatement of prior years' financial reports). All four of these factors are detailed in Moody's Retail Industry rating methodology as additional considerations beyond the baseline model. Each could possibly account for a one-notch negative adjustment to arrive at the current B1 rating.

Table 1: Moody's Rating Scorecard Grid

Steinhoff International Holdings N.V.	Sub-Factor Weights	2016A Measure	Indicative Rating	Score	Weighted Score	12-18 Month Forward View (Measure & Rating)	12-18 Month Forward View (Score)
Factor 1: Scale (10%)							
a) Revenue (USD Billion)	10%	\$13.4 billion Range: \$10-\$25 billion	Baa	9	0.9	~\$15.1 billion (Baa)	9
Factor 2: Business Profile (30%)							
a) Stability of Product	10%	Demand is elastic. Products exhibit discretionary features – sensitive to macroeconomic or cyclical factors. Moderate risk of product substitution, fashion risk or technological obsolescence.	Ba	12	1.2	Ba	12
b) Execution and Competitive Position	20%	Execution is well-above peers. Market leadership is evident; and can be defended against most threats; across markets and geographies and within product categories – although with some potential fragmentation.	Baa	9	1.8	Baa	9
Factor 3: Leverage and Coverage (45%)							
a) EBIT / Interest Expense	15%	4.3x Range: 2.25x - 4x	Ba	12	1.4	5.4x (Baa)	9
b) RCF / Net Debt	15%	34.9% Range: 25% - 35%	Baa	9	0.9	34.9% (A)	6
c) Gross Debt / EBITDA	15%	3.3x Range: 2.5x - 3.5x	Baa	9	1.4	3.2x (Baa)	9
Factor 4: Financial Policy (15%)							
a) Financial Policy	15%	Expected to have financial policies that balance the interest of creditors and shareholders; some risk that debt funded acquisitions or shareholder distributions could lead to a weaker credit profile.	Baa	9	1.4	Baa	9
Rating:					9.8 Range: 9.5 - 10.5		8.9 Range: 8.5 - 9.5
a) Indicative Rating from Grid		Baa3				Baa2	

Source: Moody's

Other Credit Considerations

- With such a drastic ratings transition, market participants may be questioning whether Moody's, as the primary rating agency, should have been aware of any irregularities, especially given the Group's complex corporate legal structure and the Group's rapid expansion via acquisition (which complicates the assessment of trend lines for credit metrics). In our opinion, credit rating agencies are not forensic auditors, but depend on audited information to form comparable rating opinions. As such, Moody's reaction to this news is probably justified in our view.
- Lenders to Steinhoff will now need to look to bond indentures and loan term sheets for covenant compliance or to determine their acceleration rights, if any. Herein lies the uncertainty and risk to Steinhoff's liquidity position, and is an important underpin for the Review for further downgrade.
 - Steinhoff's South African debt programme is incorporated under Steinhoff Services Limited and is irrevocably and unconditionally guaranteed by Steinhoff International Holdings N.V.; Steinhoff Investment Holdings Limited; Steinhoff Africa Holdings Proprietary Limited; Ainsley Holdings Proprietary Limited and Pepkor Holdings Proprietary limited. The South African programme has cross-default clauses but has no ratings-related trigger for default. Early redemption is possible if a change of control occurs and results in a rating downgrade of the issuer/guarantor, or if the issuer fails to maintain its JSE Listing and Rating.
 - The European programme is listed under Steinhoff Europe AG and is unconditionally and irrevocably guaranteed by Steinhoff International Holdings N.V. There are no rating-related triggers for default of early redemption.

- Generally, our concern with regards to the abovementioned credit implications is the possible forced selling of the now sub-investment grade bonds, as they may now fall outside of fund mandates. Furthermore, in South Africa, some banks may have held the bonds as part of their liquid asset portfolios, and the low rating could now maybe exclude the bonds from these portfolios. Furthermore, investors may be concerned over how Steinhoff's liquidity needs might result in credit instability at any of its listed subsidiaries that have their own bond programmes (ie possibly through greater dividend upstreaming or asset-stripping).
- How the banks behave in terms of supporting Steinhoff's future funding and liquidity needs could define its going-concern status in our view. It is unclear whether loan covenants have now been breached (due to the rating action) or could be breached (pending the outcome of the investigations).

Table 2: South African Bonds

ISIN	Issue Date	Name	Amount Outstanding (Millions)	Coupon	Maturity	Series	Moody's	Maturity Type	Currency	Ask Price	Mid Yield to Maturity	
ZAG000147984	2017/11/03	Steinhoff Services Ltd	550	8.95	JIBA3M +190.0	2022/11/03	34	Baa3.za	AT MATURITY	ZAR	94.675	10.419
ZAG000101866	2012/12/12	Steinhoff Services Ltd	580	9.242	JIBA3M +220.0	2017/12/12	6	Baa3.za	AT MATURITY	ZAR	100	9.244
ZAG000143215	2017/04/05	Steinhoff Services Ltd	1064	8.992	JIBA3M +200.0	2022/10/05	31	Baa3.za	AT MATURITY	ZAR	95.875	10.214
ZAG000143207	2017/04/05	Steinhoff Services Ltd	2017	8.792	JIBA3M +180.0	2020/04/06	30	Baa3.za	AT MATURITY	ZAR	98.859	9.470
ZAG000124041	2015/02/23	Steinhoff Services Ltd	250	9.1	JIBA3M +200.0	2020/02/24	22	Baa3.za	AT MATURITY	ZAR	98.049	10.118
ZAG000131343	2015/11/13	Steinhoff Services Ltd	300	9.055	JIBA3M +203.0	2018/04/16	28	Baa3.za	AT MATURITY	ZAR	101.173	5.608
ZAG000145228	2017/07/10	Steinhoff Services Ltd	1000	9.008	JIBA3M +200.0	2022/10/10	33	Baa3.za	AT MATURITY	ZAR	101.559	8.720
ZAG000131988	2015/12/03	Steinhoff Services Ltd	700	8.775	JIBA3M +165.0	2018/12/03	29	Baa3.za	AT MATURITY	ZAR		
ZAG000127382	2015/06/29	Steinhoff Services Ltd	350	8.942	JIBA3M +195.0	2020/06/29	24	Baa3.za	AT MATURITY	ZAR	102.043	8.1723
ZAG000127390	2015/06/29	Steinhoff Services Ltd	250	9.83		2020/06/29	25	Baa3.za	AT MATURITY	ZAR	99.089	10.235
ZAG000127374	2015/06/29	Steinhoff Services Ltd	400	8.642	JIBA3M +165.0	2018/06/29	23	Baa3.za	AT MATURITY	ZAR	101.916	5.163
ZAG000145210	2017/07/10	Steinhoff Services Ltd	200	8.808	JIBA3M +180.0	2020/07/10	32	Baa3.za	AT MATURITY	ZAR	101.525	8.254
ZAG000127440	2015/06/30	Steinhoff Services Ltd	500	8.942	JIBA3M +195.0	2020/06/29	26	Baa3.za	AT MATURITY	ZAR	101.819	8.269

Table 3: European Bonds

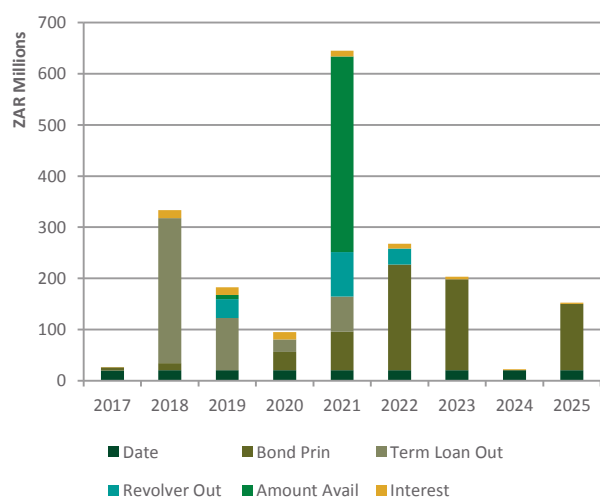
ISIN	Issue Date	Name	Amount Outstanding (Millions)	Coupon	Maturity	Series	Moody's	Maturity Type	Currency	Ask Price	Mid Yield to Maturity	Yield To Worst
XS1650590349	2017/07/24	Steinhoff Europe AG	800	1.875	2025/01/24		B1 /*-	CALLABLE	EUR	62.068	9.593	
XS1272162584	2015/08/11	Steinhoff Finance Holding GmbH	1116.3	1.25	2022/08/11	SHF	NR	CONVERTIBL E	EUR	49.232	18.573	17.671
XS1398317484	2016/04/21	Steinhoff Finance Holding GmbH	1100	1.25	2023/10/21	SNH		CONVERTIBL E	EUR	49.327	15.126	14.312
XS1023684282	2014/01/30	Steinhoff Finance Holding GmbH	465	4	2021/01/30	SHF	NR	CONV/PUT	EUR	63.218	21.373	50.259
XS0605635787	2011/03/17	Steinhoff Finance Holding GmbH	0	4.5	2018/03/31	SHF	NR	CONV/CALL	EUR	19.509		

Table 4: Syndicated Loans

Borrower Name	Issue Date	Maturity	Amount Outstanding (Millions)	Type	Currency	Rank	Status
Hemisphere International Properties BV	2017/08/03	2018/08/03		BRIDGE TERM	EUR	Gtd Unsecd	SIGNED
Steinhoff Europe AG	2016/06/02	2021/06/02	539	REV	EUR	Gtd Unsecd	SIGNED
Steinhoff Africa Holdings Pty Ltd	2015/03/28	2018/03/28	2500	TERM	ZAR	Gtd Unsecd	SIGNED
Steinhoff Africa Holdings Pty Ltd	2015/03/28	2020/03/28	2500	TERM	ZAR	Gtd Unsecd	SIGNED
Steinhoff Africa Holdings Pty Ltd	2015/03/28	2019/03/28	1050	TERM	ZAR	Gtd Unsecd	SIGNED

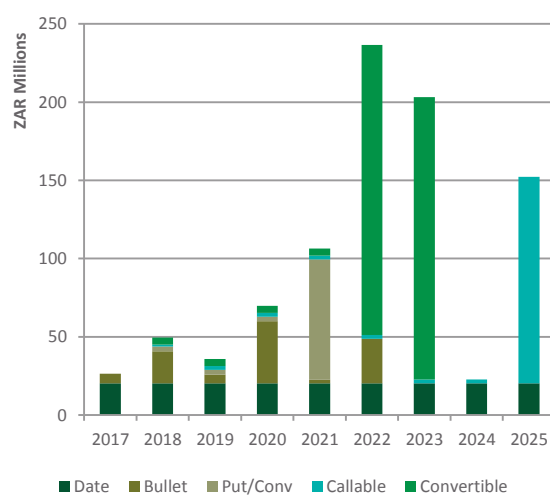
Source: Bloomberg

Chart 4: Debt Maturity Schedule – Debt Type



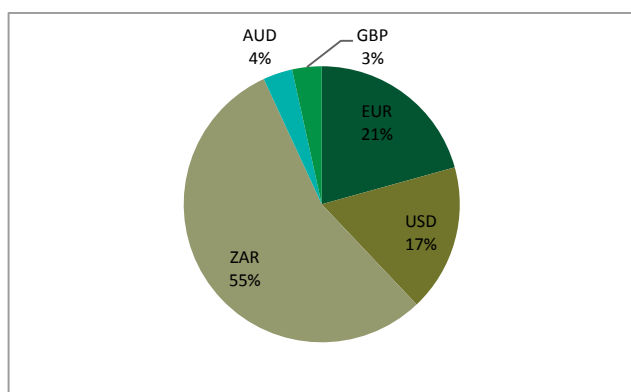
Source: Bloomberg

Chart 5: Debt Maturity Schedule – Maturity Type



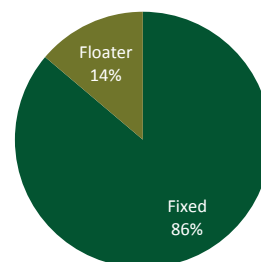
Source: Bloomberg

Chart 6: Debt Breakdown – by Currency



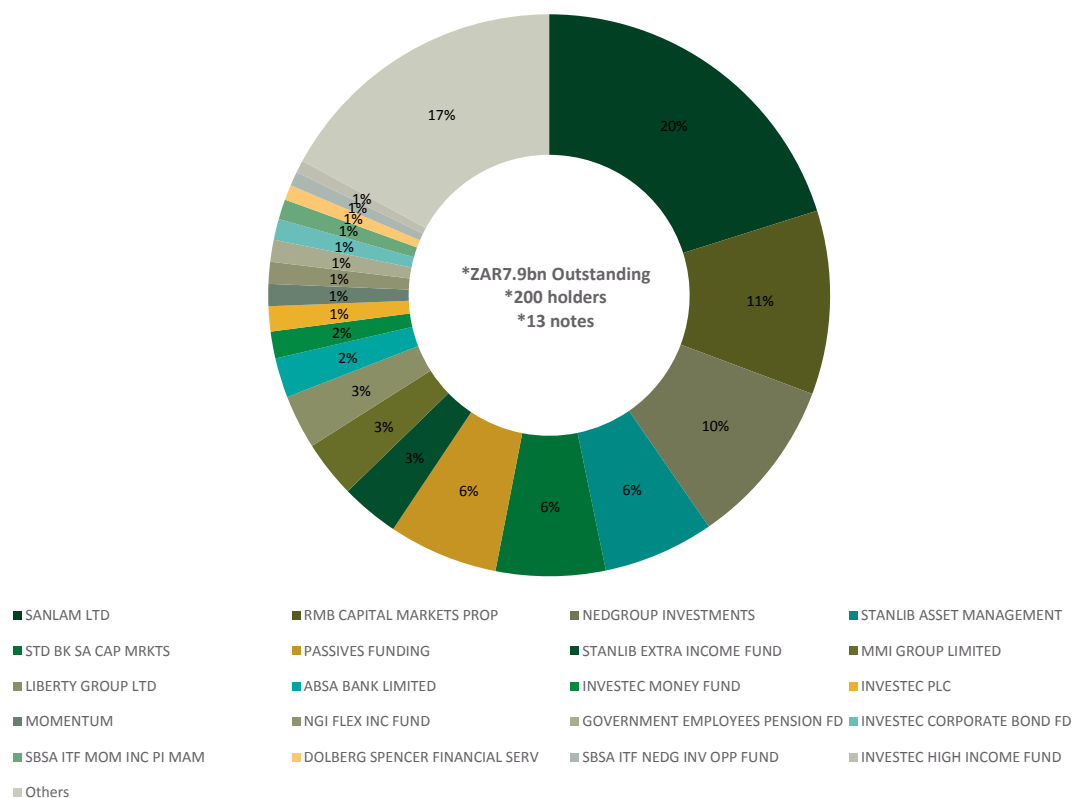
Source: Bloomberg

Chart 7: Debt Breakdown – by Coupon Type



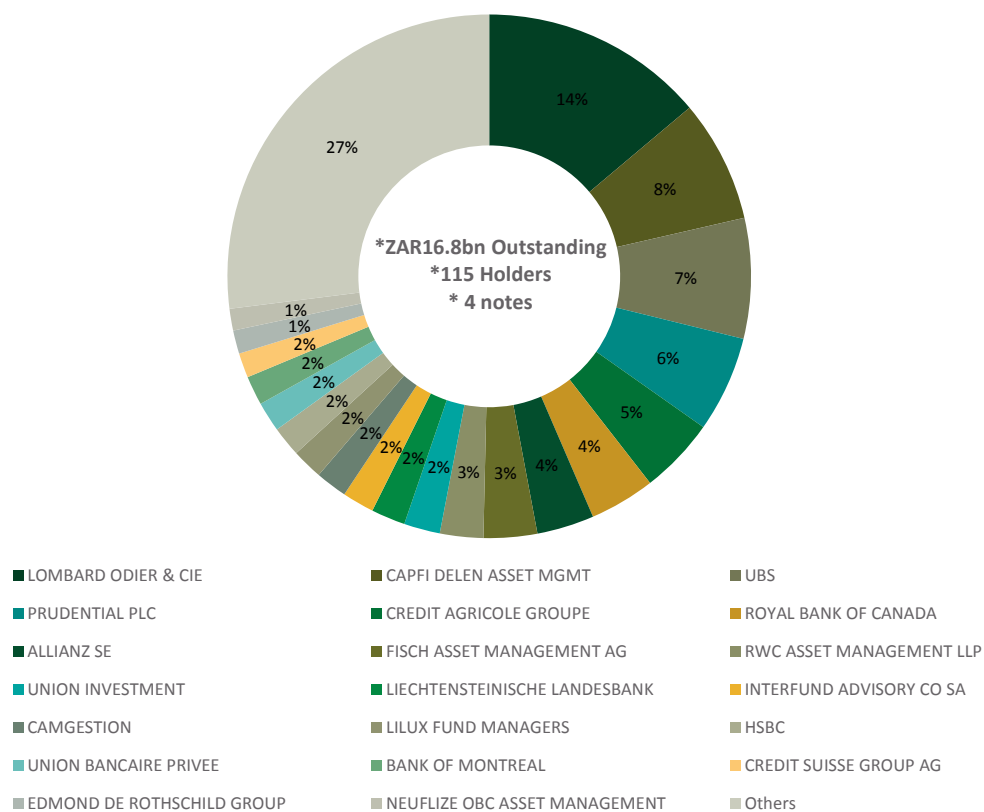
Source: Bloomberg

Chart 8: Steinhoff Top 20 Debt Holders (ZAR Bonds)



Source: Bloomberg

Chart 9: Steinhoff Top 20 Debt Holders (European Bonds)



Source: Bloomberg

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