

Bulletin:

# YAGEO Corp.'s Rising Exposure To Sensor Business Slightly Enhances Its Competitive Position

November 1, 2022

Taiwan Ratings Corp. said that **YAGEO Corp.'s** acquisition of Telemecanique Sensors could slightly enhance YAGEO's competitiveness and performance stability. The acquisition should help to widen YAGEO 's product offerings if it can successfully integrate the new business with its current operations. Nonetheless, the transaction along with YAGEO's recent acquisition of Heraeus Nexensos GmbH could significantly reduce the financial buffer for our ratings on YAGEO.

On October 27, 2022, YAGEO (twA+/Stable/twA-1) announced its intention to acquire the Telemecanique Sensors from Schneider Electric through an all-cash transaction for a total consideration of US\$692 million. This follows YAGEO's acquisition of Heraeus Nexensos GmbH in early October 2022 for Euro 79.4 million. YAGEO expects to complete the acquisition by the first half of 2023. Telemecanique Sensors specializes in manufacturing electromechanical and electronic sensors with reported revenue equivalent to about 7% of YAGEO's in 2021. The acquisition is likely to increase YAGEO's product diversification, expand its revenue from automotive, industrial and Internet of Things applications, as well as lowering its exposure to more volatile commodity passive components. The acquisition continues YAGEO's pursuit of businesses diversification in recent years and should significantly enhance YAGEO's existing sensor business. In 2021, multi-layer ceramic capacitors accounted for 28% of its revenue, followed by tantalum 22%, resistors 17%, and wireless & power 16%.

We believe that YAGEO's still-strong EBITDA generation and low debt leverage can accommodate the two acquisitions, despite likely weakening market conditions amid rising global economic headwinds. However, YAGEO's capital structure may not have sufficient rating buffer for further large-scale acquisitions without deleveraging first, in our view. YAGEO's ratio of debt to EBITDA will likely increase to 2.3x-2.6x in 2023 from 1.5x in 2021, which is materially above our previous forecast of 1.5x-2.0x, assuming the transactions are closed in 2023.

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