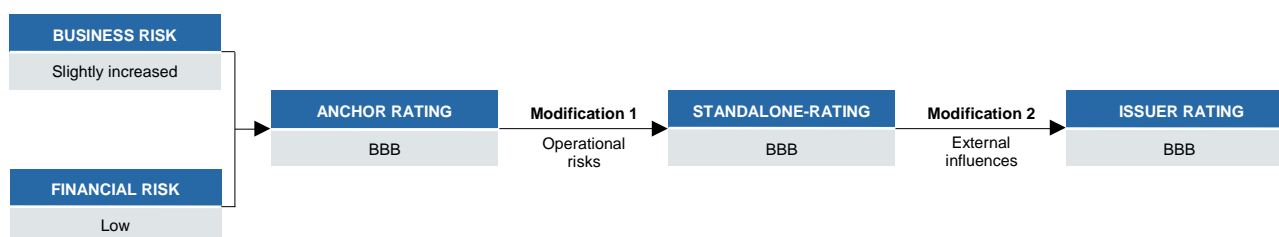


# Issuer rating

<b>SAF-HOLLAND S.A.</b>		03 April 2019	<b>BBB</b>
		Issuer rating	
		Outlook	Stable
Industry	Motor vehicle supply industry / supplier for the commercial vehicle industry, especially components for trucks and trailers	Revenue in 2018	€ 1,301 mn
		Employees in 2018	4,293



<b>BUSINESS RISK</b>	<b>Slightly increased</b>
<ul style="list-style-type: none"> <li>Leading market position in the area of trailer axles in Europe and fifth wheel couplings in North America</li> <li>Strategic advantage from global aftermarket network</li> <li>Fiercer competition and sector volatility due to dependence on cyclical commercial vehicle sector</li> <li>Limited product / regional diversification</li> </ul>	

<b>OPERATIONAL RISKS</b>	<b>± 0</b>
<ul style="list-style-type: none"> <li>Operational risks are generally managed in a manner commensurate with the rating</li> </ul>	

<b>FINANCIAL RISK</b>	<b>Low</b>
<ul style="list-style-type: none"> <li>Highly satisfactory earnings power, capital structure and deleveraging potential</li> <li>Good interest coverage ratios</li> <li>Very good financial flexibility</li> <li>High and stable results and cash flows from growing spare parts business</li> </ul>	

<b>EXTERNAL INFLUENCES</b>	<b>± 0</b>
<ul style="list-style-type: none"> <li>No external influences of relevance for the rating</li> </ul>	

Financial ratios *	2016 actual	2017 actual	2018 actual
EBITDA margin (%)	10.1	9.5	8.2
ROCE (%)	22.4	22.4	15.5
Equity-to-total assets ratio (%)	27.3	27.3	29.9
Leverage (%)	31.6	32.6	46.3
Total liabilities / EBITDA	6.4	6.2	5.9
Net debt / EBITDA	1.1	1.1	2.2
EBIT interest coverage	7.0	6.4	8.3
EBITDA interest coverage	9.0	8.3	11.5

\* Adjusted based on EHRG's analytical policies

# Rating rationale

**Euler Hermes Rating reaffirms its BBB rating for SAF-HOLLAND S.A. We expect the rating to remain stable over the next twelve months.**

***Slightly increased business risk from limited diversification and dependence on cyclical commercial vehicle sector***

It is our assessment that SAF-HOLLAND S.A. (SAF-HOLLAND) still has a slightly increased business risk. Rating strengths include sustainable growth prospects from the increasing global transport volumes and the Group's leading market positions in core markets and segments in Europe and North America. Other strengths, in our view, are its global production and service network, ongoing product innovation and the less cyclical high-margin spare parts business that is experiencing secular growth. However, intense competition and high dependency on the cyclical commercial vehicle sector pose increased market risks that are partly offset by a focus on end customers, a global positioning and efficient production and procurement processes. We see potential for improvement particularly with respect to product and regional diversification, which the Group aims to improve further through its "Strategy 2020" globalisation campaign. Recent acquisitions point to a rigorous execution of this strategy and, in our view, will improve the Group's diversification profile over the medium term.

***Low financial risk based on stable earnings power and very good financial flexibility***

We rate the Group's financial risk as low overall. In our view, earnings power and profitability declined due to temporary factors in 2018 but were still highly satisfactory. Its comparatively stable operating earnings trend was driven by the sustained expansion of profit contributions in the *spare parts business* and good profit trend in the EMEA and APAC/China region. Lower additional operating expenses and efficiency improvements in the *Americas* should improve earnings power and profitability significantly, which in our view will put good financials within reach over the medium term. The capital structure and repayment periods weakened, falling to "highly satisfactory" in 2018. These declines are primarily driven by cash outflows related to acquisitions and, in our opinion, are temporary in nature. In the years ahead, these figures should largely return to very good levels. Interest coverage continued to improve in 2018 and should rise to a very good level in 2019. We consider the Company's planned earnings development to be realistic overall, in large part because of envisaged improvements in procurement and production processes and the growing importance of the spare parts business. SAF-HOLLAND has high internal financing potential and very good financial flexibility. The medium term increased investment ratio under "Strategy 2020", but sufficient funds are available from operating cash flow.

***No modifications to the anchor rating***

In our view, SAF-HOLLAND has adequate structures, processes and systems in place in order to achieve its strategic goals. It is our opinion that operational risks are handled appropriately and are consistent with the anchor rating. There are no external factors of relevance to the rating. No modifications were made to the anchor rating.

# Rating history

	24/09/2012	04/09/2013 – 05/04/2018	03/04/2019
<b>Rating</b>	BBB-	BBB	BBB
<b>Outlook</b>	Stable	Stable	Stable

# Company

## **Manufacturer of systems and components for tractors and trailers**

SAF-HOLLAND S.A. specialises in the development, production and sale of high-quality systems and components for tractors (trucks/ revenue share: 14 per cent), trailers (semi-trailers, full trailers/ revenue share: 62 per cent) and buses (OEM business). Its operations also include the associated service and spare parts business (revenue share: 24 per cent). In the 2018 financial year, the company and its 4,293 employees generated € 1,300.6 mn in Group revenues in *EMEA* (revenue share: 50.7 per cent), the *Americas* (revenue share: 36.3 per cent) and *APAC/China* (revenue share: 13.1 per cent). In addition to roughly 10,000 spare parts and service stations worldwide, SAF-HOLLAND has 26 production sites in countries such as the United States, Canada, Germany, Australia, China and India.

## **Leading market position in EMEA and India for axle and suspension systems**

In the *EMEA and India* regions, SAF-HOLLAND maintains a leading position in the market for axle and suspension systems, landing gears and kingpins. The company supplies major customers such as Krone and Kögel as well as a large number of smaller regional suppliers and manufacturers of specialty vehicles. The company's main local competitors for axle and suspension systems are BPW in Europe, Hendrickson in North America, FUWA in China and Tata Motors in India.

## **Leading market position for fifth wheel couplings in North America**

SAF-HOLLAND holds a leading position in the market for fifth wheel couplings and suspension systems in *North America*. Unlike *EMEA*, this region is characterised by higher demand-side concentration and dominant market positions held by tractor manufacturers (OEMs) vis-à-vis suppliers. The acquisition of V.ORLANDI (Italy) strengthened the company's number two position – behind Jost – in this segment in *EMEA*. The company's biggest customers in this segment include Paccar, Daimler and Navistar. Aside from Jost, the company's biggest global competitors for local markets are Fontaine in North America and FUWA in China.

## **Growing market share in China**

In *China*, SAF-HOLLAND ranks second to BPW in market position in the premium segment. It plans to gradually increase market share by bringing more production capacity on line. Its product portfolio currently consists of axle and suspension systems for trailers and buses.

## **Full-coverage service and spare parts business**

SAF-HOLLAND keeps customers reliably supplied with spare parts in the supra-regional *spare parts business*. The customer structure in this market is fragmented and ranges from end customers (fleet operators) to spare parts dealers and repair shops. In the core markets of Europe and North America, its aftermarket network covers a wide area and is denser than that of the competition.

The shares of SAF-HOLLAND S.A. have been listed since 2007 with 100 per cent in free float according to the definition of Deutsche Börse AG. The members of the Group Management Board and Board of Directors collectively held approx. 1.2 per cent of the shares as of 31 December 2018. The current members of the Group Management Board are: Alexander Geis (Chief Executive Officer, Chief Procurement Officer and President Region *EMEA*), Dr Matthias Heiden (Chief Financial Officer), Dr Andre Philipp (Chief Operating Officer), Steffen Schewerda (President Region *Americas*), Guoxin Mao (President Region *China*) and Mike Ginocchio (President Region *APAC*).

## Execution

### Analysts

- Joerg F. Walbaum, Senior Rating Analyst/  
Project Manager
- Torsten Schellscheidt, Senior Rating Analyst

### Rating committee

- Holger Ludewig, Director
- Kai Gerdes, Director

### Principle sources of information

- Consolidated financial statements (audit reports) 2016, 2017, 2018
- Excerpts from internal reporting (e.g. business development 2018, financing overview, etc.)
- Market analyses
- Information on strategy and company planning
- Documents on the corporate structure
- Interviews with the management

### Rating methodology

- Euler Hermes Rating GmbH Issuer Rating Methodology of May 2016  
([https://www.ehrg.de/seiten/Methodology\\_Issuer%20Rating\\_20171114.pdf](https://www.ehrg.de/seiten/Methodology_Issuer%20Rating_20171114.pdf))

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## Rating categories

Category	Explanation
<b>AAA</b>	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHRG, BB rated entities demonstrate a medium to low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
<b>D / SD</b>	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
<b>PLUS (+) MINUS (-)</b>	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

## Definition of financial ratios

### Earnings power

#### EBITDA margin

EBITDA margin	
<b>Numerator</b>	
EBITDA	
<b>Denominator</b>	
Total revenues	

#### Returns

ROCE	
<b>Numerator</b>	
Adjusted operating result (= EBIT)	
<b>Denominator</b>	
Net debt + economic equity (= capital employed)	

Return on total assets	
<b>Numerator</b>	
Adjusted operating and financial result + interest expense	
<b>Denominator</b>	
Adjusted total assets	

#### Cash flow return on investment

Cash flow return on investment (Cash flow ROI)	
<b>Numerator</b>	
EBITDA	
<b>Denominator</b>	
Adjusted total assets	

## Capital structure

### Indebtedness

Equity-to-total assets ratio
<b>Numerator</b>
Adjusted equity (= economic capital)
<b>Denominator</b>
Adjusted total assets

Leverage
<b>Numerator</b>
Net debt
<b>Denominator</b>
Net debt + economic equity (= capital employed)

### Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

### Deleveraging potential

Total liabilities / EBITDA
<b>Numerator</b>
Total assets - economic capital (= total liabilities)
<b>Denominator</b>
EBITDA

Net debt / EBITDA
<b>Numerator</b>
Net debt
<b>Denominator</b>
EBITDA

### Interest coverage

EBIT interest coverage
<b>Numerator</b>
Adjusted operating result (= EBIT)
<b>Denominator</b>
Interest expenses

EBITDA interest coverage
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Interest expenses

# Disclaimer

SAF-HOLLAND S.A. engaged Euler Hermes Rating GmbH to conduct a rating on 05/02/2014. The company was visited on 06/03/2019.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 03/04/2019. This rating report was given to the client on 10/04/2019, thereby concluding the rating process.

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The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Euler Hermes Rating GmbH

Hamburg, 10/04/2019