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# Issuer rating

| SAF-HOLLAND SE | | 06 May 2021 | BBB |
|---|---|---|---|
| | | Issuer rating | |
| | | Outlook | stable |
| Industry | Motor vehicle supply industry / supplier for the commercial vehicle industry, especially components for trucks and trailers | Revenue in 2020 | € 959.5 mn |
| | | Employees in 2020 | 3,424 |

| BUSINESS RISK | | | | | | | |
|---|---|---|---|---|---|---|---|
| slightly increased | → | ANCHOR RATING | Modification 1 | STANDALONE RATING | Modification 2 | ISSUER RATING |
| FINANCIAL RISK | | BBB | Operational risks | BBB | External influences | BBB |
| low / moderate | | | | | | |

## BUSINESS RISK — slightly increased

- Leading market position with oligopolistic competitive structures
- Moderate diversification
- Strategic advantages from global service network
- Fierce competition and increased sector volatility due to cyclical dependencies

## OPERATIONAL RISKS — ± 0

- Operational risks are generally managed in a manner commensurate with the rating

## FINANCIAL RISK — low / moderate

- High internal financing capability and financial flexibility
- Earnings power and capital structure at the upper end of the 'satisfactory' range
- Good deleveraging potential and good interest coverage ratios
- Structural increase in cash flow from the less cyclical high-margin spare parts business

## EXTERNAL INFLUENCES — ± 0

- No external influences of relevance for the rating

| Financial ratios * | 2015 actual | 2016 actual | 2017 actual | 2018 actual | 2019 actual | 2020 actual |
|---|---|---|---|---|---|---|
| EBITDA margin (%) | 9.9 | 10.1 | 9.5 | 8.2 | 7.8 | 9.0 |
| ROCE (%) | 23.1 | 22.4 | 22.4 | 15.5 | 11.8 | 11.7 |
| Equity-to-total assets ratio (%) | 29.6 | 27.3 | 27.3 | 29.9 | 28.5 | 28.9 |
| Leverage (%) | 33.9 | 31.6 | 32.6 | 46.3 | 52.8 | 38.6 |
| Total liabilities / EBITDA | 5.4 | 6.4 | 6.2 | 5.9 | 6.4 | 6.8 |
| Net debt / EBITDA | 1.2 | 1.1 | 1.1 | 2.2 | 2.8 | 1.7 |
| EBIT interest coverage | 9.3 | 7.0 | 6.4 | 8.3 | 8.7 | 6.0 |
| EBITDA interest coverage | 11.7 | 9.0 | 8.3 | 11.5 | 13.8 | 11.4 |

* Adjusted on the basis of Scope Hamburg's analytical principles

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# Rating rationale

**Scope Hamburg GmbH (henceforth "Scope Hamburg") reaffirms SAF-HOLLAND SE's BBB rating. The outlook has been changed from negative to stable. Stabilizing factors from the rating agency's perspective include the healthy order book and the Group's good financial flexibility.**

***Slightly elevated business risk from dependence on cyclical commercial vehicle sector with moderate diversification***

It is our assessment that SAF-HOLLAND SE ("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 are its global production and service network, ongoing product innovation and persistently large share of the less cyclical high-margin spare parts business. As a result, we rate the strategic risk as moderate overall. However, in our view, fierce competition and high dependency on the cyclical commercial vehicle sector pose increased market risks that the COVID-19 pandemic has recently temporarily increased. SAF-HOLLAND compensates for market volatility and market changes through a global stance that spans different industry and demand cycles, increasingly efficient global production and procurement processes and regular efficiency improvement programs. SAF-HOLLAND has a broad customer base in its dominant trailer segment and is thus only marginally dependent on individual customers.

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

We still rate SAF-HOLLAND's financial risk as low to moderate. We believe key drivers include its strong internal financing capability and good financial flexibility. In addition, the Group has good long-term deleveraging potential and good interest coverage ratios. Our above-average rating is also backed by its solid capital structure and secure medium-term financial base. SAF-HOLLAND's business was heavily affected by the COVID-19 pandemic and the large market fluctuations in 2020. Consolidated revenue decreased a total of 25.3 per cent year-on-year to € 959.5 mn (2019: € 1,284.2 mn). SAF-HOLLAND started cutting costs back in 2019 in response to the slowing business cycle in its sector and redoubled these efforts in 2020. Despite the challenges and business slowdown caused by the pandemic, it managed to significantly reduce financial debt by exercising stricter capex discipline and generating a positive contribution from working capital management. It achieved its goal of keeping the net debt-to-EBITDA ratio within a target corridor of 2 to 3.

***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.

# Upgrade / downgrade factors

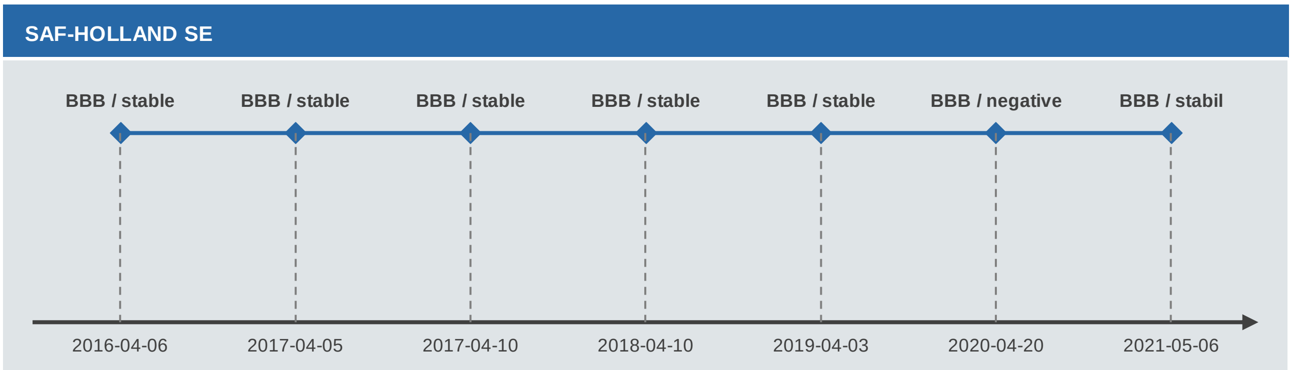
***Factors that could lead to an upgrade***

- Lasting improvement in the diversification profile and integration of business models that run counter to the business cycle in the sector (e.g. agricultural machinery) or are less dependent on the business cycle (e.g. data-based) and generate a significant portion of income
- Sustained improvement in operating performance; Scope Hamburg adjusted EBITDA margin greater than 11% over the long term
- Lasting improvement in deleveraging potential (Scope Hamburg adjusted net debt / EBITDA less than 1.5)
- Lasting improvement in cash flow generation and positive free cash flow performance

***Factors that could lead to a downgrade***

- Significant decline in market share in core markets
- Sustained deterioration in operating performance; Scope Hamburg adjusted EBITDA margin less than 9% over the long term
- Lasting deterioration in deleveraging potential (Scope Hamburg adjusted net debt / EBITDA greater than 2.5)
- Decline in cash flow generation and negative free cash flow performance

# Rating history



# Company

***Manufacturer of systems and components for trucks and trailers***

SAF-HOLLAND SE specialises in the development, production and sale of high-quality chassis-related systems and components for trailers (semi-trailers, full trailers/ 2020 revenue share: 57.5 per cent) and trucks (2020 revenue share: 12.7 per cent) in the OEM business. Its operations also include the associated service and spare parts business (2020 revenue share: 29.8%). In the 2020 financial year, the company and its employees (average headcount: 3,424; prior year: 4,218) generated € 959.5 mn in consolidated revenue in *EMEA* (revenue share: 57.6%), the *Americas* (revenue share: 34.6%) and *APAC* (revenue share: 7.8%). In addition to roughly 12,000 spare parts and service stations worldwide, SAF-HOLLAND has 22 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 region and India*, SAF-HOLLAND maintains a leading position in the market for axle and suspension systems for trailers. The company supplies major customers such as Kögel and Schwarzmüller as well as a large number of smaller regional suppliers and manufacturers of specialty vehicles. The company's main global competitors for axle and suspension systems are BPW (Germany), FUWA (China) and Hendrickson (US).

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

SAF-HOLLAND holds a leading position in the market for fifth wheel couplings in the *Americas*. The acquisition of coupling specialist 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 are Fontaine (US) and FUWA (China).

***Restart in China***

After successfully consolidating its Chinese production network and commissioning a new plant in Yangzhou, China, in 2020, it plans to (re)gain market share in a stepwise fashion over the medium term. Its product portfolio currently consists of landing gears and axle and suspension systems for trailers.

***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. Our analyses indicate that it has a more extensive aftermarket network than its competitors in the core markets of Europe and the Americas.

The shares of SAF-HOLLAND SE have been listed since 2007 with 100 per cent in free float according to the definition of Deutsche Börse AG. The members of the Management Board and Supervisory Board collectively held 1.0 per cent of the shares as of 31 December 2020. The current members of the Management Board are Alexander Geis (Chief Executive Officer), Inka Koljonen (Chief Financial Officer) and Dr. Andre Philipp (Chief Operating Officer).

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# Execution

**Analysts**

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**Rating comittee**

- Kai Gerdes, Director
- Matthias Peetz, Senior Analyst

**Rating, Solicitation, Principal Sources of Information**

- This credit rating has been issued in accordance with the CRA Regulation.

[x] Solicited Rating

[ ] Unsolicited Rating

[ ] No participation of the rated entity or related third party

With participation of the rated entity or related third party

[ ] Access to internal documents

[ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Consolidated financial statements for 2018, 2019, 2020
  - Internal reporting (e.g. business development 2021, financing overview, etc.)
  - Market analyses
  - Information on strategy and company planning
  - Documents on the corporate structure
  - Interviews with the management

**Rating methodologies and definitions**

- Methodology: Issuer Rating as of May 2016
- Basic Principles for Assigning Credit Ratings and Other Services as of July 2020
- Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020

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# Rating categories*

| Category | Explanation |
|---|---|
| **AAA** | In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk. |
| **AA** | In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk. |
| **A** | In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk. |
| **BBB** | In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk. |
| **BB** | In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk. |
| **B** | In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk. |
| **CCC** | In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk. |
| **CC** | In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely. |
| **C** | In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is immi-nent. |
| **D / SD** | 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. |
| | |
| **PLUS (+)**<br>**MINUS (–)** | 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. |

* For more explanations and definitions please refer to:
Basic Principles for Assigning Credit Ratings and Other Services as of July 2020

# Appendix 3: Definition of financial ratios

## Earnings power

### EBITDA margin

| EBITDA margin |
|---|
| **Numerator** |
| EBITDA |
| **Denominator** |
| Total revenues |

### Returns

| ROCE |
|---|
| **Numerator** |
| Adjusted operating result (= EBIT) |
| **Denominator** |
| Net debt + economic equity<br>(= capital employed) |

| Return on total assets |
|---|
| **Numerator** |
| Adjusted operating and financial result<br>+ interest expense |
| **Denominator** |
| Adjusted total assets |

### Cash flow return on investment

| Cash flow return on investment (Cash flow ROI) |
|---|
| **Numerator** |
| EBITDA |
| **Denominator** |
| Adjusted total assets |

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# Capital structure

## Indebtedness

| Equity-to-total assets ratio |
|---|
| **Numerator** |
| Adjusted equity<br>(= economic capital) |
| **Denominator** |
| Adjusted total assets |

| Leverage |
|---|
| **Numerator** |
| Net debt |
| **Denominator** |
| Net debt + economic equity<br>(= 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 |
|---|
| **Numerator** |
| Total assets - economic capital<br>(= total liabilities) |
| **Denominator** |
| EBITDA |

| Net debt / EBITDA |
|---|
| **Numerator** |
| Net debt |
| **Denominator** |
| EBITDA |

## Interest coverage

| EBIT interest coverage |
|---|
| **Numerator** |
| Adjusted operating result (= EBIT) |
| **Denominator** |
| Interest expenses |

| EBITDA interest coverage |
|---|
| **Numerator** |
| EBITDA |
| **Denominator** |
| Interest expenses |

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# Disclaimer

SAF-HOLLAND SE engaged Scope Hamburg GmbH to conduct a rating on 05/02/2014. The company was visited virtual on 15/04/2021.

The Rating Committee of Scope Hamburg GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 06/05/2021. This rating report was given to the client on 25/05/2021, thereby concluding the rating process.

The rating is Scope Hamburg GmbH's opinion of the creditworthiness of a rating subject. It is not a statement of fact. Scope Hamburg GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

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 Scope Hamburg 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. Scope Hamburg 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.

The rating is published on Scope Hamburg GmbH's website (www.scopehamburg.com) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Scope Hamburg GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

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Hamburg, 25/05/2021