SAF-HOLLAND SE
Germany, Automotive Suppliers

SCOPE BBB- POSITIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	16.9x	7.2x	6.1x	7.9x
Scope-adjusted debt/EBITDA	3.9x	2.1x	2.2x	1.7x
Scope-adjusted funds from operations/debt	24%	33%	29%	39%
Scope-adjusted free operating cash flow/debt	17%	19%	13%	21%

Rating rationale

The affirmation of SAF-HOLLAND's BBB- issuer rating is based on our assessment of a BBB- business risk profile amid an improved financial risk profile to BBB.

The rating is mainly supported by the company's global or regional leadership in oligopolistic markets protected by high barriers to entry. Product diversification was enhanced by the Haldex integration which reinforced the group's positioning as a one-stop solution provider offering an expanded portfolio of chassis-related components. The low customer concentration and higher share of high-margin aftermarket business strongly support the business risk profile. The key limiting factors are the cyclicality of the global commercial vehicle markets and the still moderate operating profitability despite a strong 2023 financial year. The financial risk profile is supported by an improved leverage, which is trending toward 2x and interest coverage of over 6x, while constrained by a volatile cash flow cover.

Outlook and rating-change drivers

The Outlook revision to Positive from Stable reflects our expectation that leverage, as measured by Scope-adjusted debt/EBITDA, will move below 2x over the forecast period. The Group will be able to withstand weaker market conditions due to its proactive cost measures, flexibility potential, further Haldex-related synergies and a more resilient business model supported by a higher aftermarket share. We anticipate that SAF-HOLLAND will be able to improve its solid financial risk profile and credit metrics even in a less supportive environment over the next 12-18 months.

We would consider an upgrade if SAF-HOLLAND managed to reduce leverage, as measured by Scope-adjusted debt/EBITDA, to below 2x on a sustained basis, while maintaining an improved free cash flow generation.

We could return to a Stable Outlook if SAF-HOLLAND failed to achieve leverage below 2x on a sustained basis. We see further downside should the Group's leverage move above 3x on a sustained basis, or if there were a sustained deterioration in free cash generation or profitability. This could be caused by a significantly weaker business environment, an unforeseen decline in sales or unexpected execution risks related to the merger with Haldex.

Rating history

Date	Rating action	Issuer rating & Outlook
19 April 2024	Outlook change	BBB-/Positive
18 April 2023	New	BBB-/Stable

Rating & Outlook

Issuer BBB-/Positive

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Related Methodologies and Related Research:

General Corporate Rating Methodology; October 2023

Rating Methodology: European Automotive Suppliers; February 2024

Germany's auto parts sector: defaults point to consolidation in cyclical downturn rather than crises; April 2024

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Leading market positions in oligopolistic markets for chassis-related systems and components • Resilient business model thanks to a significant share of less volatile, highly profitable aftermarket business (31% of group sales including Haldex) • Low customer concentration: top 3 customers account for less than 10% of combined group's revenues • Growth and cost synergies potential with Haldex • Faster than expected deleveraging	• Strong exposure to highly cyclical commercial vehicle industry • Weak presence in the large Asian markets (e.g. China) • Execution risks associated with the Haldex integration • Volatile cash flow cover

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA below 2x on a sustained basis while maintaining an improved free cash flow generation	• Failure to reduce Scope-adjusted debt/EBITDA below 2x on a sustained basis

Corporate profile

Headquartered in Bessenbach (Germany), SAF-HOLLAND SE is the parent company of the SAF-HOLLAND group. SAF-HOLLAND SE owns 100% of SAF-HOLLAND GmbH (which holds the shares in key regional subsidiaries and majority shareholdings) and 100% of Haldex AB (which is the parent company of Haldex entities). SAF-HOLLAND stems from the 2006 merger of two regional champions, the German Otto Sauer Achsenfabrik GmbH and the North American Holland Group Inc. It has built up its global presence and expanded its product portfolio through an active acquisition strategy, which was accelerated between 2016 and 2019 and culminated with the acquisition of the Swedish brake and suspension systems supplier Haldex AB in 2023.

SAF-HOLLAND is one of the leading suppliers to the global commercial vehicles industry. The group develops, manufactures and supplies chassis-related assemblies and components for trailers (semi-trailers, full trailers), trucks and buses. Its product range consists of axle and suspension systems for trailers, fifth wheels for trucks, coupling systems, kingpins, and landing gears. Haldex's portfolio focuses on foundation brakes (e.g. disc brakes, brake adjusters for drum brakes and actuators) and air controls (e.g. compressed air dryers, anti-lock braking systems and electronic brake systems). The enlarged group's products are marketed under the SAF, Holland, Haldex, Neway, KLL, V. Orlandi, TrailerMaster and York brands.

SAF-HOLLAND primarily serves original equipment manufacturers (OEMs) of trailers and trucks, which represent 69% of sales. The remaining 31% comes from the aftermarket business, comprising sales of spare parts to manufacturers' service networks (OES), wholesalers, end-customers and service centres through an extensive proprietary global service and distribution network (around 12,000 spare parts and service stations in more than 80 countries). The group's exposure to the high-margin, more resilient aftermarket business has been strengthened by Haldex (50% of aftermarket sales).

SAF-HOLLAND is primarily active in Europe-Middle East-Africa (45% of 2023 sales) but has a solid presence in the Americas (42%), which was reinforced following the acquisition of Haldex. Asia Pacific represents around 13% of sales. The group's manufacturing footprint includes 26 facilities across the globe. In 2023, including Haldex as of 21 February, SAF-HOLLAND generated revenues of EUR 2.1bn, company-adjusted EBIT of EUR 202m (adjusted margin of 9.6%) and Scope-adjusted EBITDA of 243m (11.5% margin).

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	17.9x	16.9x	7.2x	6.1x	7.9x	10.7x
Scope-adjusted debt/EBITDA	2.1x	3.9x	2.1x	2.2x	1.7x	1.3x
Scope-adjusted funds from operations/debt	38%	24%	33%	29%	39%	53%
Scope-adjusted free operating cash flow/debt	-1%	17%	19%	13%	21%	28%
Scope-adjusted EBITDA in EUR m						
EBITDA	123	150	244	224	240	256
less: capitalised development costs	-3	-4	-5	-4	-4	-5
Other items [1]	0	-1	4	0	0	0
Scope-adjusted EBITDA	**120**	**145**	**243**	**220**	**235**	**252**
Funds from operations in EUR m						
Scope-adjusted EBITDA	120	145	243	220	235	252
less: (net) cash interest paid	-7	-9	-34	-36	-30	-24
less: cash tax paid per cash flow statement	-20	-27	-59	-51	-52	-59
add: dividends from associates	1	4	4	4	4	4
Change in provisions and other	1	26	12	0	0	0
Funds from operations (FFO)	**95**	**139**	**166**	**137**	**158**	**174**
Free operating cash flow in EUR m						
Funds from operations	95	139	166	137	158	174
Change in working capital	-65	2	2	-1	3	-5
Non-operating cash flow	0	0	0	0	0	0
less: capital expenditure (net)	-24	-33	-60	-61	-63	-67
less: lease amortisation	-9	-9	-15	-13	-12	-9
Free operating cash flow (FOCF)	**-3**	**98**	**93**	**62**	**85**	**93**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	-6	-8	-33	-35	-29	-22
add: interest expenses, pensions	0	0	-1	-1	-1	-1
Net cash interest paid	**-7**	**-9**	**-34**	**-36**	**-30**	**-24**
Scope-adjusted debt in EUR m						
Reported gross financial debt	363	754	696	675	570	548
less: cash and cash equivalents	-165	-243	-246	-251	-209	-251
add: non-accessible cash	0	0	0	0	0	0
add: pension adjustment	7	4	14	14	14	14
add: factoring	44	53	37	35	30	20
Scope-adjusted debt (SaD)	**249**	**567**	**501**	**473**	**406**	**331**

[1] Disposal losses (gains) on fixed assets, non-recurring expenses (income)

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Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Grey leaf	Labour management		Management and supervision (supervisory boards and key person risk)	Grey leaf
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	Grey leaf
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Grey leaf	Clients and supply chain (geographical/product diversification)	Grey leaf	Corporate structure (complexity)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

ESG considerations

Material ESG factors relevant for the automotive supplier industry include the need to reduce the environmental impact of products and production, improve resource management (optimised use of energy and natural resources), and enhance supply chain oversight with respect to social standards and responsible sourcing. We assess these factors as credit-neutral as far as SAF-HOLLAND is concerned.

SAF-HOLLAND has set targets to reduce energy consumption in the company's global manufacturing footprint. The company's total energy consumption was reduced by 21% in 2022. Including Haldex, energy consumption, measured in megawatt hours per revenue unit, was reduced by 5.4% in 2023. Furthermore, in 2023, the company expanded the implementation of its energy management system across major sites in EMEA and APAC. This energy management software will be rolled out in the Americas in 2024.

In terms of CO_2 emissions, including Haldex, SAF-HOLLAND achieved a reduction of 19.4% in CO_2 emissions per revenue unit in 2023. Medium-term targets have been set for the EMEA region, which aims to reduce its CO_2 emissions by 10% between 2023 and 2027.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB-

Industry risk profile: BB

SAF-HOLLAND is a supplier of chassis-related systems and components to the global commercial vehicle industry (truck and trailer manufacturers). We therefore classify the group as an automotive supplier, with an industry risk profile rated BB. As detailed in our European automotive suppliers rating methodology, this industry is characterised by high cyclicality, high entry barriers and medium substitution risk.

The BB industry risk profile is mitigated by the Group's high share of highly profitable aftermarket business, which provides a strong protection against the industry's cyclicality, thus supporting the BBB- business risk profile assessment.

Haldex acquisition: a transformational deal

Haldex AB (Haldex), a Swedish supplier of brake systems and components, was consolidated as of 21 February 2023. This acquisition is a transformational move for SAF-HOLLAND. The two companies are highly complementary in terms of regional presence and product portfolio while addressing similar Original Equipment (OE) customers (large manufacturers of trucks, buses and trailers) and end-customers (fleet operators). We deem the integration risks to be low to medium based on the complementary product portfolios and SAF-HOLLAND's proven ability to integrate acquired companies.

Reinforced market leading positions

SAF-HOLLAND's competitive position is primarily supported by its global or regional leadership in oligopolistic markets protected by high entry barriers. The company holds top three market positions in North America and EMEA for key products and systems. It also commands a dominant position in India for its trailer axles. Based on its enlarged product portfolio, SAF-HOLLAND is well positioned to meet the future needs of the global commercial vehicle sector. Furthermore, the group owns one of the largest spare parts and service network in Europe and North America, which represents a significant barrier to market entry.

Enhanced diversification

SAF-HOLLAND's business diversification has historically been moderate but has improved with the integration of Haldex. The product range has been extended to foundation brakes, air controls and electromechanical braking systems (EBS), thus covering a wider range of chassis-related components. This helps to bundle the offering and position the Group as a one-stop solution provider with an extended portfolio of axles & suspensions, brake & chassis controls and telematics. The Group is thus well equipped to provide additional solutions such as predictive maintenance or 'smart functions' such as temperature measurement in refrigerated trucks or burglary protection.

Low customer concentration

Unlike most automotive suppliers, SAF-HOLLAND has a relatively low customer concentration, with its top ten customers representing less than 20% of revenues. The company has a broad customer base in its dominant trailer segment (around 80% of OE sales), a diversified end-customer base (fleet operators) and a much greater customer granularity in the service and spare parts business.

Higher share of high-margin aftermarket business

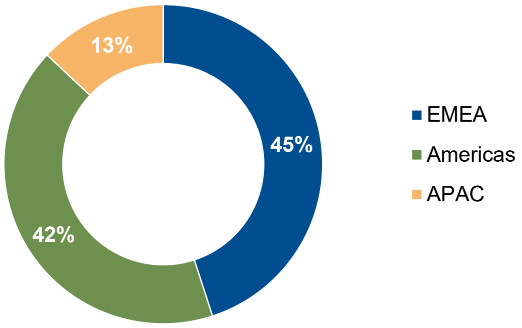
The large exposure to the highly profitable and resilient aftermarket business is a strong support to the business risk profile. The aftermarket business generates secular growth driven by the increasing number of products in the field. With Haldex generating over 50% of its sales in the aftermarket (versus 27% for SAF-HOLLAND), the combined group now derives more than 30% of its revenues from this more stable business. This should provide solid protection against the inherent cyclicality of the global commercial vehicle industry.

Large presence in Europe, stronger presence in the Americas, still low exposure to APAC

SAF-HOLLAND's has a strong geographical outreach. Its global presence reduces cyclical risks and allows the Group to provide local content for regional market needs with local application engineering. While SAF-HOLLAND remains predominantly active in

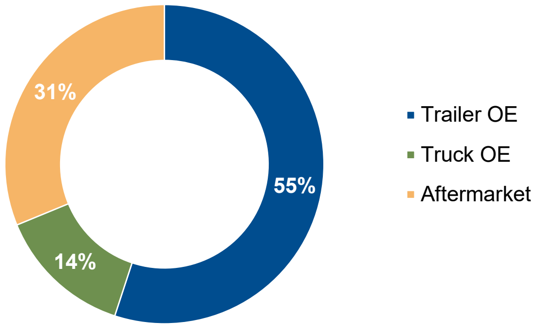
Europe-Middle East-Africa (45% of 2023 sales vs. 54% in 2018-2022), the integration of Haldex has reinforced the group's presence in the Americas (42% of 2023 sales, up 4.6 pp). Despite solid positions in India and Australia, the group's exposure to the Asia-Pacific region is weaker (around 13% of sales), as it remains under-represented in large Asian markets such as China.

Figure 1: Revenues by geography - 2023



Sources: SAF-HOLLAND, Scope

Figure 2: Revenues by end-market - 2023



Sources: SAF-HOLLAND, Scope

Key restraining factors for the business risk assessment are the cyclicality risks associated with the fluctuations in global commercial vehicle markets (trucks/trailers/buses) and the relatively modest operating profitability.

Moderate profitability in the context of the auto parts industry

Profitability, as assessed under our rating grid for European automotive suppliers, remains moderate, although Scope-adjusted EBITDA margins are now expected to be in the 10-12% range over the next few years, up from a range of 9%-10% previously.

Strong performance in 2023

In 2023, the enlarged SAF-HOLLAND delivered a very solid performance, exceeding our conservative forecasts. Thanks to more supportive markets, demand for trailer and truck components was stronger than expected, notably in the Americas and APAC regions. SAF-HOLLAND outperformed the underlying markets and benefited from a strong order backlog. Combined with the impact of previous price increases, this led Group revenues well above the initial target range of EUR 1,800 to 1,950m. 2023 revenues grew by 34.6% to EUR 2.106m (including Haldex's contribution of around EUR 400m, net of eliminations). Organic sales growth came in at 11.4%.

Company-adjusted EBIT well above initial guidance

Company-adjusted EBIT increased by 62% to EUR 202m, and adjusted EBIT margin rose from 8% in 2022 to 9.6% in 2023, significantly above the initial guidance of 7.5% to 8.5%, which was raised three times during the year. Scope-adjusted EBITDA increased by 68% to EUR 243m and Scope-adjusted EBITDA margin grew by 2.3pp to 11.5%, exceeding our 9.7% estimate. This performance was mainly driven by better volumes, higher-than-expected synergies from the faster integration of Haldex, a favourable price-mix and efficiency gains, which together more than offset cost inflation.

Challenging industry outlook in 2024

The macroeconomic outlook for 2024 is more challenging. After the positive surprise of 2023, the industry outlook is much weaker but not dramatic, as it primarily reflets the cyclical nature of the commercial vehicle industry. In several regions, the market decline, initially expected in early 2023 has been postponed to late 2023 and 2024. In the Americas and EMEA, market conditions are set to normalise after exceptionally high pent-up demand since 2021. Demand for trucks and trailers could therefore face a 10-15% decline in the Group's core markets of the Americas and Europe. Conversely, robust increases are anticipated in the trailer segment in key APAC markets (India and China).

Meanwhile, the aftermarket activity is expected to show strong resilience and remain broadly stable.

Expected 10% organic sales decline, partly offset by positive consolidation effects

Against this backdrop, SAF-HOLLAND could selectively gain market share, which would help mitigate the market decline. Based on the large orders that will be converted into actual sales in Q3 and Q4 2024 (primarily in the trailer segment but also with new truck contracts starting in Q4), management is confident that its OE revenues will increase in the second half of 2024. The group will also benefit from the resilient aftermarket business, driven by the increased population of SAF-HOLLAND products (triggered by the strong growth of the OE business in the recent years). We forecast 2024 sales of around EUR 2bn (down 5.5%), in line with the company's guidance. This represents a 10% organic decline, partly offset by consolidation effects from the recent acquisitions of IMS and Tecma and the full-year consolidation of Haldex, which was only consolidated from 21 February 2023.

Proactive cost initiatives and synergies to mitigate cost inflation and volume decline

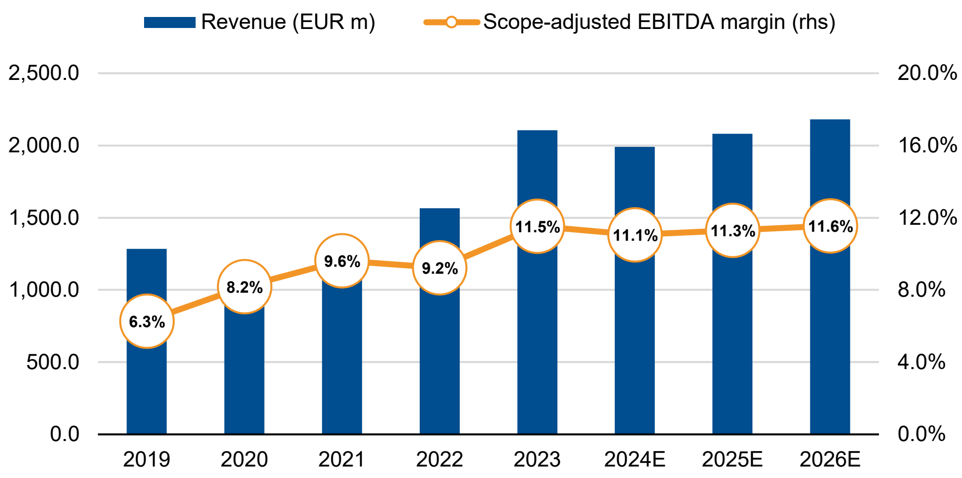
In response to the weaker market environment, SAF-HOLLAND has already started to adjust its production capacities in Q1 2024 and to adapt its cost structure by reducing the workforce. Unlike in 2022-2023, no support is expected from pricing amid downward pressure from customers. On the cost side, the pressure should come from labour costs (notably in Germany) partly offset by productivity gains, IT and freight costs. Conversely, the situation is easing on the raw material front and the group will benefit from its high ratio of material costs (variable costs adjusted in line with the volume decline). In addition to efficiency gains, SAF-HOLLAND will continue to extract the synergies from the Haldex integration, beyond the quick wins achieved last year. 2024 will thus benefit from new synergies combined with the carryover of last year' synergies.

Moderate margin decline expected in 2024

In this context, the company's guidance of an adjusted EBIT margin in the range of 9% to 9.5% (compared to 9.6% in 2023) indicates that, despite lower sales, the business model will prove resilient enough to limit the earnings shortfall.

Our estimates for 2024 point to an 8% year-on-year decline in Scope-adjusted EBITDA and a slight decline in Scope-adjusted EBITDA margin to 11.1% from 11.5% in 2023.

Figure 3: Revenues and Scope-adjusted EBITDA margin



Sources: SAF-HOLLAND, Scope estimates

Scope-adjusted EBITDA margin expected above 11% from 2025

Assuming a gradual market recovery from 2025 onwards, we expect topline growth to resume at an annual rate of 4% to 4.5% in 2025-2026. This revenue upswing, combined with economies of scale, continued efficiency gains and enhanced aftermarket business should support a gradual improvement of Scope-adjusted EBITDA margin back to the level achieved in 2023.

Long term profitability targets suggest a more resilient business model

Looking beyond the short term horizon, SAF-HOLLAND recently reiterated its strategic objectives for 2027. While the revenue targets remain unchanged (EUR 2.4-2.5bn or a 3.8% organic CAGR over the period 2023-2027), the profitability targets have been raised. The company is now targeting an adjusted EBIT margin of 9% to 9.5%, not only in 2027 but also through the cycle. This more optimistic stance reflets management's increased confidence in the resilience of the business model, based on improved regional diversification, higher aftermarket exposure, and the ability to deliver on the Haldex synergies. We believe that this resilience will first be tested during the cyclical downturn expected in 2024.

Financial risk profile: BBB

SAF-HOLLAND's financial risk profile, raised to BBB (+1 notch), is mainly supported by an improving leverage and solid interest cover, but somewhat constrained by a volatile cash flow cover.

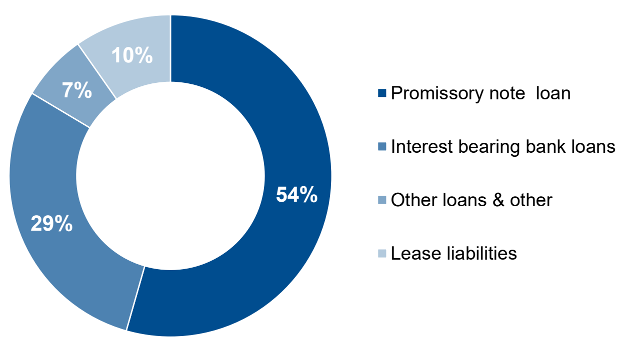
Scope-adjusted debt decreased by 12% in 2023

SAF-HOLLAND's gross financial debt consists of several promissory notes ('schuldschein' with various maturities, fixed and variable interest rates), term loans and lease liabilities. Following the acquisition of Haldex, which was financed by two term loans of EUR 150m each, gross debt more than doubled to EUR 754m in 2022, before decreasing by 7.6% to EUR 696m in 2023.

Scope-adjusted debt expected to decline further

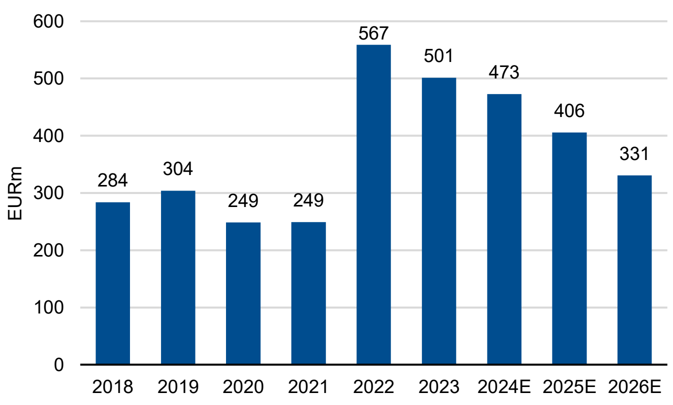
In accordance with our General Corporate Rating Methodology, we adjust reported financial debt by adding back factoring and 50% of the pension deficit (net of deferred tax assets/liabilities) and deducting unrestricted cash and cash equivalents. At year-end 2023, Scope-adjusted debt amounted to EUR 501m, down 12% year-on-year. We expect a further reduction in Scope-adjusted debt to EUR 473m in 2024, followed by a similar pattern in 2025-2026.

Figure 4: Funding structure at year-end 2023



Sources: SAF HOLLAND

Figure 5: Scope-adjusted debt – 2018 to 2026E



Sources: SAF HOLLAND, Scope (estimates)

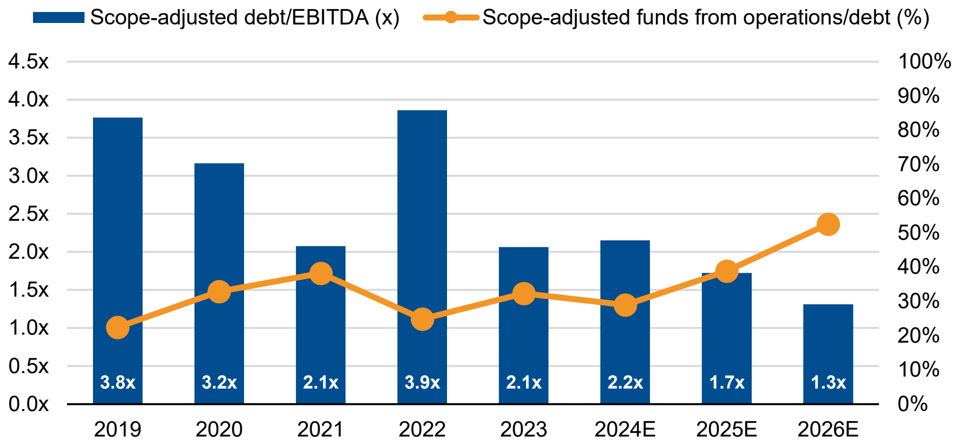
Scope-adjusted debt/EBITDA to improve to below 2x in 2025

Leverage, as measured by Scope-adjusted debt/EBITDA, decreased from around 3.9x in 2022 to 2.1x in 2023, reflecting the combined effect of lower financial debt and improved EBITDA. Based on SAF-HOLLAND's definition, the net debt/EBITDA ratio declined from 2.6x in 2022 to 1.8x in 2023, thus reaching the company's stated objective to reduce leverage to below 2x by 2024 one year early. After a slight deterioration in 2024 due to lower EBITDA, we expect that the deleveraging trend to resume, with Scope-adjusted debt/EBITDA gradually falling to below 2x in 2025-2026.

Scope-adjusted FFO/debt expected to stay around 30% in 2024-2025

The higher contribution from EBITDA more than offset the sharp increase in cash interests and tax payments, resulting in a 20% increase in Scope-adjusted funds from operations (FFO) in 2023. As a result, Scope-adjusted FFO/debt ratio improved to 33% in 2023. After a small drop in 2024E, we expect this metric to move progressively towards 50% by 2026.

Figure 6: Leverage metrics



Sources: SAF-HOLLAND, Scope estimates

Interest cover: declining but still solid

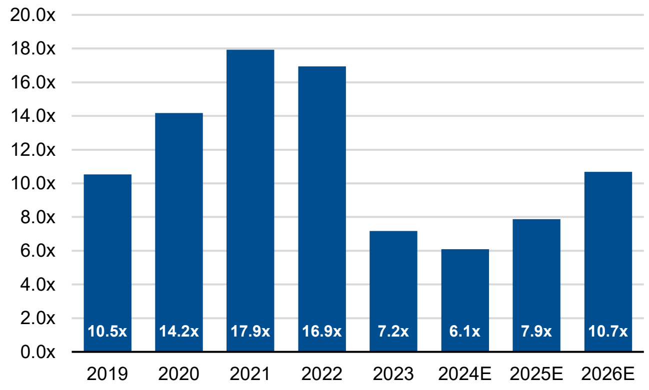
Debt protection, as measured by Scope-adjusted EBITDA interest cover, was historically strong, at around 12.5x over 2018-2021, peaking at 18x in 2021. As expected, this metric deteriorated sharply in 2023, falling from around 17x in 2022 to around 7x in 2023, as a result of higher interest rates. After a decline to around 6x in 2024, we forecast interest cover to rise above 7x, reflecting the anticipated decline in EURIBOR base rate and the continued debt reduction.

Weak cash flow cover with room for improvement

Due to the volatility of free operating cash flow (FOCF), cash flow cover, as measured by Scope-adjusted FOCF/debt, has been the weakest metric for SAF-HOLLAND over the past few years. After bottoming out in 2021, cash flow cover bounced back to 17%-19% in 2022-2023. We forecast a slight decline toward 13% in 2024, followed by a recovery to the 20%-30% range in 2025-2026.

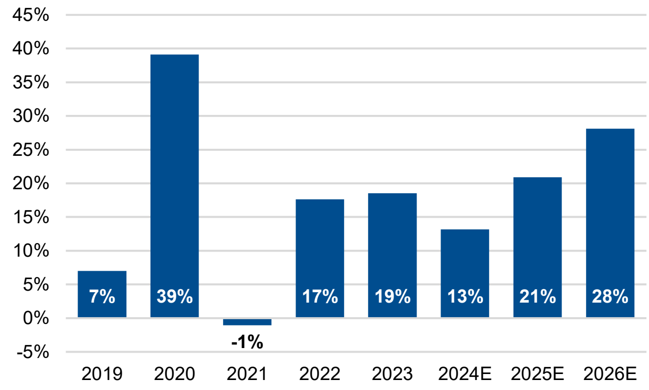
Capex discipline and net working capital optimisation will be the key drivers of FOCF development. The capex ratio is expected to remain around 3% of sales, confirming the asset-light business model. We expected net working capital management to be a challenge in view of the stark difference between SAF-HOLLAND standalone and Haldex, which had much higher net working capital ratios (20-25% of sales). However, the company clearly overachieved its targets, with a constant improvement in the net working capital ratio throughout the year to 14.1% at year-end 2023, compared with 15.6% at the end of March 2023 after the first-time consolidation of Haldex. Looking ahead, management remains committed to a net working capital ratio of 15% to 16% of sales, but there is scope for further improvement, particularly through a sustained inventory reduction. In any case, continued efforts will be required on this front, as management intends to reduce the use of factoring going forward.

Figure 7: Scope-adjusted EBITDA/interest cover



Sources: SAF-HOLLAND Scope estimates

Figure 8: Scope-adjusted FOCF/debt



Sources: SAF-HOLLAND, Scope estimates

Adequate liquidity

We consider SAF-HOLLAND's liquidity to be adequate, supported by available liquidity sources of around EUR 474m. At year-end 2023, SAF HOLLAND had EUR 246m in cash on hand and a EUR 250m committed credit line, thereof EUR 227m remained undrawn as of 31 December 2023. This syndicated credit facility matures in 2027 and can be extended twice until 2029.

In 2023, SAF-HOLLAND placed a new promissory note loan of EUR 105m, with 3-year, 5-year and 7-year maturities. The proceeds were earmarked to refinance some of the bank facilities issued in connection with the acquisition of Haldex in 2022.

Manageable debt maturity profile

The next large maturities fall due in 2025 and include around half of the EUR 300m term loans taken out in 2022 to finance the acquisition of Haldex. SAF-HOLLAND usually prepares the refinancing of upcoming maturities well in advance, using the most appropriate instruments in terms of maturity and interest rates. In our view, the debt maturity profile is manageable. For the future, SAF-HOLLAND intends to optimise its financing structure by more actively using its cash balances to reduce debt, while keeping the RCF as a safety buffer.

Balance in EUR m	2023	2024 E	2025 E
Unrestricted cash (t-1)	243	246	251
Open committed credit lines (t-1)	250	227	227
Free operating cash flow	93	62	85
Short-term debt (t-1)	102	13	254
Coverage	**> 200%**	**> 200%**	**> 200%**

Supplementary rating drivers: +/- 0 notches

Neutral view on capital allocation

We have a neutral view on SAF-HOLLAND's capital allocation. Management's financial policy aims to keep a substantial amount of liquidity available for deleveraging, M&A activities or share buybacks. The dividend policy is shareholder-friendly but has remained relatively stable, in line with the stated pay-out ratio target of 40-50% of previous year net profits. For now, share buybacks have not been part of the shareholder remuneration policy. With regard to M&A, no major acquisitions are expected beyond opportunistic bolt-on deals, as illustrated by the acquisitions of IMS and Tecma in Q1 2024 for a limited consideration.

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