



Rating Action: Moody's affirms Hella's Baa3 rating; outlook changed to stable from negative

11 Aug 2023

Frankfurt am Main, August 11, 2023 – Moody's Investors Service (Moody's) has today changed to stable from negative the outlook on German automotive supplier HELLA GmbH & Co. KGaA ("Hella" or "the group") and affirmed the group's Baa3 long-term issuer rating and Prime-3 (P-3) short-term issuer rating. Concurrently, the rating agency has affirmed Baa3 senior unsecured ratings of the existing notes issued by Hella.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The change in the outlook to stable from negative and affirmation of Hella's ratings follow Moody's stabilization of the outlook and affirmation of the ratings of Hella's majority owner FORVIA SE (FORVIA) on 10 August 2023. Moody's, thereby, maintains its much stronger assessment of Hella's stand-alone credit profile compared with that of FORVIA, which allows for a continued two notches difference between both companies' long-term ratings. The outlook stabilization also reflects Moody's expectation that Hella's current shareholder structure will remain unchanged in the foreseeable future, with FORVIA maintaining its current 80.59% share in Hella's voting rights and 81.59% share of the group's share capital. The rating agency expects that Hella will continue to fulfil its separate reporting requirements as a listed entity, act and operate in the interest of all its shareholders, providing limitations on a further integration into the operations of FORVIA or an alignment in both companies' financial policies.

The affirmation of Hella's ratings further reflects its recovered operating performance in the first half of its fiscal year ending 31 December 2023 (H1-2023) that translated into significant 17.3% revenue growth and an improved reported operating margin of 6.1% from 4.1% in the first half of last calendar year 2022. On a Moody's adjusted basis, Hella's EBITA margin improved to around 4.6% in H1-2023, compared with 3% for the 12 months that ended November 2022 (last reported 12 months financial data before the group changed its fiscal year-end to December from May in January 2023). While still below the historical average EBITA margin of around 6.5% (2015-2019), Moody's expects the group to further strengthen its profitability over the next quarters on a continued market recovery, price increases, lower restructuring costs (€12.9 million in H1-2023) and the realization of additional cost synergies following the acquisition by FORVIA in 2022. A gradual normalization of Hella's recently increased research and development costs (reaching 10.9% of H1-23 sales versus 10.6% in the prior year), especially in the Electronics segment, should also support an improving profitability in the coming quarters, considering that these costs are typically more difficult to share with customers.

The affirmed Baa3 rating is further supported by Hella's sustained excellent liquidity, which benefits from a still-significant €931 million cash balance as of 30 June 2023, while Moody's assumes its €300 million bond due in May 2024 will be refinanced in the next few months. Despite the group's increased reported net debt of €196 million at June-end 2023 (from a €43 million net cash position at year-end 2022), mainly due to a €290 million special dividend payment related to the group's disposed 33.33% stake in the Hella Behr Plastic Omnium (HBPO) joint-venture last year, its net leverage remains low at 0.2x reported net debt/EBITDA as of LTM June 2023. Moody's also recognizes around €150 million of debt repayments in H1-2023 that helped reduce Hella's gross leverage, next to the noticeable earnings recovery. Anticipating further sales growth well above global light vehicle production (610 basis points outperformance achieved in H1-2023) and strengthening profitability in the remainder of this year, the rating agency expects Hella's Moody's-adjusted gross leverage to reduce towards 2x by the end of 2023 (3.1x as of LTM November

2022), a level supporting its solid standalone investment-grade credit quality.

That said, Hella's affirmed Baa3 rating continues to reflect Moody's materially weaker assessment of the credit quality of Hella's majority owner FORVIA, as outlined above. The rating agency, therefore, maintains a two notches difference between the two companies' ratings. Hella's rating remains currently also constrained by its negative Moody's adjusted FCF of around €330 million in H1-2023 (including a €60 million negative adjustment for increased factored and de-recognized trade receivables), or €40 million negative excluding the €290 million special dividend.

LIQUIDITY

Hella's short-term liquidity is excellent, supported by around €1.1 billion in cash and cash equivalents (including marketable securities) and the group fully available €450 million committed long-term revolving credit facility (maturing in September 2025) as of 30 June 2023. Together with Moody's forecast of over €900 million funds from operations, Hella's sources of liquidity for the next 12 months comfortably exceed expected short-term cash uses, mainly comprising Moody's working cash assumption (3% of group sales), moderate working capital needs and capital spending of up to €700 million, as well as regular dividend payments according to the group's targeted 30% of net income payout ratio. Hella's increased short-term debt of €429 million as of June-end 2023 mainly consists of a €300 million bond due May 2024, which Moody's expects to be refinanced in the coming months (at the Hella level).

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook mirrors Moody's expectation of a continuation of Hella's current ownership structure, dividend policy, and further improving credit metrics over the next 12 months, including, for instance, a Moody's adjusted leverage ratio of around or below 2x gross debt/EBITDA.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given Hella's ownership structure with a 81.59% stake-holding of FORVIA, a change in its credit rating is strongly linked to a possible change in the credit risk of FORVIA. Under the current ownership structure, Moody's regards a two notches higher long-term issuer rating for the credit quality of Hella to be the limit, despite its currently stronger credit profile on a stand-alone basis.

An upgrade of Hella's ratings is, therefore, largely dependent on an upgrade of FORVIA.

A rating downgrade could result from FORVIA acquiring incremental shares in Hella, allowing it to initiate a squeeze out process, a change in Hella's financial policy, including a more aggressive dividend payout policy, or an increase in its financial leverage.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: HELLA GmbH & Co. KGaA

....ST Issuer Rating, Affirmed P-3

....LT Issuer Rating, Affirmed Baa3

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Action:

..Issuer: HELLA GmbH & Co. KGaA

....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automotive Suppliers published in May 2021 and available at <https://ratings.moodys.com/rmc-documents/72204>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Lippstadt, Germany, HELLA GmbH & Co. KGaA (Hella) is one of the leading automotive lighting and electronics components suppliers with a strong position in the European aftermarket. The group's Lighting and Electronics segments supply components to the automotive industry for the production of light vehicles, and generate around 86% of group revenue in H1-2023. The remaining 14% comes from Hella's Lifecycle Solutions segment. The segment includes Hella's aftermarket activities for spare parts sold to dealers and independent workers, and provides sales and service support to customers. It also includes original equipment for special vehicles and non-automotive industries such as the agriculture, mining and marine sectors. The Lighting business manufactures headlamps, small lamps, interior lamps, rear combination lamps and lighting electronics. The Electronics business produces body electronics, energy management, driver assistance, electric power steering, sensors and actuators.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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