MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms Hella's Baa1/P-2 ratings, outlook negative

11 Jun 2020

Frankfurt am Main, June 11, 2020 -- Moody's Investors Service, ("Moody's") has today confirmed the long term issuer and senior unsecured ratings of German automotive parts supplier HELLA GmbH & Co. KGaA (Hella). Concurrently, Moody's has confirmed Hella's short-term issuer rating at P-2. The outlook on the ratings changed to negative from ratings under review.

This rating action concludes a review for possible downgrade that began on March 26, 2020.

"The confirmation of Hella's ratings reflects the expectation that the company will swiftly recover from the negative impact of the global coronavirus outbreak on credit metrics in 2020.", said Matthias Heck, a Moody's Vice President -- Senior Credit Officer and Lead Analyst for Hella. "Hella's margins and leverage will, however, still be weak for a Baa1 in fiscal 2021/22 and the negative outlook indicates the risk of a downgrade if the global auto market does not recover as expected or Hella fails to outperform the global light vehicle production by around 500 basis points.", added Mr. Heck.

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

RATINGS RATIONALE

The confirmation of Hella's ratings reflects Moody's expectation that the company will manage to recover its margins (Moody's adjusted EBITA) to at least 6.5% in the fiscal year ending May 2022. This expectation is supported by (i) Hella's track record of continued outperformance of its revenues versus global light vehicle production (500 basis points achieved in the first nine months of fiscal 2019/20), which Moody's expects to continue over the next two years at least, and (ii) the company's actions to mitigate the negative impact of the global coronavirus outbreak by cost reduction and flexibilization and capex reduction, and (iii) the company's conservative financial policy, including maintenance of strong liquidity and the proposed suspension of dividend payments for fiscal 2019/20.

Moody's forecasts for the global automotive sector a 20% decline in unit sales in 2020, with a steep year-over year contraction in the first three quarters followed a modest rebound in the fourth quarter. We expect 2021 industry unit sales to rebound and grow by approximately 11%. However, future demand for vehicles could be weaker than our current estimates, the already competitive environment in the auto sector could intensify further, and Hella could encounter greater headwinds than currently anticipated.

The widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The global automotive industry is one of the sectors that will be most severely impacted by the outbreak. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

On 26 May 2020, Hella announced preliminary revenues of €5.7-5.8 billion for fiscal 2019/20 (ending May), a considerable decline versus €6.77 billion reached in the prior year. Company adjusted EBIT margin (excluding restructuring and portfolio effects) declined to around 4%, from 8.4% in 2018/19. As a result of overall reduced market volumes, Hella also announced an asset impairment of around €500 million and suspended dividend payments for 2019/20.

Hella's Baa1 ratings reflect as positives the company's: (a) leading position in the lighting technology and original equipment electronics markets; (b) meaningfully sized aftermarket business unit which is generally more stable than the original equipment business; (c) diversification through its Special Applications segment which reduces exposure to the automotive end market; (d) track record in reducing operational costs and improving operational efficiency; (e) increase in customer and geographical diversification; (f) conservative financial policy which includes limited shareholder distribution and the maintenance of a large cash (& equivalents) balance; and (g) relatively strong credit metrics (debt / EBITDA of 2.3x and net debt / EBITDA of 0.7x at February 2020).

Nevertheless, the rating also reflects as negatives the company's: (a) strong dependency on the automotive end market which is highly cyclical; (b) relatively low profitability, as reflected in an operating margin of 5.3% in the last twelve months to February 2020 (Mood's adjusted EBITA margin), which is expected to decline further to around 3% in fiscal 2019/20 (ending May); (c) significant expenditure on research & development (R&D) activities, around 9-10% of revenue; and (d) limited recent free cash flow generation, resulting from high capital expenditure.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects (i) the negative impact that the global coronavirus outbreak will have on Hella's operating performance and credit metrics at least into 2021/22 with significant uncertainty around the path of recovery, (ii) continued challenges in the automotive industry, such as electrification and disruptive technologies, which require ongoing high amounts of R&D spending and limit free cash flow generation.

In this environment, it might be difficult for Hella to recover credit metrics by the end of fiscal 2021/22 to levels, which Moody's expects for the Baa1, including EBITA margins (Moody's adjusted) of at least 6.5%, leverage of a maximum of 2.0x debt/EBITDA (Moody's adjusted; 2.3x at LTM; February 2020) and a maximum of 1.0x net debt/EBITDA (0.7x at LTM February 2020).

LIQUIDITY

Hella's liquidity position is excellent and consists primarily of around €1.2 billion in cash and cash equivalents (including marketable securities) at the end of February 2020. The company also has a €450 million long-term credit facility due in June 2022 in place. This facility was drawn in March, adding cash on balance accordingly. Moreover, the company secured an additional €500 million syndicated credit facility with two years maturity and extension option in May 2020. Together with funds from operations, which we estimate at around €500 million and a minor working capital release, Hella's sources of liquidity for the next twelve months amount to approximately €2.7 billion. These funds amply exceed expected needs of around €0.9 billion over the next 12 months, mainly comprising of working cash and capex. In contrast, short-term debt maturities will consume only minor amounts of cash.

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

Moody's could downgrade Hella's ratings when there is rising likelyhood that by its fiscal year end May 2022 Hella will likely display metrics at levels weaker than appropriate for its current Baa1 rating including (i) leverage above 2.0x debt / EBITDA and/or 1.0x net debt/EBITDA, (ii) EBITA margins were to remain below 6.5%, or (iii) if FCF generation were sizably negative.

In contrast, Moody's would consider to upgrade Hella's ratings, if the company improved size and diversification, and if this would reduce Hella's exposure to the cyclicality of the automotive industry. In addition, (i) a sustainable reduction of gross leverage (Moody's adjusted debt/EBITDA) to below 1.0x, (ii) improved profitability to more than 9% (Moody's adjusted EBITA margin) and (iii) material positive levels of FCF on a sustainable basis would be required for a higher rating.

LIST OF AFFECTED RATINGS:

..Issuer: HELLA GmbH & Co. KGaA

Confirmations, Previously Placed On Review For Downgrade:

.... ST Issuer Rating, Confirmed at P-2

.... LT Issuer Rating , Confirmed at Baa1

....Senior Unsecured Bank Credit Facility, Confirmed at Baa1

....Senior Unsecured Regular Bond/Debenture, Confirmed at Baa1

Outlook Actions:

....Outlook, Changed To Negative From Ratings Under Review

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automotive Supplier Methodology published in January 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170606 . Alternatively, please see the Rating Methodologies page on www.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 Automotive segment (including the Lighting and Electronics businesses) supplies components to the automotive industry for the production of cars and light vehicles and generated around 75% of group revenue in fiscal year 2018/19 (31 May). About 10% of revenues were generated by the group's Aftermarket segment, which distributes parts and accessories to wholesalers or garages and provides sales support to its customers. Moreover, in its Special Applications segment Hella produces original equipment for special vehicles and non-automotive industries such as the agriculture, mining and marine sectors (6% of group revenues in that period). The Lighting business manufactures head lamps, small lamps, interior lamps, rear combination lamps and lighting electronics; while the Electronics business produces body electronics, energy management, driver assistance, electric power steering, sensors and actuators.

REGULATORY DISCLOSURES

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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