

## Rating Action: **Moody's assigns Baa2 rating to Hella's debt issuance**

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Global Credit Research - 17 Jan 2013

### **EUR 500 million senior unsecured notes to be issued**

Frankfurt am Main, January 17, 2013 -- Moody's Investor's Service today assigned a Baa2 rating to the EUR500 million senior unsecured notes with 7 years term launched by Hella KGaA Hueck & Co. ("Hella" or the "Issuer") on 17 January 2013.

### RATINGS RATIONALE

Hella's Baa2 rating benefits from the group's leading position in the lighting technology and original equipment electronics markets, as well as the European independent aftermarket. The rating also takes into consideration the size of the group's Aftermarket and Special Applications segments. Hella's rating further benefits from the group's track record in adjusting its cost structure and improving operational efficiency. We also view positively recent efforts by the group to further diversify its customer base and geographical spread. Moreover, Hella's rating positioning is supported by, so far, a conservative shareholder distribution policy and continuously material funds of cash and marketable securities of between EUR275-500 million, which, according to our understanding, are fully accessible in case of need also in future.

Current credit metrics position Hella strongly in the Baa2 rating category. On the back of its diversification and supported by its focus on growth markets, Hella was able to increase revenues during the first six months of its FY 2012/13 y-o-y by 7% to EUR2.5 billion against declining light vehicle sales in Western Europe. Despite of a 22% increase in R&D expenses and higher capex reflecting the group's strategy to focus on growth markets Hella was still able to achieve a retained cash flow coverage in excess of 50% RCF / Net debt and to generate a positive free cash flow of EUR13 million during the last twelve months (December 2011 -- November 2012).

The rating outlook is stable reflecting our expectation that Hella will be able to maintain (i) debt/EBITDA below 2.5x, (ii) an EBIT margin of close to 6%; and (iii) positive FCF generation through the cycle. Moreover, the stable outlook reflects the expectation that Hella will maintain a balanced financial policy.

### What Could Change the Rating -- UP / DOWN

We would consider upgrading Hella's ratings if the group were to achieve on a sustainable basis an EBIT margin close to 10% and a debt/EBITDA ratio well below 2.0x. Moreover, an upgrade would require material positive FCF generation and an RCF/net debt ratio above 40% on a sustainable basis. Negative pressure on the rating would arise if (i) Hella's profitability came under pressure, resulting in an EBIT margin falling sustainably below 5% or in case of material negative FCF generation; and (ii) its debt/EBITDA ratio were to exceed 2.5x or if RCF/net debt fell notably below 30%.

Headquartered in Lippstadt, Germany, 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 72% of group revenues in the fiscal year ended May 2012 (FY2011/12). About 21% of 2011/12 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 or marine sectors. The Lighting business manufactures head lamps, signal lamps, interior lamps and lighting electronics; while the Electronics business produces body electronics, energy management electronics, driver assistance electronics, sensors and actuators.

The group is family owned and generated revenues of EUR4.98 billion during the last twelve months' period ending in November 2012. It employs over 28,400 people at around 70 manufacturing facilities, production subsidiaries and joint ventures worldwide.

The principal methodology used in this rating was the Global Automotive Supplier Industry published in January

2009. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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