MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Hella's outlook to positive; affirms ratings

Global Credit Research - 31 Aug 2017

Frankfurt am Main, August 31, 2017 -- Moody's Investors Service, ("Moody's") has today affirmed the ratings pertaining to German automotive supplier Hella KGaA Hueck & Co. (Hella) and changed the outlook to positive from stable on all ratings. They include the Baa2 senior unsecured ratings relating to both Hella and Hella Finance International B.V., a subsidiary of Hella. Moody's has also affirmed the P-2 short-term issuer rating of Hella.

The following ratings are affected:

Affirmations:

..Issuer: Hella KGaA Hueck & Co.

.... LT Issuer Rating, Affirmed Baa2

.... ST Issuer Rating, Affirmed P-2

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Hella Finance International B.V.

....Backed Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

..Issuer: Hella KGaA Hueck & Co.

....Outlook, Changed To Positive From Stable

..Issuer: Hella Finance International B.V.

....Outlook, No Outlook

RATINGS RATIONALE

The change in outlook reflects the gradual strengthening of Hella's key credit metrics in recent years and our expectation that those metrics will further improve over the next 12-24 months. Following the expected redemption of a €300 million bond in September 2017, Moody's estimates that leverage (debt / EBITDA, adjusted by Moody's) for the group will equate to 1.7x, somewhat lower than expectations for the current rating (of less than 2x). Leverage has fallen steadily in recent years, from 2.9x in 2013/14 to 2.3x in 2014/15 and then to 2.1x in 2015/16. Deleveraging was primarily achieved through a combination of: (1) revenue growth driven by rising global automotive production; (2) outperformance of the Hella group reflecting its focus on innovative lighting products and electronics which has enabled the group's content per vehicle to rise; and (3) an improvement in profitability. For the latter, Moody's notes that EBITA margins have risen modestly in recent years reflecting a better absorption of fixed costs because of a shift in product mix and the growth in automotive production but also because of the success of recent efficiency programs. Nevertheless, Moody's notes that Free Cash Flow (FCF) generation remains weak, and in 2016/17 amounted to a negative €60 million. However, the positive outlook takes into consideration the expectation that both research & development and capital expenditure, as a percentage of turnover, is likely to moderate over the next 2-3 years which should help improve FCF in conjunction with stronger profitability. Furthermore, Moody's believes Hella will improve its working capital position, in-line with its strategy outlined in June 2017.

Hella's ratings reflects 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) strong credit metrics rendering the rating well positioned within the current category (debt / EBITDA of 1.7x pro-forma for the redemption of the September 2017 bond).

Nevertheless, the rating also reflects as negatives the company's: (a) strong dependency on the automotive end market which is highly cyclical; (b) low profitability, as reflected in an operating margin of around 7% - albeit at a level which is average for the industry; (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.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's anticipates that an upgrade to Baa1 over the next 12-18 months could be possible if Hella maintains its current leverage (below 2x debt / EBITDA) and profitability while generating positive levels of FCF. In contrast, Moody's could downgrade Hella's ratings if leverage were to increase above 2.5x debt / EBITDA, EBITA margins were to decrease below 5% or if FCF generation were sizably negative.

The principal methodology used in these ratings was Global Automotive Supplier Industry published in June 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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.

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

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.

Scott Phillips
Vice President - Senior Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Matthias Hellstern
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.