05 March 2015

European Automotive Suppliers

Application Study & Outlook

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European Automotive Suppliers

Scope Ratings' (Scope) application study on European automotive suppliers assesses the credit quality of eight such corporates based on Scope's Rating Methodology on European Automotive Suppliers published in December 2014. The study also provides an outlook on the automotive supplier industry, which is expected to be stable with continued growth in light vehicle production in the automotive key markets but also with intensifying pricing pressure from OEMs.

The corporates were selected from a wider peer group of 26 European automotive suppliers. These span a wide range of sizes, product portfolios and include large, diversified multiproduct companies, as well as small, specialised local producers. Some of these companies have not been rated by Scope; in those cases, Scope judges their credit quality based on publicly available information in order to arrive at an indicative credit assessment.

Credit Quality of Assessed Corporates

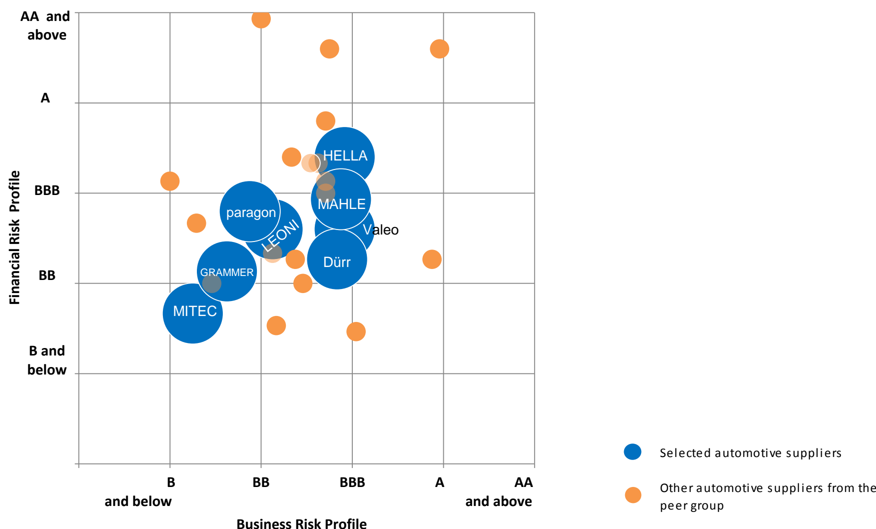
The credit quality of the assessed automotive suppliers varies widely. This reflects the sector's inherent cyclicality and different corporate profiles in terms of their operational size, financial structure and profitability, which are strongly influenced by the type of product the company supplies.

A solid credit quality is mainly attributable to moderate cash flow generation, stable and substantial revenue base, and meaningful innovative power in core product groups, which safeguard a moderate market position. Automotive suppliers with solid credit quality are also well diversified and display moderate debt protection and leverage measures.

By contrast, automotive suppliers in the non-investment grade credit quality categories tend to show a comparably weak competitive positioning, a small, volatile revenue base, vulnerable cash flows and low innovative power. As a result, these suppliers often exhibit a weak geographical diversification, product range and customer base. In addition, less predictable cash flow generation, volatile profitability as well as weaker financial measures limit an automotive supplier's ability to achieve an investment grade credit quality.

The following chart shows Scope's indicative credit quality assessment of selected European automotive suppliers.

Indicative Credit Quality Assessment of Selected European Automotive Supplier within a Wider Peer Group



Source: Scope Ratings

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1. European Automotive Supplier Industry

Fragmented and highly cyclical

The European automotive supplier industry is cyclical and highly fragmented. Market participants range from large, global multiproduct companies serving both OEMs and the aftermarket, to small, local producers, manufacturing product subcomponents for other automotive suppliers. Product groups include tyres, exteriors, chassis, powertrains, interiors and electronics.

A global industry

Like the automotive industry itself, automotive supply is a global industry, in which suppliers follow their customers around the globe.

Pricing pressure from OEMs

Although price competition is fierce, EBITDAR margins can exceed 30%, depending on suppliers' pricing power and the complexity and added value of their products.

Different business models

A distinction is usually made between tier-one and tier-two (or lower) suppliers according to the importance of the supplier in the supply chain. While tier-one suppliers usually deliver products directly to OEMs, tier-two (or lower) corporates supply other automotive suppliers with sub-components or raw materials. Tier-one suppliers typically enjoy greater pricing power and higher profitability than tier-two (or lower) suppliers.

Regulatory environment pushes R&D

Products and services in the industry tend to differ substantially in complexity, research and development ("R&D"), and the capital intensity of production. The industry is being hit hard by stricter emissions standards, which entail considerable investment in R&D. In many cases, R&D is shared by OEMs and the automotive suppliers, demanding innovative capacity, weighing on short-term cash flow.

Highly capital intensive industry

The automotive supplier industry is highly capital intensive. Due to significant upfront investments in fixed assets that are generally necessary to pre-finance production capacities and generally high working capital requirements, an automotive supplier's cash flow generation tends to be rather volatile during a product cycle. As a result, automotive suppliers generally exhibit negative cash flows during the ramp-up phase for a new product, and substantial positive cash flow generation can only be realised when production volumes increase at a later stage. Meaningful positive cash flow is not guaranteed, and depends on the success of the OEM's business, which is at the mercy of cyclical macroeconomic factors, such as consumer confidence and GDP growth.

Volatile cash flow generation mitigated by aftersales

Mitigating factors for automotive suppliers' relatively volatile cash flows are order backlogs from current long-term contracts and a revenue contribution from aftersales (e.g. replacement business). A large order backlog can protect a company's production capacity utilisation for a foreseeable timeframe, and cash flows generated by aftersales are less cyclical and more predictable than those generated by direct supply to OEMs. The aftersales market is also less dependent on the economic cycle than the supply of products and services to OEMs.

Investment grade automotive suppliers

Parameters which can qualify an automotive supplier for an investment grade rating are a stable and substantial revenue base, moderate cash flow generation and meaningful innovative power in core product groups, which safeguards a moderate market position. Other parameters are moderate diversification in its geographic footprint, product groups and customer base. Furthermore predicable cash flows, supported by a sound order backlog or a large contribution from aftermarket sales, and a moderate profitability and financial measures are also healthy indicators for an investment grade rating.

Non-investment grade automotive suppliers

In contrast, a weak competitive positioning, a small, volatile revenue base, vulnerable cash flows and low innovative power can be indicators for a non-investment grade rating. Further parameters which indicate a sub-investment grade rating are a weak diversification in terms of geography, product range and customer base. Finally, unpredictable cash flow generation, volatile profitability, as well as weaker financial measures all point to a sub-investment grade rating.

The cyclicality of its business makes it difficult for automotive suppliers to achieve the highest investment grade ratings.

European Automotive Suppliers Assessed in this Report

European automotive suppliers assessed in this report

Scope's Rating Methodology on European automotive suppliers has been applied to eight corporates. These eight corporates were selected from a wider peer group of 26 European automotive suppliers. Companies in the peer group span a wide range of sizes, product portfolios, and include large, diversified multiproduct companies, as well as small, specialised local producers, including Continental AG, ZF Friedrichshafen AG, CIE Automotive SA and Nokian Renkaat Oyj.

Automotive Supplier	Size (adj. EBITDAR EURm)*	Main Product Group
MITEC Automotive AG	9	Balancer systems
LEONI AG	312	Wiring systems
Valeo SA	956	Diversified
paragon AG	11	Sensors
HELLA KGaA Hueck & Co.	603	Headlamps
GRAMMER AG	106	Headrests
Dürr AG	251	Paint shops
MAHLE GmbH	764	Pistons

Source: Scope Ratings. *Latest Fiscal Year

Of the above mentioned selected companies, MITEC Automotive AG is rated by Scope, while for the other seven not rated by Scope, a credit quality assessment was applied based on limited information. For this reason, these assessments are only indicative.

In its analysis, Scope has assessed the public information available for the past five years. In some cases Scope incorporated private information as well as the companies' forecasts.

2. Indicative Credit Quality Assessment of European Automotive Suppliers

Wide range of credit quality

Given the sector's inherent cyclicality and the different characteristics of European automotive suppliers in terms of operational size, financial structure and profitability patterns, which are strongly influenced by the type of product the company supplies, the estimated credit quality can range from the high A down to the B category.

Size dovetails with diversification and innovation

The Business Risk Profile of European automotive suppliers varies greatly. A large size often goes hand-in-hand with geographical diversification, product variety and customer base. A large operational size allows R&D synergies, making it easier to deploy innovative power sustainably. Innovative power translates into technological differentiation, creates USPs and is a source of future revenue streams and above-average profitability. Automotive suppliers with substantial EBITDAR exhibit a broad diversification and strong innovative power, which may ultimately lead to an investment grade credit quality.

Profitability driven by product focus

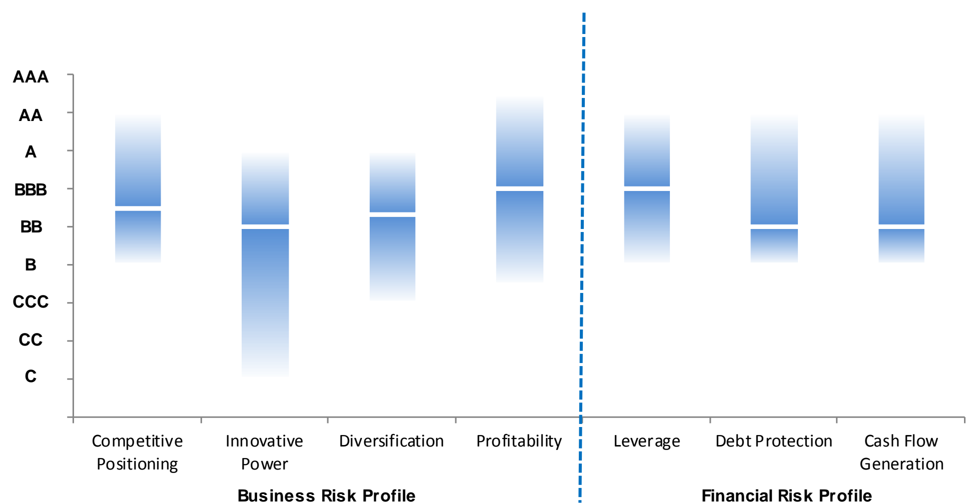
An automotive supplier's profitability correlates strongly with its product focus. In Scope's peer group, tyre-focused suppliers achieve the highest margins (EBITDAR margins above 30%), while powertrain and electronics suppliers exhibit above average-margins; chassis-, exterior and interior- focused companies tend to post lower than average profitability.

Size does not necessarily determine Financial Risk Profile

While the estimated Business Risk Profile for automotive suppliers tends to increase with their size, this is not the case in Scope's estimation of Financial Risk. Even companies with relatively small operations show a moderate track record of credit metrics through the cycle, and display comparably robust debt protection measures, i.e. a low leverage (Debt/EBITDAR <3.0x) and comparably moderate fixed charge coverage (EBITDAR Fixed Charge Coverage >8.0x).

The following graphs illustrate the rating distribution of Scope's assessment of the industry's rating drivers as reflected by the peer group (see figure 1) as well as Scope's indicative rating assessment of the above-mentioned automotive suppliers (see figure 2).

Figure 1: Distribution of Credit Quality within Different Rating Drivers within a Wider Peer Group



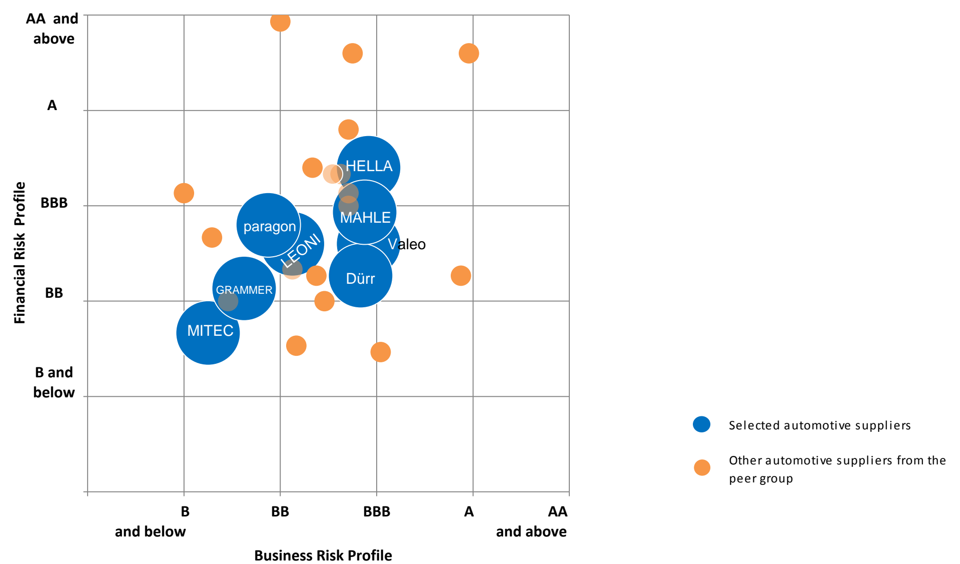
Source: Scope Ratings

Credit quality of selected European automotive supplier shows diverse picture

The credit quality of the assessed automotive suppliers varies widely. Of the assessed European automotive suppliers, HELLA KGaA Hueck & Co., MAHLE GmbH, Valeo SA and Dürr AG display the highest credit quality. Their indicated moderate credit quality is bolstered by a dominant market position driven by their innovative power in their core product groups, a moderate diversification, moderate cash flow generation and above average debt protection and leverage measures.

The lowest credit quality is shown by less diversified automotive suppliers (LEONI AG, GRAMMER AG, paragon AG, MITEC Automotive AG) often coupled with comparably vulnerable market positioning. These automotive suppliers credit quality is limited by comparably weak credit metrics.

Figure 2: Indicative Credit Quality Assessment of European Automotive Supplier within a Wider Peer Group



Source: Scope Ratings

3. Market Outlook

Stable outlook

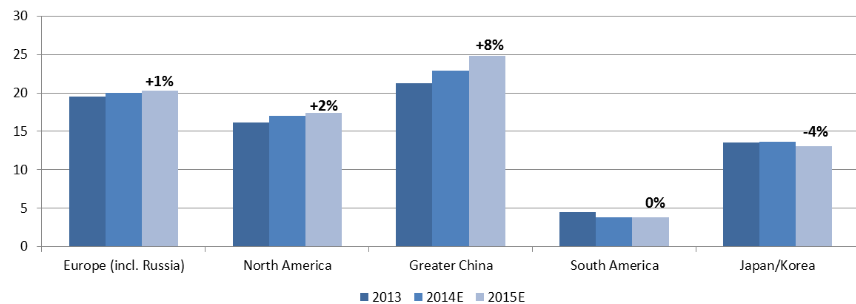
Scope's outlook for the European automotive supplier industry is stable. This outlook reflects our expectations about the industry in 2015.

Future revenues driven by growth in key markets North America and China

Scope expects future organic revenue growth of European automotive suppliers will be driven mainly by continued growth in light vehicle production in the key automotive markets Europe, North America and China. Nevertheless, market expansion is expected at a much slower pace than one year ago due to worsening macroeconomic fundamentals in the European and South American vehicle markets, as well as an expected market contraction in Russia.

Based upon IHS Automotive production forecasts, Scope estimates light vehicle sales in Europe will pick up only slightly by about 1% on their path to recovery from pre-financial crisis levels. We see the European market increasingly influenced by the current crisis in Russia. China will lead the sector's volume growth, expecting a relatively robust growth of about 8% in FY15E. The North American market will continue its upswing and is expected to grow 2% in FY15E (vs. 5% in FY14).

Figure 3: IHS Light Vehicle Production in selected key markets (Mio.)



Source: IHS Automotive, J.P. Morgan research, Scope

Continued regional shift to emerging markets requires geographical diversification

As OEMs follow the demand in emerging markets, European automotive suppliers are following. With triad markets massively reducing their importance on the global light vehicle market, European automotive suppliers will benefit primarily from the expected growth of production in China and North America. Strong increase in production and a repositioning outside the European market is a necessity for future cash flow generation. Scope believes that the majority of European auto suppliers are well prepared for these market shifts with increasingly ramped-up production capacities in these new markets

Recent cost reduction programs of OEMs lead to pricing pressure

We expect competition among global OEMs to remain fierce resulting in intensified pricing pressure for European automotive suppliers. In particular, European OEMs such as Daimler, VW, BMW and Peugeot have reiterated their 2014 plans for additional cost reduction measures over the next few years, aiming mainly at increased standardisation (through increasing platform efficiency) and decreased R&D budgets.

Structural switch in R&D responsiblities

Through the variety and complexity of new automotive technologies OEMs are expected to continue to shift R&D responsibilities to auto suppliers. The latter act increasingly as innovators. With the continued trends towards CO_2 reduction, the further electrification of the powertrain and the development of advanced driver assistance systems Scope regards innovative power as key to maintain current levels of profitabilitiy in the next few years.

R&D and capex requirements restrain profitability

While the continued technology shift is an opportunity for most of the European automotive suppliers and a key to future revenue streams, investments in R&D capacities and capex inhibit significant free cash flow generation in the medium term.

M&A activities motivated through access to technology and markets to continue

Major transactions in FY13 and FY14 indicate that M&A activities in the sector are driven primarily to gain access to technological know-how and effectively generate revenues in new end markets. MAHLE's acquisition of Letrika Group in 2014 was mainly focused on acquiring the expertise for electric drive systems and mechatronics. The same applies for MAHLE's acquisition of Behr Group in 2013 a specialist in air conditioning and engine cooling systems which complement Behr's existing product portfolio, thereby improving the group's overall innovative power and diversification of revenues.

4. Business and Financial Risk Drivers

Scope applies its Corporate Rating Methodology to automotive suppliers as outlined below. The following business and financial risk indicators are not comprehensive and might not be fully applicable to all automotive suppliers. Therefore, the applicable rating criteria vary according to each company's business model.

Business Risk Drivers

Competitive positioning

An automotive supplier's size and competitive positioning determine its market strength. Scope considers a company's size by its EBITDAR and market position as indicators of its economies of scale and bargaining power in negotiations with OEMs. A dominant market position in their core product group allows automotive suppliers to impose higher prices and enhance their competitive positioning. Large size usually goes together with diversification of geography, variety of products and customer base.

Innovative Power

Innovative power is considered a key to success in the industry. Companies possessing a technological advantage can create higher barriers to entry in their respective product groups, while automotive suppliers with less innovative products risk being undercut by substitution. The latter may result in a loss of market share and weaken the company's competitive position.

R&D expenditure as a percentage of sales (R&D/Sales (%)) is an indication of a company's innovative capacity. Strong innovation promotes technological leadership and can translate into future revenue streams through new products. Depending on the R&D intensity of certain product groups, R&D/Sales (%) is on average about 4% but can rise to 10% or more in the industry.

Diversification

An automotive supplier's geographical, product and customer diversification determines its ability to offset cash flow volatility arising from economic cycles, industry dynamics, regulatory changes and unexpected losses of revenue base.

Profitability

Scope regards an automotive supplier's EBITDAR margin as the most important indicator of its profitability and efficiency.

EBITDAR margins in the automotive supplier industry vary depending on the automotive supplier's business segment and pricing power. Producers with excellent market positioning are able to impose higher prices and achieve EBITDAR margins of up to 32%, whereas companies with a weaker market positioning, e.g., producers of less value-added products, exhibit single-digit EBITDAR margins. Pricing pressure from OEMs, the need to innovate and swings in raw material costs have a considerable impact on an automotive suppliers' EBITDAR margins.

Financial Risk Drivers

Debt protection

Scope assesses the cash flow-adjusted leverage of an automotive supplier measured as FFO/Debt (%) and Debt/EBITDAR (x).

Given the capital-intensiveness and volatility of cash flows in the business, the leverage and interest cover ratios of corporates in the automotive supply industry vary significantly, depending on the product life cycle and economic cycle. This is due mainly to pre-financing requirements and shifts in cash flow during production. Financial flexibility to deal with economic downturns is an increasingly important rating driver for automotive suppliers.

Cash Flow generation

Scope also analyses the cash flow generation capacity of automotive suppliers. The visibility and predictability of a company's cash flow are reflected in its order backlog, lead times and cash flow contribution from aftermarket business. Sales derived from a less cyclical aftermarket business (e.g. replacement market) and a backlog covering future production volumes are reliable indicators of a company's future cash flow generation. In contrast, companies with short lead times and no contribution from aftersales tend to have more volatile and less predictable cash flows. Hence, a sound backlog and stable aftermarket business tend to smooth future cash flow volatility and are considered as positive.

MITEC AUTOMOTIVE AG*

Specialised - Powertrain

Corporate name:	MITEC Automotive AG
Country of origin:	Germany
Main product groups:	Balancer systems
Size FY13 (EBITDAR EURm):	9

MITEC Automotive AG (MITEC) is a German auto supplier operating in the field of automobile propulsion technology. MITEC's product portfolio comprises balancer systems, gear wheels and bevel gear sets, along with adjustable oil pumps and camshaft timing devices.

Business Risk Profile

Small but strong niche player for balancer systems

With an adjusted EBITDAR of EUR 9m in FY13 MITEC is a very small automotive supplier. Despite its size, Scope considers MITEC to be well positioned as the European leader in the niche market for balancer systems. MITEC's global market share for balancer systems is approximately 10%.

Relatively low R&D spending

MITEC's innovative power is mixed. On the one hand, the company shows a positive strategic mindset on the technological edge in the growing powertrain segment, but with a total R&D spending (incl. capitalised development costs) to sales of <2% (FY13), MITEC's R&D ratio is well below the sector average.

Solid geographical diversification….

With 55% of MITEC's revenues generated in Europe; 19% in China and the remaining 26% in the rest of the world in FY13, the company's geographic diversification is solid. Going forward, MITEC is globalising its footprint with expected sales from Europe as a proporation of total sale to reduce to 45% by 2018.

...but high customer and product concentration risks

MITEC's customer and product diversification is very limited. The largest three customers account for a high 84% of FY13 sales and nearly 75% of sales are attributable to the core division, balancer systems. Scope expects balancer systems to account for 87% of sales by FY18, leaving the company even more exposed to external shocks.

Squeezed margins recovering slowly

MITEC's adjusted EBITDAR margin collapsed from 17.5% in 2010 to 6.5% in FY13. This was caused by material delays in order deliveries from a core customer and associated high pre-financing costs. Scope expects MITEC's adjusted EBITDAR margin return to sector average of roughly 11% in FY16.

Financial Risk Profile

Exceptionally high leverage and modest interest coverage

MITEC is highly leveraged. Adjusted Net Debt/EBITDAR increased to 8.7x in FY13 (FY12: 4.9x). The yoy increase in leverage was driven by a drop in the adjusted EBITDAR from EUR 16.5m to EUR 9.1m, due to a one-off order postponement. Scope expects MITEC to reduce its high Net Debt/EBITDAR to 4.5x in FY16. MITEC's adjusted EBITDAR Fixed Charge Cover stands at a modest level of 1.4x in FY13 and is expected to improve to 3.3x in FY16.

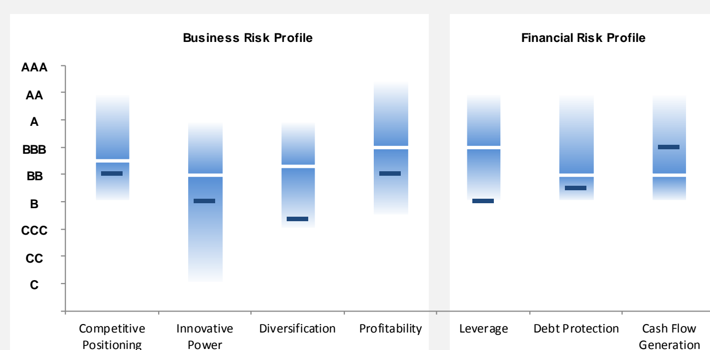
Ample order book provides cash flow visibility

The company's future cash flows are bolstered by a strong order book. MITEC's long-term order backlog for FY14E-FY18E totals EUR 900m (6.5x FY13 sales). Scope believes that the visibility on the company's future cash flows more than offsets its lack of aftersales business.

Scope's Credit Quality Assessment

FYE (Dec)	2011	2012	2013	LTM14
Total Debt (EURm)	70	106	95	99
Cash (EURm)	1	26	16	11
Revenues (EURm)	143	138	138	141
EBITDAR (EURm) (adj.)	20	16	9	9
FFO (EURm) (reported)	15	15	5	6
EBITDAR margin (%)	*14.1%*	*11.7%*	*6.5%*	*6.4%*
FFO/Debt (%)	*28.4%*	*17.0%*	*13.5%*	*12.9%*
Debt/EBITDAR (x)	*3.4*	*6.4*	*10.4*	*10.9*
Net Debt/EBITDAR (x)	*3.4*	*4.9*	*8.7*	*9.8*
EBITDAR/Fixed Charge (x)	*4.5*	*2.5*	*1.4*	*1.4*
FFO/Fixed Charge (x)	*4.4*	*3.2*	*1.8*	*2.0*

Source: Scope based on company's financial reports



Source: Scope

*Scope has assigned a CICR of BB- to MITEC

LEONI AG

Specialised – Electronics

Corporate name:	LEONI AG
Country of origin:	Germany
Main product groups:	Wiring systems
Size FY13 (EBITDAR EURm):	312

German-based LEONI AG (LEONI) provides wires, optical fibres, cables and cable systems and related services for applications in the automotive sector and other industries. The group is organised into two divisions "Wiring Systems" (WSD) and "Wire Cable Solutions" (WCS). LEONI is listed on the German MDAX.

Business Risk Profile

Strong medium-sized player in the wiring systems market

LEONI is a small to mid-tier automotive supplier with an adjusted EBITDAR of EUR 341m (LTM to September 2014). Scope considers the company's overall competitive position as strong. LEONI is European leader in the markets for wiring systems/cable harnesses with a market share of roughly 23% (9% global).

Rising number of patents - but below average R&D spending

Innovation plays a crucial role in LEONI's strategy. The number of patents and utility models registered grew significantly in FY13 to 42 (+62% compared to FY12). Nevertheless, the company's R&D spending (incl. capitalised development costs) in FY13 (~3%) is below the industry average.

Improving geographical diversification

Although Europe is LEONI's most important sales region, the company has steadily improved its geographical diversification outside its domestic region during the past five years. FY13 34% of the company's sales were generated outside Europe (vs 24% FY09). The share in group sales into growth regions BRIC (~18%) and the Americas (~13%) is also expected to increase further.

The company's product diversification is modest. Nearly 60% of LEONI's 2013 sales are attributable to its core wiring systems division for the automotive industry. Scope sees moderate customer concentration risks with its two largest customers accounting for approximately 20% of FY13 sales.

Unexpected start-up costs burden profitability going forward

With an adjusted EBITDAR margin slightly above 8% (LTM to September 2014), LEONI's profitability is below sector average. In view of the company's profit warning in the course of unplanned charges arising from new product start-ups in WSD, we expect EBITDAR margins to stay below 9% for FY14.

Financial Risk Profile

Leverage in line with industry

With a lease-adjusted Debt/EBITDAR of 2.1x (FY13), LEONI's leverage stands at an average level compared to the industry. The EBITDAR Fixed Charge Cover of 7.1x for the LTM to September is considered to be modest. Scope expects LEONI's credit metrics to improve in the mid-term backed by a further outgrow of light vehicles production underpinned by a back-to-normal EBITDAR development in WSD.

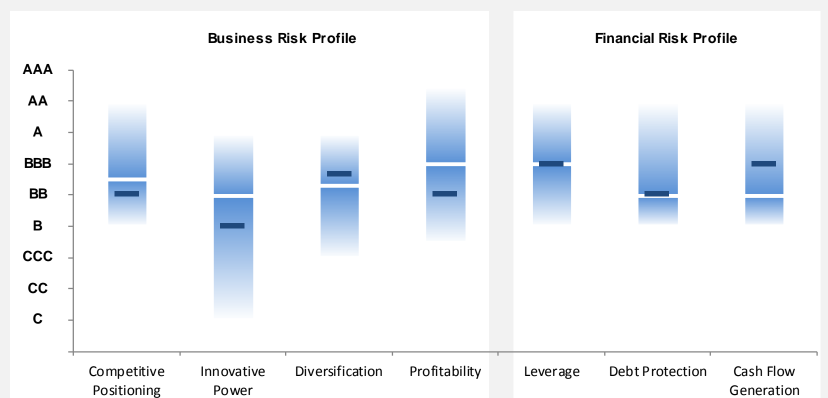
Exposure to non-automotive industries mitigates cash flow volatility

LEONI's 25% revenue exposure (FY13) to less cyclical non-automotive industries mitigates the risk of future cash flow volatility. Going forward, the company should benefit from cash flows materialising from major ramp-ups, (particularly in WSD). In our opinion, this is backed by an estimated sound order backlog in WSD of roughly EUR 12bn (3.1x total sales in FY13).

Scope's Credit Quality Assessment

FYE (Dec)	2011	2012	2013	LTM14
Total Debt (EURm) (adj.)	799	750	671	717
Cash (EURm)	345	281	178	135
Revenues (EURm)	3,701	3,809	3,918	4,043
EBITDAR (EURm) (adj.)	375	375	312	341
FFO (EURm) (adj.)	302	236	171	242
EBITDAR margin (%)	*10.1%*	*9.9%*	*8.0%*	*8.4%*
FFO/Debt (%)	*45.8%*	*40.0%*	*33.3%*	*36.9%*
Debt/EBITDAR (x)	*2.1*	*2.0*	*2.1*	*2.1*
Net Debt/EBITDAR (x)	*1.2*	*1.3*	*1.6*	*1.7*
EBITDAR/Fixed Charge (x)	*5.9*	*5.9*	*5.9*	*7.1*
FFO/Fixed Charge (x)	*5.8*	*4.7*	*4.2*	*6.0*

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

VALEO SA

Diversified

Corporate name:	Valeo SA
Country of origin:	France
Main product groups:	Diversified
Size FY14 (EBITDAR EURm):	956

Valeo SA (Valeo) is a large global diversified automotive supplier based in Paris. The group produces a broad range of products, including combustion engine systems, climate control, interior electronics and wiper systems. Valeo's product and services are supplied to both OEMs and aftermarket. The group's shares are listed on the Euronext-Paris.

Business Risk Profile

Excellently positioned large global player

With an adjusted EBITDAR of EUR 956m FY14 Valeo is among Europe's largest automotive suppliers. The company is excellently positioned in many of its end markets. In particular, Valeo's market leadership in the growth segments of driver assistance and electrical systems is considered positive by Scope.

Proven innovative power in growing end-markets

Valeo's products contribute to the reduction of CO_2 emissions and the development of intuitive driving. We believe Valeo's strong competitive standing in this favourable market segment is driven mainly by its innovative power. The company's strong technological leadership is reflected by an adjusted R&D ratio above 7% and a strong 35% order intake share for newly developed products.

Moderate diversification with strong exposure to growth regions (US and China)

As a global automotive supplier, Valeo displays a high level of geographical diversification and in its product portfolio. The company's exposure of OEM sales to non-European markets was 51% (FY14), mainly focusing on North America (20% of OEM sales) and China (15% of OEM sales). Bolstered by the ramped-up production capacity in China and the US, Scope expects Valeo's diversification of sales to improve further. Moreover, the group's product portfolio is considered to be well balanced. We believe the company's customer concentration with top two customers accounting for approx. 31% to be moderate (FY14). Latter is partly mitigated by a 12% share of aftermarket sales (FY14).

Visibility Systems division lowers group margin

Valeo's adjusted EBITDAR margin of 7.5% in FY14 is below the sector average and mainly due to the company's low margin business in the Visibility Systems division. Due to volume effects and improving SG&A expenditures, we expect the adjusted EBITDAR margin to improve slightly in the mid-term.

Financial Risk Profile

Moderate credit metrics

Valeo's leverage is comparably stable since FY12 and is in line with the industry. Considering the company's strong cash position, adjusted Net Debt/EBITDAR stood at 1.8x (FY14). The company's EBITDAR/Fixed Charge Cover stands at a below average level of 5.8x (FY14). Given Valeo's expected margin improvements and a favourable EBITDAR development mid term, the company's credit metrics are likely to improve in FY15 onwards.

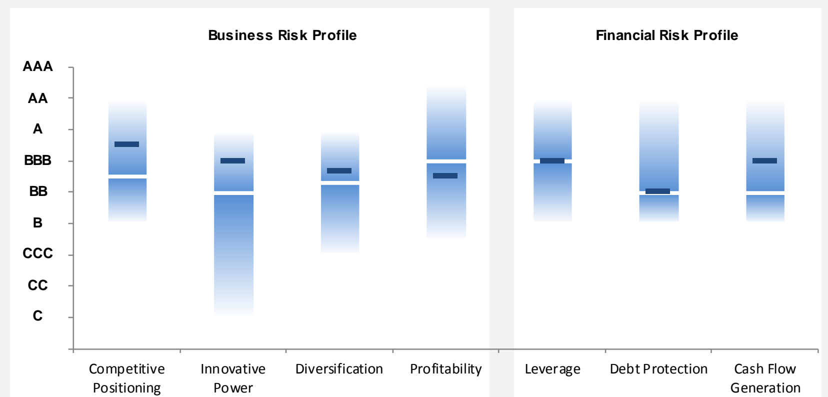
Aftermarket business mitigates inherent industry volatility

The group's cash flow generation capacity is considered moderate. Alongside Valeo's 12% exposure to the less cyclical automotive aftermarket, the company reported strong order intakes of EUR 17.5bn (FY14) representing 1.4x Valeo's FY14 sales.

Scope's Credit Quality Assessment

FYE (Dec)	2011	2012	2013	2014
Total Debt (EURm) (adj.)	2,276	2,541	2,332	2,359
Cash (EURm)	560	541	695	681
Revenues (EURm)	10,868	11,759	12,110	12,725
EBITDAR (EURm) (adj.)	1,112	986	1,013	956
FFO (EURm) (adj.)	697	576	768	907
EBITDAR margin (%)	10.2%	8.4%	8.4%	7.5%
FFO/Debt (%)	36.8%	29.6%	40.0%	45.5%
Debt/EBITDAR (x)	2.0	2.6	2.3	2.5
Net Debt/EBITDAR (x)	1.5	2.0	1.6	1.8
EBITDAR/Fixed Charge (x)	7.9	5.6	6.1	5.8
FFO/Fixed Charge (x)	6.0	4.3	5.7	6.5

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

PARAGON AG

Specialised - Electronics

Corporate name: paragon AG
Country of origin: Germany
Main product groups: Sensors
Size FY13 (EBITDAR EURm): 11

Family-owned paragon AG (paragon) develops, manufactures and sells components in the field of automotive electronics. The company acts mainly as a niche tier-one supplier and offers a product range from automotive sensors, acoustics, cockpit interfaces, kinematics and electromobility. Paragon is listed on Frankfurt's Prime Standard.

Business Risk Profile

Small technology leader in its core product group

Paragon is among the smaller European automotive suppliers, generating an adjusted EBITDAR of EUR 11m in FY13. Despite its size paragon is well positioned in several niche markets. The company is a recognised market leader in air quality sensors (AQS) and ionisation technology for interior air.

High-value added products with above average R&D spending

Paragon's product portfolio is dependent on innovation. The company's above average >10% adjusted R&D to sales is considered strong by Scope and should guarantee paragon's future competitiveness.

Modest diversification and customer concentration risks

Paragon's sales exposure is strongly dependent on the German market (approx. 76% of FY13 sales) and linked to revenues in its "Sensors" division (approx. 37% of FY13 sales). In the light of the ongoing expansion of paragon's electro-mobility division (represented by the brand "Voltabox") with local production in the US, Scope expects a slight improvement of its geographic and product diversification.

Scope cautions on paragon's material customer concentration: the company's top two customers accounted for over 46% of FY13 sales.

Strong and sustainable profitability

Despite a drop of paragon's adjusted EBITDAR margin to 12% (LTM to September 2014) mainly due to the rise in personnel expenses in the course of its business expansion, the company shows solid profitability well above sector average. The latter is seen as a positive credit driver in the view of Scope.

Financial Risk Profile

Modest leverage after bond issuance

After paragon's bond issuance (approx. EUR 13m) in 2013/14 the company's leverage (Debt/EBITDAR) stood at a modest 3.0x for the LTM to September 2014. Paragon's adjusted EBITDAR Fixed Charge Coverage of 4.6x (LTM to September 2014) is below its peer group average. Going forward, with margins recovering, Scope expects paragon's leverage and debt protection to improve slightly.

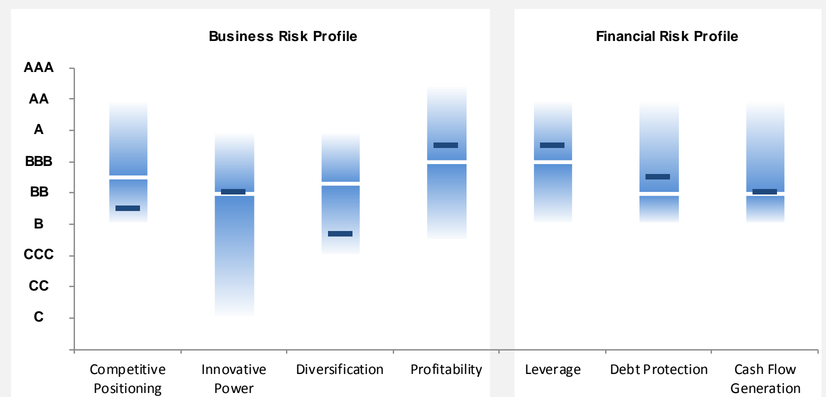
Sound order backlog – but cash flow generation overly dependent on automotive industry

Scope considers paragon's cash flow generation as strong. As of Q3 FY14 paragon's long-term order backlog totals > EUR 510m (6.8x FY13 sales). However, Scope highlights the lack of aftersales business and its strong dependence on the automotive industry (91% in FY13), which might improve in the mid-term, if Voltabox batteries find applications in other industries.

Scope's Credit Quality Assessment

FYE (Dec)	2011	2012	2013	LTM14
Total Debt (EURm) (adj.)	15	15	23	28
Cash (EURm)	15	14	18	12
Revenues (EURm)	67	70	74	78
EBITDAR (EURm) (adj.)	12	10	11	9
FFO (EURm) (adj.)	12	6	8	7
EBITDAR margin (%)	*17.4%*	*14.1%*	*14.5%*	*12.0%*
FFO/Debt (%)	*86.3%*	*47.8%*	*40.0%*	*33.4%*
Debt/EBITDAR (x)	*1.3*	*1.5*	*2.2*	*3.0*
Net Debt/EBITDAR (x)	*(0.0)*	*0.1*	*0.5*	*1.7*
EBITDAR/Fixed Charge (x)	*8.6*	*8.8*	*7.0*	*4.6*
FFO/Fixed Charge (x)	*9.7*	*6.2*	*6.1*	*4.6*

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

HELLA KGAA HUECK & CO.

Specialised - Lighting

Corporate name: HELLA KGaA Hueck & Co.
Country of origin: Germany
Main product groups: Headlamps
Size FY13 (EBITDAR EURm): 603

HELLA KGaA Hueck & Co. (HELLA) is one of the largest automotive suppliers in the global passenger car lighting market. HELLA develops and produces lighting and electronic components and systems, primarily for the automotive industry. The company also produces special applications for commercial vehicles. HELLA offers its services and products to both OEMs and the aftermarket.

Business Risk Profile

Mid-sized leader in passenger car lighting

With an adjusted EBITDAR of above EUR 600m in FY13/14 Scope sees HELLA as mid-sized European automotive supplier. The group enjoys a strong competitive standing in nearly all its business segments. In its core segment "Automotive" HELLA holds a leading position in most of its electronic sub-segments. Moreover, HELLA is the market leader in the LED segment.

Proven innovative power through leadership in LED technology

HELLA's R&D spending (including capitalised development costs) in relation to sales is above 10% (FY13), among the highest in the sector. We judge the company's significant efforts to develop its position as technological leader in key trends like energy efficiency and driver assistance systems as credit positive.

Improving product diversification through non-automotive sales

Being a global player HELLA steadily improved its sales exposure outside its European home market to roughly 49% in FY13/14 (up from 42% in FY11/12). The geographic diversification of HELLA's largest revenue contributor "Automotive" at ~58% (up from ~48% in FY11/12) sales outside Europe is considered strong. In addition, with non-automotive business segments covering more than 26% of total sales in FY13/14 Scope believes HELLA's product diversification is well balanced.

Stable margins in line with the industry

HELLA's profitability (adjusted EBITDAR margin of 12.4% for the LTM to November 2014) is in line with the sector average. Despite a slight margin decrease in FY12/13 mainly caused by an increase in R&D spending and capex in the course of the company's growth program, HELLA exhibited stable double-digit adjusted EBITDAR margins during the last FYs. We expect the company to maintain this level of profitability going forward.

Financial Risk Profile

Moderate leverage bolstered by strong cash position

After HELLA's bond issuance in March 2014 (EUR 300m) and capital increase in November, the company's cash position was substantially above EUR 600m resulting in an adjusted Net Debt/EBITDAR of 1.0x (LTM to November 2014). HELLA's EBITDAR Fixed Charge Coverage stands at a moderate 9.9x (LTM to November 2014). Going forward, Scope expects HELLA's credit metrics to remain robust.

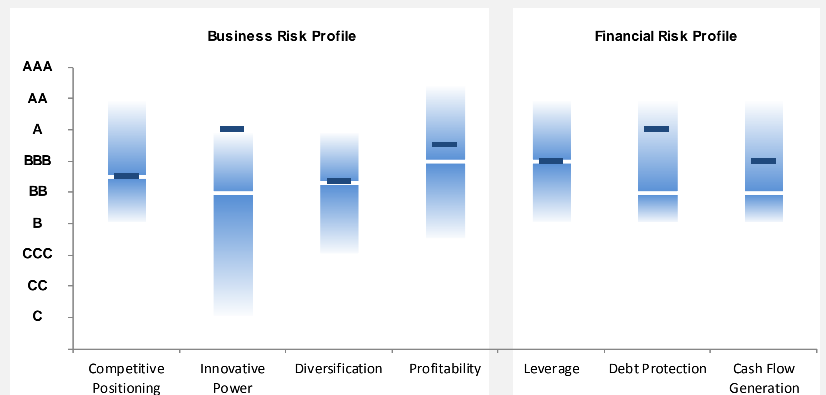
Aftermarket business smoothes cash flows

HELLA's business model consists of a strong share of aftermarket business (~20% in FY13/14). The company's aftermarket business tends to be non-cyclical, demonstrated by HELLA's profitability even during the FY07-09 downturn. HELLA's efforts to further expand its own sales network and product portfolio in its IAM segment are viewed positively by Scope and will strengthen HELLA's cash flow generation.

Scope's Credit Quality Assessment

FYE (May)	11/'12	12/'13	13/'14	LTM '14/15 (Nov)
Total Debt (EURm) (adj.)	817	1,145	1,465	1,297
Cash (EURm)	429	477	637	629
Revenues (EURm)	4,810	4,999	5,343	5,505
EBITDAR (EURm) (adj.)	580	542	603	681
FFO (EURm) (adj.)	579	420	534	440
EBITDAR margin (%)	*12.1%*	*10.9%*	*11.3%*	*12.4%*
FFO/Debt (%)	*77.8%*	*41.1%*	*40.1%*	*39.2%*
Debt/EBITDAR (x)	*1.4*	*2.1*	*2.4*	*1.9*
Net Debt/EBITDAR (x)	*0.7*	*1.2*	*1.4*	*1.0*
EBITDAR/Fixed Charge (x)	*10.4*	*10.9*	*11.5*	*9.9*
FFO/Fixed Charge (x)	*11.4*	*9.5*	*11.2*	*7.4*

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

GRAMMER AG

Specialised - Interior

Corporate name: GRAMMER AG
Country of origin: Germany
Main product groups: Headrests
Size FY13 (EBITDAR EURm): 106

German-based GRAMMER AG (GRAMMER) specialises in developing and producing components and systems for car interiors, as well as driver and passenger seats for offroad vehicles, trucks, buses and trains. The company is organised into two divisions: Automotive, which supplies vehicle manufacturers; and Seating Systems, which provides driver seats for commercial and off-road vehicles.

Business Risk Profile

Small supplier with strong niche market position

GRAMMER is a small, specialised automotive supplier with an adjusted EBITDAR of EUR 106m in FY13. GRAMMER is considered to be one of the leading players in innovative seating systems for offroad, truck, bus, and railway seats (business segment Seating Systems). Moreover, the group is European market leader for automotive headrests and holds a strong position in the interior consoles market.

Innovative track record in interior components and seating solutions

Being technological leader in the design of seating systems demonstrates GRAMMER’s innovative track record. Through its innovative strength, GRAMMER’s products are well positioned in the less volatile premium car market. The company’s R&D spending (including capitalized development costs) of 4% is sector average.

Low diversification through strong exposure to European market

With 67% of sales generated in Europe, 19% in Americas and 14% Far East/Others in FY13, GRAMMER’s geographic diversification is considered modest. Although the company serves both the automotive (63% of FY13 sales) and the commercial vehicle markets (37%), both segments are considered cyclical and do not therefore provide meaningful diversification.

Groups low profitability

GRAMMER’s profitability is below its peers, exhibiting an EBITDAR margin of 8.4% for the LTM to September 2014. The group’s low margins are mainly due to the low profitability of GRAMMER’s automotive segment and recently burdened by upfront investments for capacity expansion in Eastern Europe.

Financial Risk Profile

Mixed credit metrics

The adjusted leverage in terms of Net Debt/EBITDAR of 1.8x is considered moderate by Scope (LTM to September 2014). Although being stable during the last FYs GRAMMER’s EBITDAR Fixed Charge Cover of 4.4x (LTM to September 2014) is weak compared to its peers. With continued poor market development in Brazil, Scope expects GRAMMER’s EBITDAR to remain flattish in the near-term, with no significant improvements on its credit metrics.

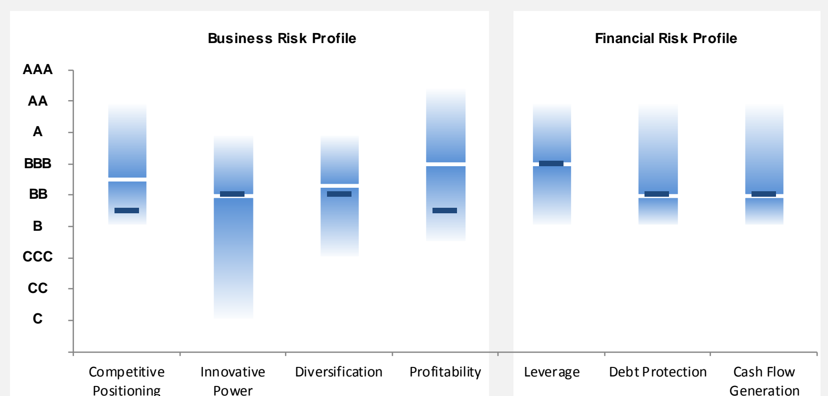
Little cash flow protection from either order backlog or aftermarkets

Compared to other automotive suppliers, Scope considers GRAMMER’s business profile will remain exposed to the sector’s cyclicality, especially as the company enjoys little cash flow protection from either aftermarkets or order backlog.

Scope’s Credit Quality Assessment

FYE (Dec)	2011	2012	2013	LTM14
Total Debt (EURm) (adj.)	189	208	265	247
Cash (EURm)	47	73	91	46
Revenues (EURm)	1,093	1,133	1,266	1,307
EBITDAR (EURm) (adj.)	82	83	106	110
FFO (EURm) (adj.)	48	55	36	35
EBITDAR margin (%)	*7.5%*	*7.3%*	*8.4%*	*8.4%*
FFO/Debt (%)	*35.7%*	*35.2%*	*22.5%*	*24.1%*
Debt/EBITDAR (x)	*2.3*	*2.5*	*2.5*	*2.2*
Net Debt/EBITDAR (x)	*1.7*	*1.6*	*1.6*	*1.8*
EBITDAR/Fixed Charge (x)	*4.3*	*4.5*	*4.4*	*4.4*
FFO/Fixed Charge (x)	*3.6*	*3.0*	*2.5*	*2.4*

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

DÜRR AG

Specialised - Exterior

Corporate name: Dürr AG
Country of origin: Germany
Main product groups: Paint shops
Size FY13 (EBITDAR EURm): 251

Dürr AG (Dürr) is a German engineering company which provides equipment, systems and services to various industries. It operates through five business divisions: Paint and Assembly Systems (PAS); Application Technology (APT); Measuring and Process Systems (MPS) and Clean Technology Systems (CTS). The acquired Homag Group AG (Homag) forms the new Wood Processing Systems (WPS) division.

Business Risk Profile

Leading mid-sized provider of paint shops for the automotive industry

With an adjusted EBITDAR of EUR 265m (LTM to September 2014) Dürr is a mid-sized player in the European automotive supplier market. As global leader in mechanical/plant engineering, Dürr serves various industries, including aviation, construction machinery, as well as the chemical, pharmaceutical and energy sectors among others. With an outstanding global market share of over 50%, Dürr's PAS and APT division have a considerable lead in the automotive market for paint shops.

Dürr cost leader in paint shops thanks to innovation strength

Despite Dürr's below average R&D spending (including capitalised development costs) of approx. 2% in FY13, Scope evaluates the company's innovative power as strong. Focused on enhancing production efficiencies, Dürr significantly improved the paint shop average cost per unit to EUR 320 (compared to EUR 420 15y ago), creating considerable entry barriers for competitors to Dürr's flagship division.

Outstanding geographical, sales and product diversification

Dürr's boasts outstanding global sales diversification. With a non-European exposure of 57%, Scope regards Dürr to be perfectly positioned to benefit from ongoing growth in the Americas and Asia. Scope also highlights the company's 32% sales exposure to the growing market in China (FY13). With the acquisition of Homag (10/2014) and the establishment of the new WPS division, Dürr's product diversification is expected to improve significantly while broadening the group's customer base and reducing its dependency on automotive customers (65% of sales).

History of improving profitability

The group has managed to increase profitability steadily over the past three years. Dürr's adjusted EBITDAR margin of 11.5% (LTM to September 2014) is in line with the sector average. Scope expects the Homag acquisition to have a slightly dilutive effect on the group's margin.

Financial Risk Profile

Comparably low leverage and fixed charge coverage

While Gross Debt/EBITDAR is in line with the sector average, the company exhibits a net cash position for the LTM to September 2014. The groups EBITDAR/Fixed Charge improved slightly to 5.4x (LTM to September 2014) but lags behind the sector average. Scope cautions on the group's credit metrics that may deteriorate with the ongoing impact of the Homag acquisition.

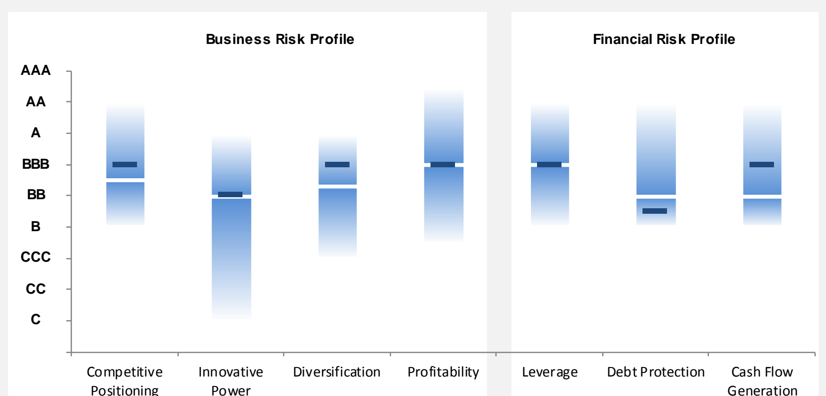
Future cash flows strengthened by order intake

Bolstered by orders on hand at record level (1.1x of LTM sales to September 2014) and a strong book-to-bill ratio of 1.2 points (9M FY14) we expect a strong future cash flow generation.

Scope's Credit Quality Assessment

FYE (Dec)	2011	2012	2013	LTM14
Total Debt (EURm) (adj.)	481	471	459	533
Cash (EURm)	299	349	459	609
Revenues (EURm)	1,922	2,400	2,407	2,302
EBITDAR (EURm) (adj.)	147	226	251	265
FFO (EURm) (adj.)	122	170	163	174
EBITDAR margin (%)	*7.7%*	*9.4%*	*10.4%*	*11.5%*
FFO/Debt (%)	*40.3%*	*48.3%*	*45.7%*	*42.0%*
Debt/EBITDAR (x)	*3.3*	*2.1*	*1.8*	*2.0*
Net Debt/EBITDAR (x)	*1.2*	*0.5*	*0.0*	*(0.3)*
EBITDAR/Fixed Charge (x)	*2.0*	*4.0*	*5.4*	*5.4*
FFO/Fixed Charge (x)	*2.7*	*4.0*	*4.5*	*4.5*

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

MAHLE GMBH

Specialised - Powertrain

Corporate name: MAHLE GmbH
Country of origin: Germany
Main product groups: Pistons
Size FY13 (EBITDAR EURm): 764

The privately-owned MAHLE GmbH (MAHLE) based in Stuttgart is one of the largest automotive suppliers for engine components/systems and filtration peripherals. Since the acquisition and integration of Behr Group into MAHLE's Thermal Management business, the company has become a leading global supplier in vehicle air conditioning and engine cooling systems.

Business Risk Profile

Top 30 automotive supplier with superior market position in several divisions

Following the acquisition of Behr group – a leading German supplier in the field of air conditioning and engine cooling systems with FY12 sales of around EUR 3.7bn in the second quarter of FY13 – MAHLE exhibited a strong adjusted EBITDAR of almost EUR 1bn (for the LTM to June 2014). Scope cites the large size of MAHLE's operations and its leading market position among the global top 30 auto suppliers in its core product groups like piston systems, cylinder components and most recently, in powertrain cooling and air conditioning.

Expansion of innovative capacities

MAHLE claims technology leadership in engine components, as well as industrial filtration. With the ongoing integration of Behr, Scope expects MAHLE's innovative capabilities in air and liquid management technologies that reduce CO_2 emissions, to increase further. The group's R&D spending below 5% is in line with sector average.

Strong footprint in emerging markets

Despite a slight increase of the group's European sales to roughly 50% in FY13 (up from 47% in FY12), Scope considers MAHLE's diversification of sales moderate, reflecting the groups strong footprint in emerging markets.

MAHLE's product portfolio is expanding: the new Thermal Management division accounted for an 11% share in FY13 and provided an expanded sales diversification. A mid-term expansion of the product portfolio into mechatronics would limit MAHLE's current dependence on automotive customers (currently only 6% of sales in the industry business FY13).

Average profitability

MAHLE's adjusted EBITDAR margin of 11.0% is in line with the sector average.

Financial Risk Profile

Moderate level of leverage

The groups lease-adjusted leverage Debt/EBITDAR of 1.6x (FY13) is moderate. With a favourable ongoing EBITDAR development, Scope expects MAHLE's debt protection measures to strengthen.

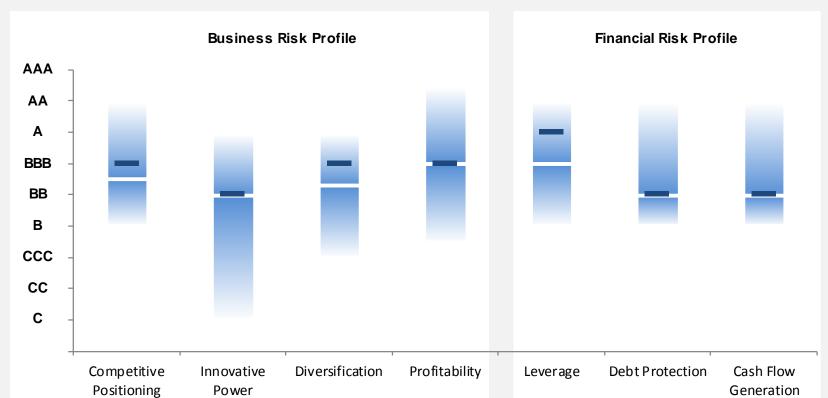
Existing but limited aftersales

MAHLE's replacement business is modest. In FY13 the group's aftersales unit accounts for 11% of total sales.

Scope's Credit Quality Assessment

FYE (Dec)	2011	2012	2013	LTM14
Total Debt (EURm) (adj.)	1,091	734	1,193	1,381
Cash (EURm)	505	336	466	706
Revenues (EURm)	6,002	6,159	6,941	8,822
EBITDAR (EURm) (adj.)	744	714	764	973
FFO (EURm) (adj.)	449	496	845	n/a
EBITDAR margin (%)	*12.4%*	*11.6%*	*11.0%*	*11.0%*
FFO/Debt (%)	*50.7%*	*79.6%*	*80.7%*	*n/a*
Debt/EBITDAR (x)	*1.5*	*1.0*	*1.6*	*1.4*
Net Debt/EBITDAR (x)	*0.8*	*0.6*	*1.0*	*0.7*
EBITDAR/Fixed Charge (x)	*7.2*	*8.0*	*6.5*	*8.5*
FFO/Fixed Charge (x)	*5.3*	*6.6*	*8.2*	*n/a*

Source: Company data, Bloomberg, Scope adjustments



Source: Scope

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