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CREDIT OPINION
6 September 2017

Update

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RATINGS

Hella KGaA Hueck & Co.

Domicile	Germany
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Hella KGaA Hueck & Co.

Update Following Rating Action

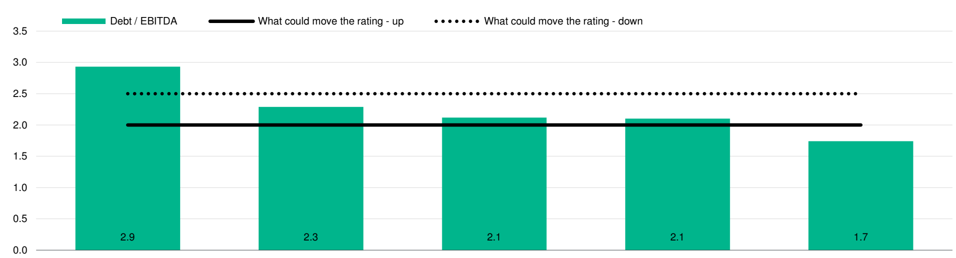
Summary Rating Rationale

Hella's Baa2 rating 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, expected to remain stable by year end 2017/18).

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.

Exhibit 1

Leverage is lower than our expectations for the existing rating



2017/18 leverage based on Moody's estimates, including the expected €300 million bond repayment in September 2017
Source: Moody's Investors Service

THIS REPORT WAS REPUBLISHED ON 6 SEPTEMBER 2017 WITH THE EXPANDED HEADLINE "UPDATE FOLLOWING RATING ACTION".

Credit Strengths

» Large Tier 1 auto supplier with positive exposure to current industry themes

» Sizeable aftermarket activities

» Generally strong credit metrics in terms of leverage and coverage

» Conservative financial policy

Credit Challenges

» Exposure to the cyclicality of global automotive production

» Only average profitability within the auto supplier sector

» Minimal free cash flow (FCF) generation

Rating Outlook

The positive 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, we estimate 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. Nevertheless, we note 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, we believe that Hella will improve its working capital position, in-line with its strategy outlined in June 2017.

Factors that Could Lead to an Upgrade

» Maintain debt / EBITDA below 2x

» Maintain current profitability (FY2016/17 EBITA margin of 6.8%)

» Positive FCF generation (FY2016/17 FCF / debt of -3.5%)

Factors that Could Lead to a Downgrade

» Debt / EBITDA above 2.5x

» EBITA margins below 5%

» Materially negative FCF

Key Indicators

Exhibit 2
Hella's Key Credit Metrics

	5/31/2013	5/31/2014	5/31/2015	5/31/2016	5/31/2017
Revenue (USD Billion)	$6.2	$7.2	$7.1	$7.0	$7.2
EBITA Margin	5.9%	6.0%	6.3%	5.9%	6.8%
EBITA / Interest	5.9x	6.1x	7.4x	8.1x	9.8x
Retained Cash Flow / Net Debt	51.3%	61.7%	106.4%	81.7%	109.5%
Debt / EBITDA	2.7x	2.9x	2.3x	2.1x	2.1x
Capital Structure: Net Debt / Net Capitalization	39.2%	39.9%	23.2%	25.2%	23.3%

1 All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
** The decline in revenue shown above is mainly driven by FX movements and has offset the revenue growth delivered by the group in its reporting currency (the Euro)
Source: Moody's Financial Metrics

Detailed Rating Considerations

Large Tier 1 auto supplier with positive exposure to current industry themes

With revenues of around €6.6 billion (FY2016/17), Hella is one of the world's largest automotive companies and is a Tier 1 supplier to the majority of the original equipment manufacturers. The company is organized into three segments: (1) Automotive, which includes (i) Lighting (42% of revenue) where it provides electronics, units and systems for both interior and exterior applications; and (ii) Electronics (33% of revenue) which manufactures a variety of equipment including 24GHz and 77Ghz radar systems and camera software for automotive safety, DC/DC converters for hybrids and ICE (internal combustion engines) as well as remote locking systems; (2) Aftermarket (18% of revenue) and (3) Special Applications (6% of revenue) which provides a number of products and solutions to non-automotive customers, most notably agriculture, mining and marine.

We believe Hella's product portfolio positions the company favourably with respect to the long-term themes currently faced by the automotive industry. In particular, Hella's strong positioning in LED lighting will underpin above market revenue growth as LEDs increase their penetration in the mass market segment, gradually replacing halogen bulb technology. Hella itself anticipates that LEDs will increase from around 8% in 2017 (around 7.4 million units) to 52% by 2025[1], a growth rate of 23% (CAGR). In addition, Hella is well placed in the lighting electronics business which aims to create a superior lighting experience for both the driver and its surroundings. This is also an important safety consideration and will be a further growth driver.

While currently a smaller business than Lighting, Hella's Electronics business manufactures products that will likely be incorporated in electrified, autonomous vehicles. These include DC/DC converters (found on mild hybrids and ICE) and radar sensors, camera software and control units (found in autonomous vehicles in conjunction with LIDAR). While we believe Hella's portfolio is less comprehensive than peer companies such as Valeo and Continental, the company is nevertheless positively exposed to trends in these areas.

Sizeable aftermarket activities

In FY2016/17, Hella generated about 18% of its group revenues from its Aftermarket segment. In conjunction with its smaller Special Applications business, this means that almost 24% of group revenues originate from end markets which are both more stable and less cyclical than the global automotive original equipment industry. We view this diversification positively because it should lead to more stable cash flow generation over time and lowers exposure to individual customers. Furthermore, Aftermarket activities tend to be more profitable and therefore provide the group with a degree of resilience in the event of a cyclical downturn for automotive production.

Generally strong credit metrics for the existing rating in terms of leverage and coverage, albeit minimal FCF

The group's key credit metrics achieved during FY2016/17 compared favourably to our expectations for the current rating. Most notably, leverage (debt / EBITDA, as adjusted by Moody's) was 2.1.x, but 1.7x pro-forma of the repayment of Hella's €300 million bond maturing in September and thus somewhat lower than the 2-2.5x expected for the current rating. In addition, profitability as measured by EBIT margins, remains low, albeit in-line with the overall industry and similarly in-line with our expectations of between 5% and 9%. These numbers are also a reflection of a strong and relatively long lasting cyclical upswing, which might not be sustainable over the long turn. While FCF remained negative due to a period of elevated capital expenditure, we would expect Hella to generate positive

FCF over the next 2-3 years driven by our expectation of capex, R&D spend and working capital revert to more normalized levels. This would support our consideration of moving its ratings upwards.

Conservative financial policy

We believe that Hella has a relatively conservative financial policy which reflects a combination of its: (a) high cash balance; and (b) limited dividend payout compared to some peers. As of the last reporting date (end February 2017), Hella held a cash (and equivalents) balance of around €1.1 billion, most of which we understand is unrestricted. As a consequence of this position, there remains a significant gap between Moody's debt / EBITDA metric (of 1.7x pro-forma, as mentioned above) and net debt / EBITDA of 0.8x. Our industry methodology includes a combination of gross and net debt related financial metrics, and we also positively reflect the group's relatively high cash balance in our liquidity analysis.

In line with Hella's dividend policy, which targets a pay-out ratio of about 30% of consolidated earnings (after minority interests), we continue to view Hella's financial policy as reasonably conservative supported by the adequacy of the group's liquidity position, a balanced debt maturity profile as well as the family owners' cautious philosophy of capital retention. The current rating assumes that Hella will maintain this conservative and predictable approach with a strong focus on organic growth.

Exposure to the cyclicality of global automotive production

Hella, like most global auto suppliers, has a strong reliance on the production rates of light vehicles by the various OEMs. In 2016, the global production of passenger cars increased by around 5% to reach 93 million cars (according to Moody's data). While the developed markets of Europe and North America grew by a more muted 3% and 2% respectively, growth in Asia was notably higher. In particular, production in China grew by 14% and India by around 11% (according to Moody's data).

Exhibit 3

Global automotive production increased by almost 5% in 2016 driven by China and India

	2015	2016	Growth
Europe	21	22	2.9%
North America	18	18	1.7%
Brazil	2	2	-8.7%
Japan	9	9	-1.1%
China	24	27	14.3%
India	4	4	10.5%
Others	12	12	-0.9%
Total	**89**	**93.0**	**4.8%**

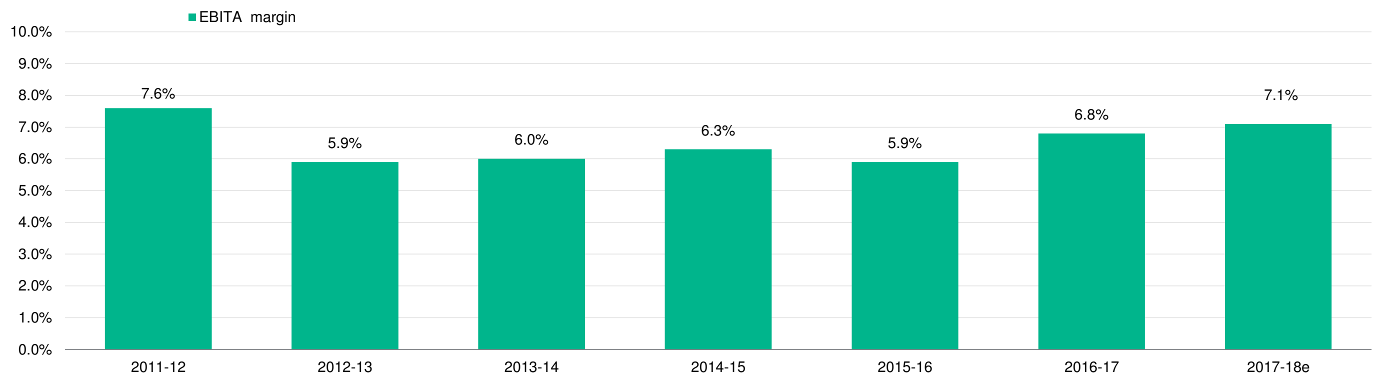
Source: Moody's Investors Service; IHS Automotive

As a consequence of this speed of growth, Hella (along with many of the other automotive suppliers) is looking to increase its exposure to Asian customers. While in our industry sector outlook (published in December 2016) we estimated that light vehicle sales will grow by 1.1% in 2017 - somewhat weaker than what the industry delivered in 2016 - we expected China and Japan to grow above the global average. In contrast, we anticipated that Western Europe and the United States may decline by 0.6% and 0.4% respectively (for 2017).

Only average profitability within the automotive supplier industry

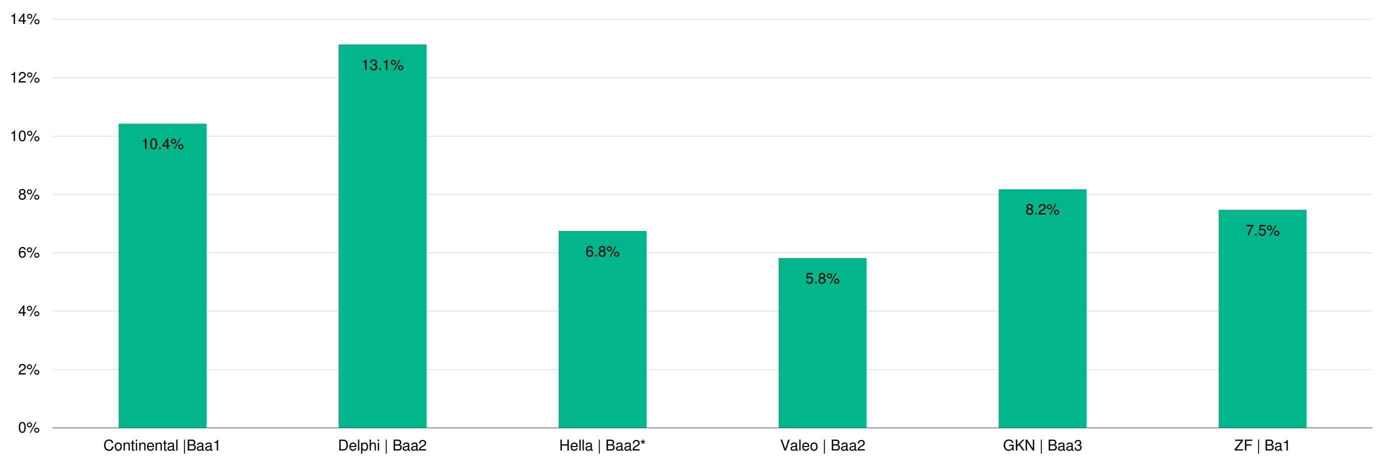
Despite the continued strong growth over the last couple of years and a strong product offering Hella's profitability is only average with EBITA margins of around 6% and only recently improving towards 7%. The company's products include leading lighting technology and electronics including 24GHz and 77Ghz radar systems and camera software for automotive safety, DC/DC converters for hybrids and ICE as well as remote locking systems.

Exhibit 4
Hella's EBITA margin development since FY12 -FY17 and next 12 months expectation



Source: Moody's Investors Service

Exhibit 5
Hella's EBITA margin compared with its peers

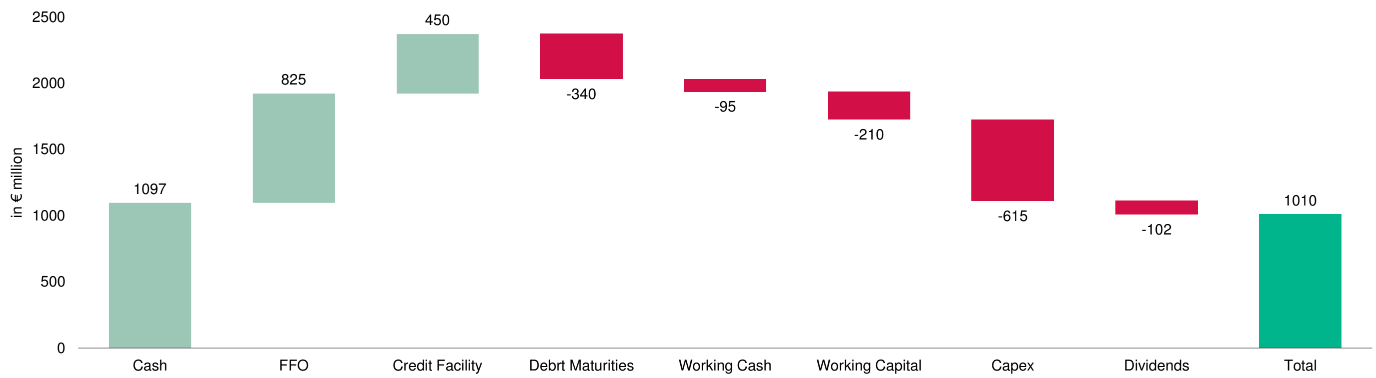


*Hella's LTM financials as of FY ended 31 May 2017
Source: Moody's Investors Service

Liquidity Analysis

As of February 2017, Hella's liquidity position is good and consists primarily of around €1.1 billion in cash and cash equivalents (including marketable securities), as well as an undrawn €450 million long-term credit facility, extended until June 2020. Together with funds from operations, which we estimate to exceed €800 million, Hella's sources of liquidity for the next twelve months exceed €1.9 billion. Furthermore, these funds amply exceed expected needs over the next 12 months despite the repayment of its €300 million bond in September 2017.

Exhibit 6
Hella has good liquidity underpinned by a high cash balance and healthy operating cash generation



*Working cash is 3% of revenue, a Moody's standard adjustment
Source: Moody's Investors Service

Profile

Headquartered in Lippstadt, Germany, Hella KGaA Hueck & Co. (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 76% of group revenue in fiscal year 2016/17 (31 May). About 18% 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.

The group generates annual revenues of around €6.6 billion. Since November 2014 Hella is publicly listed with a free float of currently 40%. The majority of shares is still held by members of the founder's family, which committed themselves to retain a minimum stake of 60% for a period of ten years starting at the IPO.

Rating Methodology and Scorecard Factors

Applying both historical and forward looking credit metrics, the grid-indicated rating from the Global Auto Supplier Industry rating methodology is Baa2. This is in-line with the assigned rating.

Exhibit 7

Scoring of Hella under the Global Auto Supplier Industry Methodology

Automotive Supplier Industry Grid [1][2]	Current FY 5/31/2017		Moody's 12-18 Month Forward View As of 8/31/2017 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$7.2	Baa	$7.5 - $7.7	Baa
Factor 2 : Competitive Position (10%)				
a) Competitive Position	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Cash Flow (25%)				
a) EBITA Margin	6.8%	B	7% - 7.5%	B
b) FCF Through the Business Cycle	Baa	Baa	Baa	Baa
Factor 4 : Financial Policy (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 5 : Coverage and Leverage (35%)				
a) EBITA / Interest	9.8x	A	10.5x - 12x	Aa
b) Retained Cash Flow / Net Debt	109.5%	Aaa	105% - 120%	Aaa
c) Debt / EBITDA	2.1x	Baa	1.5x - 1.7x	Baa
d) Capital Structure: Net Debt / Net Capitalization	23.3%	A	18% - 22%	A
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

1 All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
2 As of 5/31/2017(L); Source: Moody's Financial Metrics™
3 This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
HELLA KGAA HUECK & CO.	
Outlook	Positive
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility -Dom Curr	Baa2
Senior Unsecured	Baa2
ST Issuer Rating	P-2
HELLA FINANCE INTERNATIONAL B.V.	
Outlook	No Outlook
Bkd Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

Endnotes

1 Strategy Analytics, Aug. 2017

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