EULER HERMES

Rating Rationale

Rating of 24 September 2012	
Company Rating:	**BBB-**
Outlook:	**Stable**

Subject of rating:

SAF-HOLLAND S.A. develops, produces and markets axle and suspension systems, tractor and trailer couplings, kingpins and landing gear for the truck and trailer industry. Its core markets are Europe and North America. With over 3,000 employees, the company generated sales of € 831 million in 2011.

Strengths:

- Large market share in Europe and North America
- Established business relations with OEMs
- Comprehensive network of service stations in core markets

Weaknesses:

- Exposure to the cyclical commercial vehicle industry
- High proportion of intangible assets
- Low proportion of BRIC sales

Opportunities:

- Growth prospects due to growing road haulage volumes and heightened statutory safety requirements
- Expansion of *Aftermarket* business
- Rising quality requirements in emerging markets

Threats:

- Economic slowdown
- Competitive and price pressure
- Rising commodity prices
- Rising interest levels

Euler Hermes Rating has assigned SAF-HOLLAND S.A. a BBB- rating for its creditworthiness and future outlook. We expect the rating assessment to remain stable over the next twelve months.

The rating is mainly based on SAF-HOLLAND's strong market position in Europe and North America, the growing stability of its earnings thanks to expanding spare parts and service business, the favourable capital structure following the issue of fresh equity and its financial flexibility. With its global production capabilities and extensive service network, SAF-HOLLAND S.A. has been able to reinforce and broaden its good market position in the *Trailer Systems* and *Powered Vehicle Systems* segments. The growth in new orders is being accompanied by mounting market penetration, simultaneously forming the basis for expansion in less cyclical aftermarket business, which is characterised by wider margins.

We see opportunities in the prospects for growth as well as the increase in global transportation volumes and particularly via expanding service business. In this connection, SAF-HOLLAND is seeking to stand apart more distinctly from the competition by means of innovations and regional technology transfers in response to mounting price and competitive pressure in the sector, to improve established relations with OEMs and final customers and to reinforce its long-term profitability. SAF-HOLLAND S.A. currently sees particular potential for innovating in the area of weight reduction and the integration of electronics components.

Aside from its exposure to the cyclical commercial vehicle sector, we consider the main threats to the company to lie in the large proportion of intangible assets which it has on its balance sheet and the low real net output ratio in the *Trailer Systems* segment. Only insufficient use can be made of the growth potential offered by the BRIC nations at the moment due to the small contributions which these markets make to the company's top line.

Threats include heavy cyclical exposure, increases in commodity and energy prices, currency fluctuations, the mounting price and innovation pressure being exerted by OEMs, heightened competition and growing shortfalls in the sourcing of materials.

Key financials*	2009	2010	2011
EBITDA margin	3.4	8.4	8.5
Return on capital employed (ROCE)	-2.1	10.4	15.9
Equity ratio	-5.5	-5.2	31.6
Gearing	107.8	107.6	53.2
Total liabilities / EBITDA	29.4	8.4	4.5
Net financial liabilities / EBITDA	21.0	5.9	2.4
EBIT interest coverage	-0.3	1.1	2.6
EBITDA interest coverage	0.7	1.9	3.7

* adjusted in accordance with EHRG's analysis principles.

Company

SAF-HOLLAND S.A. (SAF-HOLLAND) specialises in developing, producing and marketing high-quality systems and components for tractors (*Powered Vehicle Systems*) and trailers (*Trailer Systems*). In addition, its activities include related service and spare-parts business (*Aftermarket*). In 2011, the company generated consolidated sales of € 831.3 million with an average of 3,107 employees in the *Powered Vehicle Systems* (18.5 % of sales), *Trailer Systems* (56.9% of sales) and *Aftermarket* (24.6 % of sales) segments. SAF-HOLLAND has approximately 9,000 service stations around the world and a total of 16 production facilities including in the United States, Canada, Germany, Australia, China and India. Its most important sell-side markets are Europe, which contributes 54% to sales, and North America with 41% of sales.

In the *Trailer Systems* segment, SAF-HOLLAND S.A. holds a leading market position in axle and suspension systems, landing gear and kingpins. It supplies major customers such as Krone and Kögel as well as numerous smaller regional operators and producers of special-purpose vehicles. The *Trailer Systems* segment reported sales of € 472.8 million and adjusted EBIT of € 14.8 million (EBIT margin of 3.1%) in 2011. Local competitors in axle and suspension system business include BPW in Europe, Hendrickson in North America and FUWA in China.

The *Powered Vehicle Systems* segment reported sales of € 154.0 million and adjusted EBIT of € 14.2 million (EBIT margin of 9.2%) in 2011. In contrast to the *Trailer Systems* segment, the *Powered Vehicle Systems* segment is characterised by a greater sell-side concentration and the dominant position of the OEMs over the suppliers. The largest customers in this segment are Paccar, Oshkosh, Daimler, Volvo and Navistar. The main global competitor is Jost, whereas at the local level Fontaine in North America and FUWA in China play a particularly dominant role.

SAF-HOLLAND's *Aftermarket* segment is responsible for supplying the transport industry with spare parts. The customer structure is heavily fragmented, ranging from final customers (fleet operators) to spare parts traders and garages. A very dense service network has been established in the core markets of Europe and North America and is substantially broader than those of its competitors. The *Aftermarket* segment reported sales of € 204.5 million and adjusted EBIT of € 32.1 million (EBIT margin of 15.7%) in 2011.

SAF-HOLLAND S.A. was established on 21 December 2005 following the merger of the SAF Group and the HOLLAND Group. Venture capital company Pamplona Capital Partners had bought shares in both companies and initiated the merger. The SAF Group (Sauer Achsenfabrik) has its roots in a plough forge established in Keilberg in 1881. In 1950, SAF embarked on the industrial production of axles for the commercial vehicle industry. The HOLLAND Group's roots go back to a US producer of safety couplings established in 1910. In the wake of mounting industrialisation, it was renamed The HOLLAND Hitch Company and shifted its focus to coupling systems for heavy-duty commercial vehicles. The organisational merger of the two subgroups SAF and HOLLAND was completed in 2007. Further milestones in the company's history include the use of disc brake technology in trailers and the acquisition of a European producer of coupling products (Georg Fischer Verkehrstechnik) and a US producer of lading gear (Austin-Westran) in 2008.

SAF-HOLLAND S.A. has been listed on the stock market since 2007 and included in the SDAX since 2010. The stock is mostly free float. The members of the Management Board and the Board of Directors currently hold around 5.7% of the company's stock. The Management Board currently comprises Mr. Detlef Borghardt (CEO), Mr. Wilfried Trepels (CFO) and the heads of the three business units *Powered Vehicle Systems* (Mr. Jack Gisinger), *Trailer Systems* (Mr. Steffen Schewerda) and *Aftermarket* (Mr. Alexander Geis).

Earning power and profitability

Contrary to the company's consolidated financial statements, our analysis includes income from the disposal of assets (2010-2011), income from the deconsolidation of SAF-HOLLAND Slovakia (2010) and the reversal of impairments on intangible assets (2010-2011) as extraordinary items. Restructuring expense (2009-2011) and impairments of goodwill and intangible assets (2009) are also included in extraordinary expense.

Structural income statement*	**2009**		**2010**		**2011**		**Change over previous year (%)**	
	T€	**%**	**T€**	**%**	**T€**	**%**	**2010**	**2011**
Sales	419,618	*100.0*	631,053	*100.0*	831,317	*100.0*	50.4	31.7
Total revenues	419,618	*100.0*	631,053	*100.0*	831,317	*100.0*	50.4	31.7
Cost of materials	256,270	*61.1*	407,620	*64.6*	551,497	*66.3*	59.1	35.3
Gross profit	163,348	*38.9*	223,433	*35.4*	279,820	*33.7*	36.8	25.2
Other operating income	1,226	*0.3*	1,136	*0.2*	768	*0.1*	-7.3	-32.4
Personnel expenses	93,071	*22.2*	121,397	*19.2*	148,291	*17.8*	30.4	22.2
Other operating expenses	57,292	*13.7*	50,503	*8.0*	61,973	7.5	-11.8	22.7
EBITDA	14,211	*3.4*	52,669	*8.3*	70,324	*8.5*	270.6	33.5
Depreciation/amortisation	20,121	*4.8*	22,808	*3.6*	20,676	*2.5*	13.4	-9.3
EBIT	-5,910	*-1.4*	29,861	4.7	49,648	*6.0*	-605.3	66.3
Net finance expense	-26,230	*-6.3*	-35,046	*-5.6*	-23,060	*-2.8*	33.6	-34.2
Of which interest expenditure	*21,388*	5.1	*28,053*	4.4	*19,009*	2.3	*31.2*	*-32.2*
Profit/loss from ordinary business activities	-32,140	*-7.7*	-5,185	*-0.8*	26,588	*3.2*	-83.9	-612.8
Extraordinary result	-23,803	*-5.7*	1,043	*0.2*	322	*0.0*	-104.4	-69.1
Earnings before taxes (EBT)	-55,943	*-13.3*	-4,142	*-0.7*	26,910	*3.2*	-92.6	-749.7
Consolidated net profit for the year	-48,913	*-11.7*	-8,310	*-1.3*	26,802	*3.2*	-83.0	-422.5

* The income statement was derived from the reported cost-of-sales method.

In the wake of the financial and economic crisis, consolidated sales tumbled by 47.5% in 2009 due to a combination of a sharp decline in demand and high inventories in the commercial vehicle industry. Of this decline, the *Trailer Systems* segment accounted for over 90%. In response to the negative experience gained with high inventories, requirements-oriented production has been increasingly implemented in the following years (see capital structure and debt). In 2010, SAF-HOLLAND benefited from the economic recovery as well as the substantial effects of unleashed pent-up demand in the transport industry. This was reflected in correspondingly dynamic sales, which grew by 50.4% at the group level in that year.

Following its favourable performance in 2010, SAF-HOLLAND posted a further 31.7% increase in sales to € 831.3 million in 2011. This growth was chiefly underpinned by the *Trailer Systems* segment, whose sales widened by 46.5% to € 472.8 million. In addition, the *Powered Vehicle Systems* segment reported a 20.8% increase in sales to € 154.0 million, benefiting from its strong competitive position in the North American market for coupling products. Sales in the *Aftermarket* segment rose by 13.2% to € 204.5 million particularly in the wake of the growing market penetration of the group's products, extensions to the dealer network and new logistics centres. The proportion of consolidated sales by segment was as follows in 2011: *Trailer Systems* 56.9 % (2009: 41.7 %; 2010: 51.1 %), *Powered Vehicle Systems* 18.5 % (2009: 23.4 %; 2010: 20.2 %) and *Aftermarket* 24.6 % (2009: 34.8 %, 2010: 28.6 %).

Regionally, the increase in sales was chiefly underpinned by growth in the core markets of Europe and North America. In *Europe*, sales rose by 46.6% before currency conversion to € 456.5 million. Accounting for 53.8% (previous year 49.4%) of total sales, Europe is SAF-HOLLAND's largest market. Sales in *North America* climbed by 24.8% to € 348.5 million in 2011, contributing 41.0% (previous year 44.2%) of total sales. *Other countries*, which include the BRIC nations, achieved a 9.6% increase in sales to € 44.4 million. However, the share in total sales contracted to 5.2% (previous year 6.4%).

With respect to the customer structure, the largest customer accounted for around 6.1% of total sales last year, with the ten largest customers contributing around 38%. However, this sales dependence must be seen in the light of what in some cases is the final customer's extensive right to influence the selection of components for a trailer.

Throughout the entire analysed period, gross profit did not grow as quickly as sales. Accordingly, the gross margin narrowed by a total of 520 basis points between 2009 and 2011 to 33.7%. This trend was due partly to rising commodity prices (e.g. steel) and partly to the shift in sales in favour of the *Trailer* segment. With its low real net output ratio, the *Trailer Systems* segment generates relatively small margins, meaning that the dynamic growth of this segment in 2010 (+87%) and 2011 (+47%) has increasingly exerted pressure on the gross profit at the group level. By the same token, the disproportionately strong growth in the *Trailer Systems* segment indicates growing market penetration of the group's products, resulting in heightened future demand for spare parts (*Aftermarket* segment)

With respect to the supplier structure in 2011, almost one third of the total cost of materials can be attributed to the main suppliers in Europe and North America. For this reason, we see a certain degree of dependency on key suppliers particularly for brake and bearing systems. In this connection, fluctuations in commodity prices can be passed on to customers with a delay of around six months.

Personnel expenses were reduced substantially in 2009 in response to the financial crisis via layoffs, reduced working hours and management salary waivers. In the wake of the dynamic economic recovery in the ensuing years, personnel expenses rose by a disproportionately low 22.2% to a total of € 148.3 million. The personnel expense ratio has contracted to 17.8% thanks to ongoing measures aimed at boosting efficiency and productivity as well as economies of scale. The business-induced increase in other operating expenses was also disproportionately small compared with sales, causing the corresponding ratio to contract to 7.5%. Adjusted EBIT rose last year by 66.3% to € 49.6 million, with the EBIT margin of 6.0 % above the figure for the previous year and for 2009 (-1.4%) and 2008 (3.2%). This favourable earnings performance was particularly underpinned by the *Trailer Systems* and *Aftermarket* segments. The *Trailer Systems* segment contributed adjusted EBIT of € 14.8 million (previous year loss of € 9.0 million at the EBIT level) and the *Aftermarket* segment € 32.1 million (previous year € 22.4 million). The adjusted EBIT margins widened to 3.1% (previous year -2.8%) and 15.7% (previous year. 14.3%), respectively. On the other hand, the adjusted EBIT reported by the *Power Vehicle Systems* segment fell short of the previous year's high figure of € 22.4 million, dropping back to € 14.2 million. The background to this was the completion of a major contract with wide margins worth around US$ 40 million p.a., which had inflated the previous year's operating margin. With the expiry of this contract, the EBIT margin in the *Power Vehicle Systems* segment shrank from 17.6% to 9.6%.

Interest expense on interest-bearing loans and other borrowings was lowered due to a € 140 million cut in financial liabilities (see capital structure and debt) and a reduction in the interest margin of around 170 basis points. In addition, net finance expense dropped to a total of € 23.0 million due to unrealised currency gains on foreign-currency bods. Earnings before tax came to € 26.9 million, reversing the previous year's pretax loss of € 4.1 million. The extraordinary loss incurred in 2009 was due predominantly to heightened impairment expense of € 16.9 million following impairment testing. Impairments were recognised on the "SAF", "HOLLAND" and "Trilex" brands in 2007 in response to less favourable sales and earnings forecasts as a result of the financial crisis. The recovery in demand arising in the following years led to small reversals of the previously recognised impairments.

In the first half of the current year, SAF-HOLLAND S.A.'s consolidated sales were up 5.4% over the previous year, rising to € 440.3 million. Sales in the *Trailer Systems* segment rose by 0.4% to € 242.8 million, underpinned by rising demand for suspension systems in North America among other things. The *Powered Vehicle Systems* segment achieved a 10.7% increase in sales to € 81.7 million, thus more than making up for the expiry of the major contract in the previous year. The steady increase in market penetration additionally caused sales in the *Aftermarket* segment to climb by 13.2% to € 115.9 million. Consolidated EBIT contracted by 3.7% to € 28.9 million, with the EBIT margin coming to 5.6 % and thus falling short of the figure for the same period of the previous year (6.4%) and for 2011 as a whole (6.2%). This contraction is due almost solely to the major contract in the *Powered Vehicle Systems* segment, which was completed in the third quarter of 2011 and had generated wide margins. Consequently, the adjusted EBIT margin in this segment shrank from 10.3% to 8.4%. The adjusted EBIT margin in the *Trailer Systems* segment remained stable at 3.2% despite the higher cost of materials. The adjusted EBIT margin in the *Aftermarket* segment contracted slightly from 16.2% to 14.3% due to expansion spending.

SAF-HOLLAND S.A.'s earning power and profitability improved in 2011 and can considered to be highly satisfactory. In addition to the favourable market conditions for the company, this positive performance is also the result of more flexible production activities and the growing importance of spare parts business. This business segment is characterised by weaker cyclicity and particularly also by wider operating margins, resulting in generally more stable profitability.

Capital structure and debt

Contrary to the consolidated financial statements, we have netted deferred income tax assets with deferred income tax liabilities (2009-2011) for the purposes of our analysis. In addition, we have reduced the value of the intangible assets by 25% for reasons of caution and lowered the reported equity accordingly (2009-2011).

Structural balance sheet	31.12.2009		31.12.2010		31.12.2011		Change over previous year (%)	
	T€	%	T€	%	T€	%	2010	2011
Assets	395,937	*100.0*	418,574	*100.0*	461,547	*100.0*	5.7	10.3
Non-current assets	255,935	*64.6*	252,518	*60.3*	252,848	*54.8*	-1.3	0.1
of which intangible assets	*136,426*	*34.5*	*140,030*	*33.5*	*138,992*	*30.1*	*2.6*	*-0.7*
Current assets	140,002	*35.4*	166,056	*39.7*	208,699	*45.2*	18.6	25.7
of which inventories	55,508	*14.0*	68,082	16.3	90,400	*19.6*	22.7	32.8
of which trade receivables	57,210	*14.4*	80,336	*19.2*	95,352	*20.7*	40.4	18.7
of which cash and cash equivalents	20,742	*5.2*	8,546	*2.0*	15,345	*3.3*	-58.8	79.6
Equity and liabilities	395,937	*100.0*	418,574	*100.0*	461,547	*100.0*	5.7	10.3
Equity	-21,720	*-5.5*	-21,750	*-5.2*	145,901	31.6	0.1	-770.8
Non-current liabilities	348,046	*87.9*	343,003	*81.9*	191,260	*41.4*	-1.4	-44.2
Current liabilities	69,610	*17.6*	97,321	*23.3*	124,386	26.9	39.8	27.8
Financial liabilities	*319,543*	*80.7*	*316,604*	*75.6*	*180,907*	*39.2*	*-0.9*	*-42.9*

During the period covered by the analysis, adjusted total assets rose to € 461.6 million, chiefly as a result of increased business activities. In terms of the structure of the company's assets, the proportion of current assets widened for business-related reasons. The sharp rises in sales in 2010 and 2011 show up in the balance sheet in the form of higher inventories and receivables. Trade receivables increased by € 38.1 million to € 95.4 million last year. As a whole, however, current assets did not grow as quickly as sales, resulting in an improvement in days inventory outstanding as well as days sales and days payable outstanding. Accordingly, the reduction in working capital achieved by the company in the wake of the financial crisis has continued to unleash a positive effect in later years as well. In absolute terms, non-current assets remained stable between 2009 and 2011. However, as total assets simultaneously increased, their proportion contracted to 54.8% last year. Intangible assets constitute a material part of total assets, accounting for 30.1% after the analysis-related adjustment of 25%. The intangible assets chiefly comprise goodwill and customer lists acquired in connection with the "SAF" and "HOLLAND" subgroups in 2006. We assume that this item has a recoverable value after the adjustment made and in the light of the sustained favourable underlying conditions and the medium-term outlook for growth.

Adjusted economic capital widened to € 145.9 million last year due to the profit earned for the year and particularly also the issue of fresh equity in March 2011 (gross issue proceeds: € 139.4 million). This resulted in an increase of € 139.2 million in the share premium to € 245.6 million. The adjusted equity ratio widened to 31.6% thanks in particular to the repayment of the bank loan of € 143.4 million using the proceeds from the equity issue.

As a result, financial liabilities contracted by € 135.7 million to € 180.9 million in 2011. This substantial decline in financial liabilities was the main reason for the reported drop in non-current liabilities. In connection with the equity issue, an agreement was reached with the syndicate banks to adjust the existing loan arrangements last year, resulting in improved terms and more favourable interest margins. The current loan agreements expire in September 2014 and provide for credit facilities totalling € 221.5 million. The non-current liabilities also include pension provisions of € 14.8 million. In this connection, there are off-balance-sheet gaps of € 33.5 million due to interest and yield shortfalls as of 31 December 2011. With respect to current liabilities, trade payables rose by € 16.1 million to € 86.0 million due to the increase in business activities. Other non-current liabilities declined by € 4.9 million as of the reporting date.

Depending on the size of the adjustment to the intangible assets (0%, -25%, -50%), the equity ratio ranges from 24.0% to 37.9% and gearing from 46.3% to 62.5%. The scenario analysis underscores the solidity of the capital structure. Even in an extreme scenario providing for a 50% impairment, the equity ratio and gearing still exhibit good and mildly satisfactory levels, respectively.

As of 30 June 2012, SAF-HOLLAND S.A.'s non-adjusted total assets stood at € 563.8 million, equivalent to an increase of € 27.3 million over the annual financial statements for 2011. Inventories (+ € 4.4 million), trade receivables (+ € 13.3 million) and other current financial assets (+ € 2.0 million) in particular rose for business-related reasons. Cash and cash equivalents climbed by € 6.0 million to € 21.3 million. At € 207.7 million, non-adjusted equity was up on the year-end figure of € 192.2 million. Despite the increase in total assets, the reported equity ratio came to 36.8%, thus exceeding the 31 December 2011 figure (35.8%). Current and non-current liabilities rose by a total of € 11.8 million to € 131.6 million and € 224.5 million, respectively, as part of ongoing business funding. Reported current and non-current financial liabilities increased slightly by € 4.3 million.

Thanks to the equity issue and the net profits achieved over the last few years, SAF-HOLLAND S.A. exhibited a good capital structure as of the end of the analysed period. This capital structure still has satisfactory levels even in a scenario in which heavy adjustments are made to intangible assets. Degearing potential and Interest coverage ratios were generally satisfactory. In this connection, it should be noted that the interest coverage ratios came under additional pressure last year as a result of an increased debt capital base during the year.

Internal funding potential and financial flexibility

Cash flow (T€)	2009	2010	2011
Cash flow from operating activities	48,261	39,438	41,098
Cash flow from investing activities	-7,460	-7,177	-12,109
Free cash flow (total)	40,801	32,261	28,989
Cash flow from financing activities	-28,422	-45,312	-22,344

Cash flow from operating activities was buoyed by non-recurring effects from the reduction in working capital, among other things, in 2009 but normalised in the following years, improving only marginally last year. In this connection, the improved earning power was almost completely negated by an increase in working capital for business-related reasons. The cash flow from investing activities increased in 2011 due to heightened replacement and extension spending, which put an end to the reticence of the previous years. A net cash outflow arose from financing activities due to the equity issue net of the simultaneous repayment of current and non-current bank liabilities.

SAF-HOLLAND S.A. has syndicated loans and facilities of € 221.5 million available to it; of these, a sum of € 178.3 million had been utilised as of 30 June 2012. In this connection, it should be noted that semi-annual repayments of € 5.8 million each are due in May and November. These loan agreements expire on 30 September 2014. As of the end of June, unused facilities of € 42.3 million were available. Including cash and cash equivalents, total liquidity stood at around € 64 million as of 30 June 2012. In addition, the company is able to utilise a factoring facility of € 20 million. Given the existing facilities and liquidity, SAF-HOLLAND currently exhibits good financial flexibility.

The company's internal funding potential improved slightly last year thanks to wider operating margins. The facilities available to the company and the cash held in addition to the strategic liquidity reserve provide good financial flexibility. In addition, improved terms and conditions have been secured for the medium term following the renewal of the funding agreements with the syndicate banks.

Market conditions

The business performance of suppliers of components and parts for heavy-duty tractors and trailers is primarily dependent on the production and call-down volumes of OEMs, fleet operators, garage and spare parts dealers. This, in turn, generally hinges on underlying economic conditions in the target markets, particularly demand for road haulage and infrastructure development. Specifically, demand is also influenced by the financing possibilities available (leasing) and the individual preferences of the final customers (e.g. fleet managers). Moreover, exhaust and safety standards, fuel consumption, the life cycle of tractors and trailers and the resultant potential for the secondary market and spare parts business also play a role. The market is characterised by oligopolistic competition. A small number of players mostly specialising in a core product address niches with highly regional product characteristics tailored to the needs of individual OEMs/final customers.

There was a massive slump in production volumes in the global commercial vehicle industry in 2009 in particular in the wake of the financial and economic crisis. Heavy-duty tractors and trailers were particularly hit by a sharp drop in transportation volumes and spending restraint. In addition, OEMs and dealers held above-average inventories. However, in the course of time, demand rebounded swiftly in the main markets of North America (2010: +14.5%; 2011: +30.0%) and Europe (2010: +42.9 %; 2011: +21.6 %) particularly as a result of the effects of unleashed pent-up demand. As production volumes of tractors and trailers largely correlate, both product groups benefit from this trend in equal measure.

Following the recovery in the global economy, the IMF now forecasts slower global economic growth for 2012 in its latest outlook (June 2012) for 2012. Contraction is expected for the euro zone (2011: 1.5%; 2012: -0.3%; 2013: 0.7%). In the first half of the year, the economy of the European Union shrank (EU27: BIP -0.1%, Eurostat). The economic uncertainty moving forward as a result of the European debt and confidence crisis is currently placing a damper on capital spending. The IMF is more optimistic in its growth forecast for the United States (2011: 1.7%; 2012: 2.0%; 2013: 2.3%). The main risks here arise from the absence of a viable plan for US budget consolidation.

We expect a slight decline in production figures in the European commercial vehicle industry in 2012. On the other hand, the Northern American markets should continue to grow in 2012, spurred by the ongoing effects of unleashed pent-up demand and a generally more upbeat economic outlook.

Production of middle/heavy commercial vehicles (in thousands of units)	Act. 2011	FC 2012	Change over previous year (%)	2013e	2014e	2015e	2016e	2017e	2018e	CAGR (%) 2011-2018
Europe	645	621	-3.7	718	782	791	844	903	950	5.7
North America	453	508	12.1	550	583	613	588	572	632	4.9
South America	282	205	-27.6	250	269	267	263	273	283	0.1
Asia	2,193	2,192	0.0	2,359	2,359	2,502	2,501	2,615	2,653	2.8
Rest of the world	3	4	3.2	4	4	4	4	3	4	0.5
Total	3,577	3,530	-1.3	3,880	3,997	4,177	4,200	4,366	4,523	3.4

Source: IHS Automotive, August 2012

In the medium to long term, we expect sales volumes to rise in all regions. The increase in road haulage volumes, exports of commercial vehicles to growth regions, the effects of unleashed pent-up demand and heightened replacement spending in response to the introduction of more stringent emission rules (e.g. EPA 10 in the United States, Euro 6 in the EU) should generate a CAGR of 5.7% and 4.9% in the European and Northern American markets, respectively, moving forward to 2018. Production volumes in the countries of South America and Asia should also increase as a result of the relocation of commercial vehicle production, extensions to infrastructure and a sharp rise in transport volumes (consumer goods and commodities).

The future global business environment for suppliers of components for tractors and trailers is particularly dependent on a global increase in (road) haulage volumes. In this connection, the availability of funding and fleet operators' expectations of high-quality product characteristics play a key role. Both groups pay particular attention to stable values and optimised total cost of ownership, with these aspects also influencing the appeal of the secondary market for used tractors and trailers. In this connection, we particularly see opportunities for suppliers holding a large share of the market and with an established market presence. Established distribution channels to OEMs are important in this respect as a means of distributing components to as broad a base of final vehicles as possible, followed in a second step by a dense distribution and service network in order to participate in after-sales spare parts business. In our view, ongoing product innovation and sector standards make a key contribution to reinforcing market presence. We consider innovative sector trends to include weight reduction (materials, design), reduced maintenance requirements, robust handling, modular structures (e.g. axles and braking systems), standardisation (e.g. wheel connections), automatic systems (e.g. for trailer couplings, landing gearing) and heightened safety. Moreover, suppliers of high-quality components have an opportunity of developing product characteristics giving them a competitive edge due, among other things, to the growing structural complexity of the products and rising demands of just-in-time delivery and quality. Geographically diversified suppliers (following OEMs) with a product range tailored to different target markets (e.g. the growing logistics markets in India and China) have an advantage in our view.

Market risks particularly arise from the economic uncertainties in the core European and Northern American markets. The possibility of recessionary trends spreading from crisis-afflicted countries to hitherto largely unscathed regions cannot be ruled out. In addition, there are considerable investment risks for quality and innovation leaders due to the high ratio of fixed to total assets and recurring spending on research, development and capacity extensions. The main materials used, namely steel and aluminium, are also subject to cyclical price fluctuation. In the case of particular requirements with respect to raw materials (e.g. special steels), a dependency on specialised suppliers and delivery shortfalls may occur. In addition, we generally expect a steady increase in pressure on prices in the components industry as a result of partnerships and mounting concentration as well as changes in price structures and sell-side market behaviour.

After the sharp gains in 2010/2011, the economic environment for suppliers of components for tractors and trailers is characterised by stable (North America) to declining (Europe) levels in 2012. With the global increase in transport volumes, we generally see positive market potential in the medium to long term. We see short-term opportunities for growth particularly with innovative and high-margin operators by

means of market displacement and market share growth. A coherent brand concept, spare parts business and efforts to address key trend such as light-weight construction, environmental concerns and safety are critical determinants of success in our view. In addition to economic uncertainty, the risks to which the sector as a whole is exposed entail heightened competition and fluctuations in commodity prices.

Strategic orientation

Business segment	Markets/customers
Trailer Systems and Powered Vehicle Systems ▪ Profitable growth thanks to expected market growth and expansion of Northern American activities. ▪ Additions to product range by means of regional technology transfers ▪ Greater differentiation via innovative materials and niche products ***Aftermarket*** ▪ Additions to distribution and service network ▪ Expansion of spare parts business ▪ Enlargement of spare parts range through the introduction of secondary brands ("Sauer Quality Parts")	▪ Market share growth in Europe and North America ▪ Expansion of market position in the BRIC nations
Organisation	**Financials**
▪ Ongoing optimisation of the production and logistics processes ▪ Increase in research and development ▪ Ongoing optimisation of the production and logistics processes ▪ Selective examination of acquisition candidates	▪ Continued top-line growth at the group level ▪ Improvement in profitability of operations ▪ Increase in equity ratio and reduction in financial liabilities and interest expense

SAF-HOLLAND is positioning itself as a leading supplier of high-quality system solutions and components for the commercial vehicle industry. With this strategic alignment, it is seeking technology and quality leadership in its core European and North American markets. In particular, it wants to defend and broaden its leading market position as a provider of high-quality products and services in the *Trailer Systems*, *Powered Vehicle Systems* and *Aftermarket* segments. For this purpose, SAF-HOLLAND coordinates a global network of subsidiaries and alliance partners to address the strategically important spare-parts and service business on a comprehensive basis and to expand it selectively. In addition, it is seeking to build up a leading market position in new product segments, particularly those which offer synergistic effects within the range as a whole or make use of opportunities arising from market consolidation or heightened regulatory requirements.

SAF-HOLLAND S.A.'s core skills in the *Trailer Systems* segment include the development of innovative axle and suspension systems as well as welding, painting and assembling. The modular structure of the axle and suspension systems allows the company to flexibly address different customer requirements and to offer special products for niche markets. Given the already very large share of the European market for axle systems which it holds, SAF-HOLLAND is to particularly make use of the opportunities for growth in North America and the BRIC nations, in which it currently has only a small share of the market and limited production capacities. The company's share of the North American market is to be widened to 30% in the medium term through the establishment of its own axle production activities and the utilisation of experience gained in Europe with the integration of axle production with disk brake technology (technology transfer). In this connection, SAF-HOLLAND wants to benefit from a structural change in the US trailer market, which will be triggered by the more stringent requirements with respect to braking performance as of 2013. This rule stipulates a 30% cut in the maximum braking distance. This requirement will spur demand for disk brakes as these offer superior braking performance and generate less heat compared with drum brakes. On the other hand, additional demand for both braking systems (drum and disk brakes) is expected as the more stringent rules are likely to result in shorter maintenance intervals. SAF-HOLLAND is well positioned to benefit from the expected structural change in North America thanks to European skills in disk brake technology and the planned extensions to production capacity in North America.

In the suspension systems market, SAF-HOLLAND has a large share of the European market but only a small share of the North American market. However, the planned launch of new suspension systems on the North American market should improve the opportunities for regional growth. Given the large share held in the core markets for kingpins and landing gear, scope for additional regional growth is primarily to be found in the BRIC nations.

Future developments in the *Trailer Systems* segment in the core European and North American markets will focus on weight reduction, heightened modularisation and the growing integration of electrical and electronic components. In addition, local development and production capacities are to be expanded, special products for niche commercial vehicle markets developed and strategic partnerships forged with international trailer OEMs.

In the *Powered Vehicle Systems* segment, SAF-HOLLAND S.A.'s core skills are defined as innovative trailer coupling and suspension systems as well as welding, painting and assembling. The market for suspension systems for tractors is dominated mainly by the large component suppliers and OEMs. SAF-HOLLAND should be able to generate additional growth impetus in the Northern American market with the launch of a newly developed suspension system. The company holds a large share of the North American market for trailer coupling systems (approx. 50%) as this is the former HOLLAND's domestic market. It should be possible to tap further scope for growth in Europe in particular by means of a regional technology transfer and extensions to SAF-HOLLAND's transport technology business.

SAF-HOLLAND S.A.'s *Aftermarket* segment boasts the world's largest service network, thus ensuring a high degree of customer proximity as a core skill. With the large network of fleet operators, garages and spare parts dealers, SAF-HOLLAND is able to arrange repairs for its customers at short notice and deliver the necessary spare parts. It has more than 9,000 service partners around the world, which gives it a lead over its competitors. With the steadily growing market penetration of SAF-HOLLAND products, demand for spare parts is expected to widen in the future. At the same time, the service network is to be extended in all key regions, resulting in a positive effect for the network. In this connection, the regional marketing activities are to be boosted and the range of training and skills development offerings broadened. In addition, the range of spare parts is to be enlarged with the introduction of "A2" secondary brands ("Sauer Quality Parts"). These parts will be particularly targeted at markets with a high proportion of tractors and trailers of an advanced age. In this way, SAF-HOLLAND wants to offer its customers spare parts which are more appropriate for the life cycle of the products. Secondary-market products are covered by the statutory guarantee rather than the substantially longer six-year guarantee offered on the company's premium products. With this secondary-brand strategy, SAF-HOLLAND is particularly seeking to address the markets of the Middle East to benefit from the later life cycle phase of the products in use there and to avert potential substitution risks. Expansion of the relatively stable aftermarket business with its wide margins is the most important factor in the company's efforts to boost the gross margin at the group level and to reduce exposure to cyclical fluctuation.

In addition to widening its share of the market in Europe and North America, SAF-HOLLAND also wants to strengthen its position in the BRIC nations. To this end, it wants to tailor its range more closely to the less stringent quality and safety requirements of these markets in order to serve current demand in these countries more effectively and to secure the option of growing with these markets as quality expectations rise. In this connection, it particularly plans to improve the local range of drum brake systems. However, given the intense competition in the BRIC nations, we are sceptical as to whether the expansion plans in these countries will be successful in the medium term.

SAF-HOLLAND is structured as a matrix organisation with three business segments at the product level and central corporate functions at the functional level, all of which report to Mr. Detlef Borghardt. At the level of the three business segments *Trailer Systems*, *Powered Vehicle Systems* and *Aftermarket* global responsibilities such as purchasing, marketing, production, logistics etc., are pooled, with the responsible manager holding full earnings responsibility. The delineation of these business segments aims to achieve a strong product focus and customer-centric approach, while rendering swift and flexible decisions possible. The structure will additionally favour the planned technology transfer, i.e. the transfer of proven regional product characteristics and innovations to other geographic markets. In this connection, the fact that the segment heads also sit on the management board is of crucial importance. Mr. Wilfried Trepels is responsible for key overarching functions including accounts and particularly also human resources in Europe and North America.

SAF-HOLLAND has a strong international orientation with a total of 16 production facilities including in the United States, Canada, Germany, Australia, China and India. It has scope for adjusting production capacities via working hour accounts and the deployment of temporary and loan staff (approx. 20% of total employees) among other things. With its vertical integration and low real net output ratio, SAF-HOLLAND S.A. is flexible enough to respond to fluctuations in demand. In our view, mounting risks are being posed by difficulties in recruiting skilled staff and growing fluctuation in Germany.

In our view, SAF-HOLLAND S.A. has a systematic strategy differentiated by product segment and region which takes due allowance of the opportunities and risks arising in the market environment, its own market position and the available resources and skills. As we see it, opportunities are arising from the growing importance of spare parts business, mounting sell-side potential in all regional markets and the ability for the company to set itself apart from the competition via innovation and a broader range of products. The risks to SAF-HOLLAND's business performance comprise the aforementioned market uncertainty as well as further increases in commodity and energy prices together with competitive pressure, possible quality problems leading to impaired customer confidence, product liability risks and development and pricing risks.

Execution of the Rating

This report is a condensed summary of the detailed rating report of 24 September 2012. The detailed rating report, which is submitted to the company and is not being published by Euler Hermes Rating Deutschland GmbH, forms the basis for the rating notation.

The rating request was submitted by SAF-HOLLAND S.A. (client) on 22 August 2012. The company was visited on 5-6 September 2012. This rating report was presented to the client on 27 September 2012, meaning that the rating process has now been concluded. The notation proposal and the report on which it was based were reviewed by the Rating Committee on 24 September 2012 and approved in their current form. If this rating is not made public, the rating assessment refers to this date. If the rating assessment is published on the rating agency's website (www.eulerhermes-rating.com), it will be followed by a subsequent one-year monitoring process. During this period, the company and the environment in which it operates remain under observation. The rated company is subject to unrestricted disclosure obligations during this period. Any change in the rating agency's assessment will result in a change in the published rating, meaning that the rating as shown on the internet represents the current rating assessment at all times. Continued publication after the expiry of the monitoring period is contingent upon a follow-up rating being conducted.

The client is solely and exclusively liable for any errors or omissions in the documents and information supplied openly and willingly in response to our requests for information. The client has reviewed the rating report and confirms that all of the information which it contains is correct and complete in all significant respects, that no major aspects have been concealed and that any forward-looking statements which it may include are based on plausible, verifiable and current data and have been prepared by the client with the diligence of a prudent businessman. However, the client cannot be held liable if actual results differ from the forward-looking statements, in particular the projections, presented in this document. Changes in the economic environment and unforeseen events may impair the validity of the forward-looking statements and projections.

The rating report may not be construed as constituting a recommendation to participate in certain facilities. All recipients of the information should conduct their own independent analyses, credit assessments and other reviews and evaluations which are customary and necessary to reach a final decision about the participation in certain facilities. It should be noted that the summaries of contracts, legislation and other documents included in the report are no replacement for examination of the corresponding full texts. As of the date on which this information is published, it is not possible to guarantee that the information has not changed since being collected and that all information provided is still valid. The client is under no obligation to update the information.

The publication of this rating report may be prohibited by law in certain jurisdictions. The client therefore requests that any persons who gain possession of this information enquire about and comply with any such restrictions. The client does not assume any liability of any kind towards anyone with respect to the dissemination of this rating report in any jurisdiction whatsoever.

The client's management has submitted to Euler Hermes Rating Deutschland GmbH a written letter of representation.

We have prepared this report to the best of our abilities and knowledge.

Euler Hermes Rating Deutschland GmbH

Hamburg, 27 September 2012

Analysts

Torsten Schellscheidt, Senior Analyst and Project Manager
Kai Gerdes, Director
Matthias Peetz, Rating Analyst

Rating Committee

Gundel Bergknecht, Senior Analyst
Holger Ludewig, Senior Analyst

Principal sources of information

- Consolidated financial statements for 2009, 2010, 2011
- Extracts from internal reports
  (e. g. business performance in 2012, analysis of bank liabilities etc.)
- Market analyses
- Strategy paper and corporate planning
- Documents on corporate structure
- Conversations with management

Rating method

Issuer rating, Company rating manual of Euler Hermes Rating Deutschland GmbH March 2012 version

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Rating Notations

category	explanation
AAA	AAA rated companies demonstrate an excellent credit quality. Such companies are characterized by an extremely positive future outlook and are viewed as being "first class" business partners. Although the various security elements can certainly change, such changes – to the extent this can be assessed - are highly unlikely to adversely affect the fundamentally strong position of such companies.
AA	AA rated companies demonstrate very high quality with respect to future security. Along with the AAA rated companies, this group forms the socalled "quality class." Security margins may, however, be comparatively thinner, the solidity of the security elements may fluctuate more or individual assessment components may indicate a greater long-term risk than is the case for AAA rated companies.
A	A rated companies demonstrate high quality with respect to future security. They show many favourable features which secure their future. Nevertheless, there may be isolated factors which reveal a slightly in-creased susceptibility to the worsening of circum-stances and general economic conditions in the future.
BBB	BBB rated companies demonstrate reasonable quality with respect to future security. Compared to A rated companies, however, it is more likely that worsening of general economic conditions could weaken the capability of fulfilling financial obligations.
BB	BB rated companies still have structures adequate to secure their future. Yet they are subject to greater insecurities. Negative business developments or changes in the general financial and economic conditions can make it impossible for them to fulfil their financial obligations in a suitable manner.
B	B rated companies lack the usual structures to secure their future. Negative business developments or changes in the general financial and economic conditions will most likely make it impossible for them to fulfil their financial obligations in a suitable manner.
CCC	CCC rated companies have structures which greatly endanger the security of their future. Capital service is in jeopardy. Such a company is dependent on a favourable development of general economic conditions if it is to be able to meet its financial obligations in the long term.
CC	Companies receiving a CC rating have very little security for their future. Capital service is in great jeopardy.
C	C rated companies have the least future security of all. The basic conditions enabling such debtors to fulfil their financial obligations are extremely poor. Default is imminent.
D	Companies with a D rating are already in default of payment or have filed for bankruptcy. The D rating is irrelevant for the future; it documents solely the bankruptcy of the company.
SD	If an issuer defaults with respect to a certain financial liability or class of liabilities but is still able to honour its payment obligations under other financial liabilities or classes of liabilities within the requisite period, it is assigned SD (selective default) status.
NR	A debtor or an issuer not rated by Euler Hermes Rating is classified as NR (Not Rated).
PLUS (+) **MINUS (-)**	Rating notations from AA to CCC may be complemented by a PLUS (+) or MINUS (-) if required, in order to show their relative position within the respective rating category.