SAF-HOLLAND SE

Federal Republic of Germany, Automotive Suppliers

Issuer
BBB-

Outlook
Stable

Rating composition

Business Risk Profile		
Industry risk profile	BB	BBB-
Competitive position	BBB-	
Financial Risk Profile		
Credit metrics	BBB	BBB
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Parent/government support	+/-0 notches	
Governance & structure	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BBB-**

Key metrics

			Scope estimates	
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	6.7x	6.8	6.0x	6.5x
Scope-adjusted debt/EBITDA	2.0x	2.0x	2.1x	2.1x
Scope-adjusted funds from operations/debt	35%	32%	32%	33%
Scope-adjusted free operating cash flow (FOCF)/debt	19%	19%	16%	16%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the rating and Outlook are (individually):

- Scope-adjusted debt/EBITDA below 2x on a sustained basis, while maintaining improved free cash flow generation
- Scope-adjusted EBITDA margin above 12% on a sustained basis

The downside scenario for the rating and Outlook is (individually):

- Scope-adjusted debt/EBITDA around 3x on a sustained basis

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Related methodologies

General Corporate Rating Methodology, Feb 2025
European Automotive Suppliers Rating Methodology, Apr 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Leading market positions in oligopolistic markets for chassis-related systems and components • Resilient business model thanks to significant share of less volatile, highly profitable aftermarket business (over 30% of revenue) • Relatively low customer concentration: top 10 customers account for less than 20% of the group's combined revenues, thanks to relatively low truck original equipment manufacturer (OEM) exposure and high aftermarket exposure • Aftermarket growth from increased product population on the market • Solid geographical outreach with a local for local approach • Dominant position in the growing Indian market	• Strong exposure to the highly cyclical automotive OEM industry (trucks and trailers with over 60% of revenue), somewhat mitigated by the trailer business with different demand drivers than trucks, such as freight rates • Business risks from the current unpredictable state of global trade policy • Generally low profitability in OE business; the group needs to demonstrate its ability to maintain a Scope-adjusted EBITDA margin above 12% in booming OE periods • Lack of critical mass in the large Chinese market • Risks in connection with the recently presented M&A strategy, which suggests more intensive debt-financed M&A activity in the medium term

Credit-neutral: sovereign rating on the Federal Republic of Germany (AAA/Stable)

2. Rating Outlook

The Stable Outlook reflects the resilience of SAF-HOLLAND's business, supported by a high aftermarket share, which should help the Group withstand weaker market conditions. The Outlook further reflects our projection of Scope-adjusted debt/EBITDA at around 2.0x in 2025-26, based on our assumption that there will be no large M&A transactions in those years.

3. Corporate profile

Established in 2006 from the merger of two regional champions

Headquartered in Bessenbach (Germany), SAF-HOLLAND SE stems from the 2006 merger of two regional champions, the German Otto Sauer Achsenfabrik GmbH and the North American Holland Group Inc. It has built up a global presence and expanded its product portfolio through an active acquisition strategy, which culminated with the acquisition of the Swedish brake and suspension systems supplier Haldex AB in 2023.

SAF-HOLLAND is one of the leading suppliers to the global commercial vehicles industry. The Group develops, manufactures and supplies chassis-related assemblies and components for trailers (semi-trailers, full trailers), trucks and buses. Its product range consists of axle and suspension systems for trailers, fifth wheels for trucks, coupling systems, kingpins, landing gears, foundation brakes (e.g. disc brakes, brake adjusters for drum brakes and actuators) and air controls (e.g. compressed air dryers, anti-lock braking systems and electronic brake systems). The enlarged Group's products are marketed under the SAF, Holland, Haldex, Neway, KLL, V. Orlandi, TrailerMaster and York brands.

SAF-HOLLAND is primarily active in Europe, the Middle East and Africa (47% of 2024 revenue). It also has a solid presence in the Americas (40%), which was reinforced following the acquisition of Haldex. Asia Pacific represents around 13% of sales. The Group's manufacturing footprint includes 29 facilities across the globe. In 2024, SAF-HOLLAND generated revenue of EUR 1.9bn and Scope-adjusted EBITDA of EUR 247m (13.1% margin).

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
22 APR 2025	Outlook change	BBB-/Stable
19 APR 2024	Outlook change	BBB-/Positive
18 APR 2023	New	BBB-/Stable

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Scope-adjusted EBITDA interest cover	17.6x	6.7x	6.8x	6.0x	6.5x	7.2x
Scope-adjusted debt/EBITDA	3.5x	2.0x	2.0x	2.1x	2.1x	1.9x
Scope-adjusted funds from operations/debt	24%	35%	32%	33%	33%	37%
Scope-adjusted FOCF/debt	20%	19%	19%	16%	16%	17%
Liquidity	>200%	>200%	>200%	>200%	>200%	>200%
Scope-adjusted EBITDA						
EBITDA	150	244	252	237	248	270
less: capitalised development costs	-4	-5	-6	-6	-6	-6
add: dividends from associates	4	4	1	1	1	1
Scope-adjusted EBITDA	**150**	**243**	**247**	**231**	**242**	**264**
Scope-adjusted funds from operations						
Scope-adjusted EBITDA	150	243	247	231	242	264
less: Scope-adjusted interest	-9	-36	-36	-39	-38	-37
less: cash tax paid	-27	-59	-44	-36	-37	-43
Other non-operating charges before FFO[1]	12	20	-8	0	0	0
Scope-adjusted funds from operations (FFO)	**126**	**169**	**158**	**157**	**167**	**185**
Scope-adjusted FOCF						
Scope-adjusted FFO	126	169	158	157	167	185
Change in working capital	2	2	30	-15	-18	-23
Non-operating cash flow	13	-9	-29	0	0	0
less: capital expenditures (net)	-29	-55	-48	-47	-52	-57
less: lease amortisation	-9	-13	-17	-17	-17	-17
Scope-adjusted FOCF	**102**	**94**	**93**	**79**	**81**	**88**
Scope-adjusted net cash interest paid						
Net cash interest per cash flow statement	9	35	35	38	37	36
add: interest expenses, pensions	0	1	1	1	1	1
Scope-adjusted net cash interest paid	**9**	**36**	**36**	**39**	**38**	**37**
Scope-adjusted debt						
Reported financial (senior) debt	754	707	774	801	790	790
less: cash and cash equivalents	-243	-246	-301	-319	-301	-301
add: non-accessible cash	9	12	5	5	5	5
add: pension adjustment	4	14	10	10	10	10
Scope-adjusted debt (SaD)	**524**	**486**	**488**	**497**	**504**	**504**

[1] Disposal losses (gains) on fixed assets, non-recurring expenses (income)

6. Environmental, social and governance (ESG) profile[2]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit positive credit negative credit neutral

Automotive suppliers generally face some material ESG-related challenges

Material ESG factors relevant for the automotive supplier industry include the need to reduce the environmental impact of products and production, improve resource management (optimised use of energy and natural resources), and enhance supply chain oversight with respect to social standards and responsible sourcing. We assess these factors as credit-neutral as far as SAF-HOLLAND is concerned.

CO2-related regulation supports SAF-HOLLAND's business

Due to the CO2 emissions caused by road freight transport, the transport and logistics sector is under increasing pressure from regulatory authorities. The focus is on reducing fuel consumption, exhaust gas and brake dust emissions, as well as the mechanical stress on roads. This increases the need for weight-reduced components, which supports SAF-HOLLAND's business.

Product innovation is an important strategic pillar for SAF-HOLLAND, even if the relatively low R&D ratio (around 2% of sales) would suggest otherwise, as it ensures the group's competitiveness. So far, product innovation has concentrated on lightweight construction, which optimises the weight of trucks and trailers, thereby reducing fuel consumption and CO2 emissions. Several years ago, SAF-HOLLAND began to focus on innovations in the field of the electrification of trailer axles. The most important solutions in this area include intelligent electric recuperation systems based on integrated brake control.

We have not identified any negative governance issues. SAF-HOLLAND has a dual governance system, with a strict separation, in terms of personnel and function, between the Management Board (executive body) and the Supervisory Board (oversight body). We assess clarity and transparency as high. As a listed company, SAF-HOLLAND publishes comprehensive quarterly reports and provides additional investor information such as investor presentations.

100% of SAF-HOLLAND shares are free float. SAF-HOLLAND's stated dividend policy is to distribute 40% to 50% of the annual net profit to its shareholders. We do not consider the group's dividend policy to be aggressive, as dividend payments are largely covered by free operating cash flow (FOCF). So far, share buybacks have not been part of the group's capital allocation strategy.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BBB-

SAF-HOLLAND's business risks are largely mitigated by: i) a large share of the high-margin aftermarket business; ii) global or regional leadership in oligopolistic markets; iii) relatively low customer concentration; and iv) a solid geographical outreach underpinned by a local for local approach. However, business risks are amplified by: i) the high exposure to the cyclical OE business (revenue contribution over 60%); and ii) the operating profitability in a peer group context due to the low single-digit profitability of the OE business.

Product portfolio is exposed to automotive supplier industry, industry risk profile of BB

SAF-HOLLAND is a supplier of chassis-related systems and components to truck and trailer manufacturers. We therefore classify the group as an automotive supplier, with an industry risk profile rated BB. The BB industry risk profile is mitigated by the group's large share of highly profitable aftermarket business, which provides strong protection against the industry's cyclicality, thus supporting the BBB- business risk profile assessment.

Dominant position in core product groups

SAF-HOLLAND's competitive position is primarily supported by its dominant position in core product groups. In Europe, the group's market segments are at an advanced stage of consolidation, with the top three providers together capturing around 80%-90% of the total market volume. SAF-HOLLAND is the market leader in axles and suspension systems for trailers and, through its Haldex brand, in automatic braking systems for trailers. In addition, it ranks second in fifth wheels and landing gears. In North America, it is the market leader for fifth wheels and brake adjusters and ranks second in landing gears, kingpins and trailer ABS systems. SAF-HOLLAND is also the market leader in India for trailer axles following its acquisition of the York Group in 2018. Furthermore, the group is the market leader for trailer air disc brakes (ADB) and truck automated brake adjusters (ABA) in China.

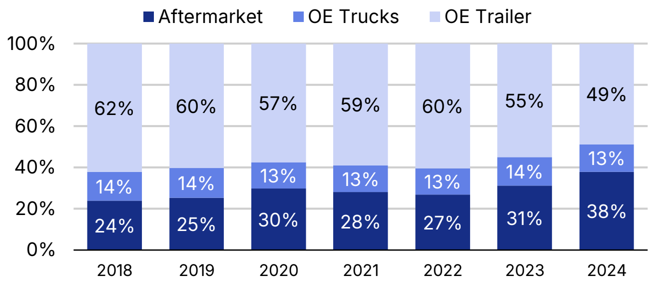
Aftermarket business represents a high barrier to entry

SAF-HOLLAND's market position is protected by its aftermarket business. With roughly 10,000 spare parts and service stations, alongside dealers and repair shops in over 80 countries, the group has one of the densest spare parts and service station networks in the industry. Rapid delivery of spare parts is one of the main criteria fleet operators look for when selecting suppliers. Consequently, the availability of an aftermarket business alongside the OEM business represents a high barrier to entry for potential competitors.

Figure 1: SAF-HOLLAND is one of the three leading suppliers in each of the product segments of importance to the group

Sources: SAF-HOLLAND, Scope

Figure 2: While OE trailers still dominate, aftermarket business has grown in recent years

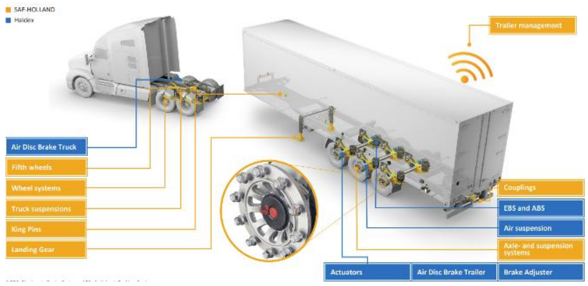


Sources: SAF-HOLLAND, Scope

Somewhat concentrated offering mitigated by aftermarket and high standard trailer penetration

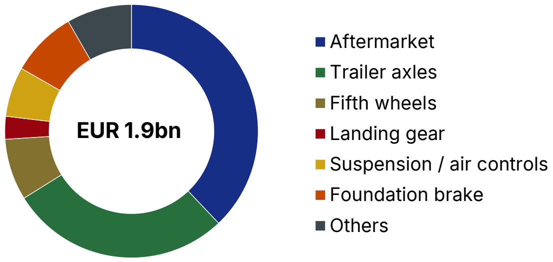
SAF-HOLLAND's product offering is somewhat concentrated on key products in terms of value, such as foundation brakes, fifth wheels, suspension/air controls and trailer axles. The risk of moderate product diversification is mitigated by the penetration of SAF-HOLLAND products in standard trailers in combination with the relatively concentrated market structure. SAF-HOLLAND's management believes that approximately 20% of a standard trailer is defined by the group's products. Moreover, relatively large exposure to the highly profitable and resilient aftermarket business (over 30% of revenue) greatly supports diversification and the group's overall business risk profile. The aftermarket business primarily depends on the product population in the market and component wear and tear, making it largely independent of the investment decisions of fleet operators in the OE business. This provides SAF-HOLLAND with a solid cushion against the cyclicality of the global commercial vehicle industry and contributes significantly to the resilience of its business model.

Figure 3: High penetration of SAF-HOLLAND products in a standard trailer



Sources: SAF-HOLLAND, Scope

Figure 4: Product portfolio somewhat concentrated around key product groups



Sources: SAF-HOLLAND, Scope

Unlike most automotive suppliers, SAF-HOLLAND has relatively low customer concentration, with its top ten customers representing less than 20% of revenues. This is because the group is primarily active in the trailer (around 80% of OE revenue) and aftermarket segments, which are much less concentrated than the truck segment. In the trailer market, SAF-HOLLAND's customers include not only several hundred OEMs in Europe, the Americas and Asia (only a few larger players act globally) but also fleet operators (infrastructure, logistics, specialty, heavy duty, port, etc.). The specifications for trailer axle and suspension systems are generally set by the fleet operators themselves, who are the end customers and choose their own suppliers.

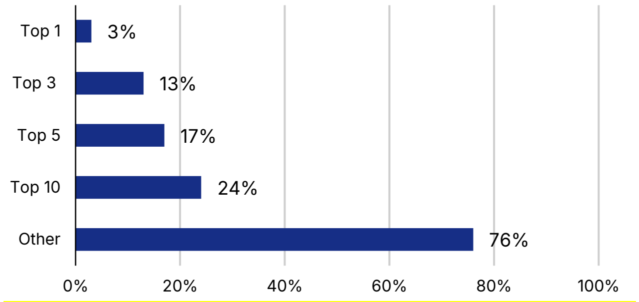
Low truck OEM and high aftermarket exposure lead to low customer concentration

With revenue on six continents, 29 production and assembly facilities across the globe, and around 10,000 spare parts and service stations, SAF-HOLLAND has solid geographical outreach. The group has historically followed a local for local approach, particularly in its main markets such as Europe and North America. This is crucial, as customer needs or preferences, replacement cycles and regulatory requirements can differ significantly from region to region. It is worth noting that the EMEA region is dominated by trailer customers, while truck customers form the majority in the Americas. The relatively low exposure to the Asia-Pacific region, at around 13%, is a weakness. This is due to a weak presence in the large Chinese market, which is dominated by local players such as FUWA and where SAF-HOLLAND lacks critical mass. On the other hand, the group's dominant position in the growth market of India allows it to benefit from the country's infrastructure investments.

Solid geographical outreach with a local for local approach

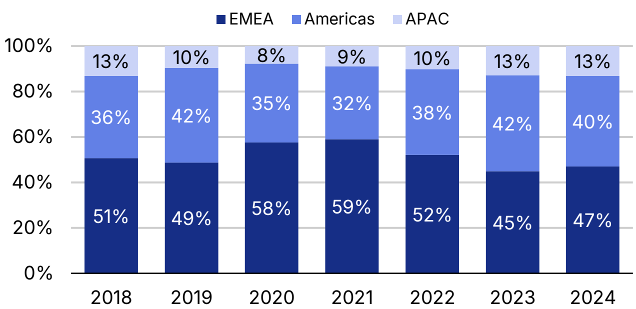
Figure 5: Relatively low customer concentration, with top ten customers representing less than 20% of revenues

Revenue split by customers



Sources: SAF-HOLLAND, Scope

Figure 6: Although its share has declined, EMEA is still the dominant region for SAF-HOLLAND



Sources: SAF-HOLLAND, Scope

The key restraining factor for SAF-HOLLAND's business risk profile is its modest operating profitability in a peer group context. The Scope-adjusted EBITDA margin improved significantly to 13.1% in 2024 from 11.5% in 2023 driven by an increase in the gross profit margin to 22.3% in 2024 from 19.6% in 2023. However, this improvement largely reflects a favourable product mix effect with a higher share of the aftermarket business (up to 38% in 2024 from 31% in 2023) due to the weakness of the less profitable OE business. For an upward revision of our profitability assessment, SAF-HOLLAND will need to demonstrate that it can maintain an EBITDA margin above

Despite the recent upturn, profitability is still the main restraining factor

12% even if the low-margin OE business picks up. This could be achieved by keeping the share of the aftermarket business above 35% and/or through operational improvements and SG&A savings.

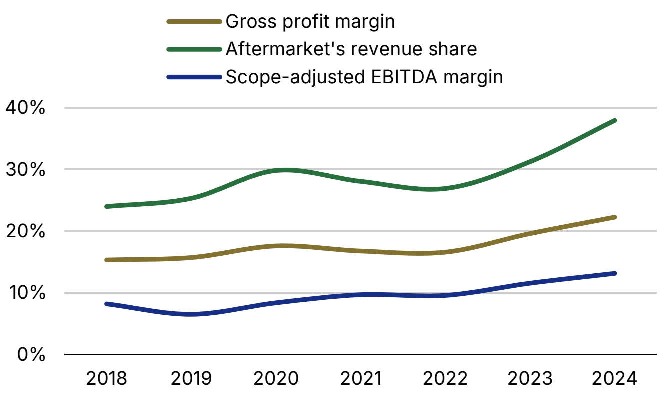
Aftermarket share of revenue key profitability driver

Generally, SAF-HOLLAND's profitability is determined by the product mix, in particular the share of aftermarket revenue, which drives the gross profit margin, as well as the cost of materials, personnel costs and price enforcement. We understand that the vast majority of the group's earnings is derived from the aftermarket business, while the OE business is barely profitable in most regions.

Regional profitability has converged in recent years; small differences remain

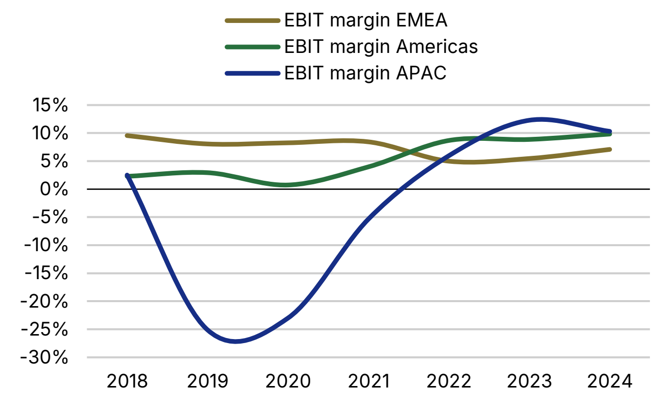
Although profitability in the regions has converged in recent years, there are still regional differences. We believe that the small profitability gap between EMEA and the Americas is due to the significantly higher share of the aftermarket in the Americas compared to the EMEA region. The aftermarket in APAC has the lowest share of revenue of all regions. However, in contrast to EMEA and the Americas, the OE business in India is solidly profitable and profitability in APAC is largely determined by volume and capacity utilisation.

Figure 7: SAF HOLLAND's profitability over time and its drivers



Sources: SAF-HOLLAND, Scope

Figure 8: High capacity utilisation made APAC most profitable region in 2023-24 despite relatively low aftermarket share



Sources: SAF-HOLLAND, Scope

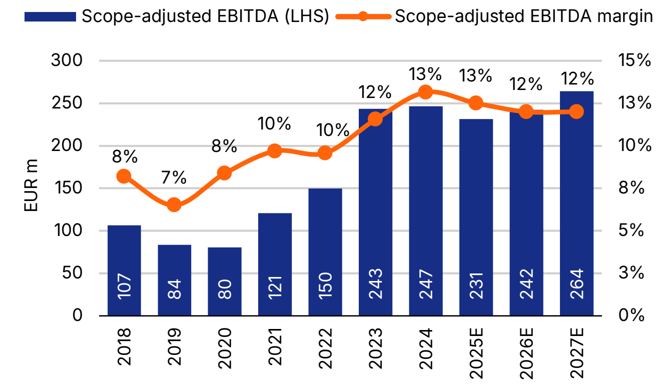
Broadly stable Scope-adjusted EBITDA in 2024

Higher overall profitability has helped to offset lower revenues. Consequently, Scope-adjusted EBITDA of around EUR 247m in 2024 remained broadly stable compared to EUR 243m in 2023.

Weak demand from trailer customers in key regions weighed on revenue in 2024

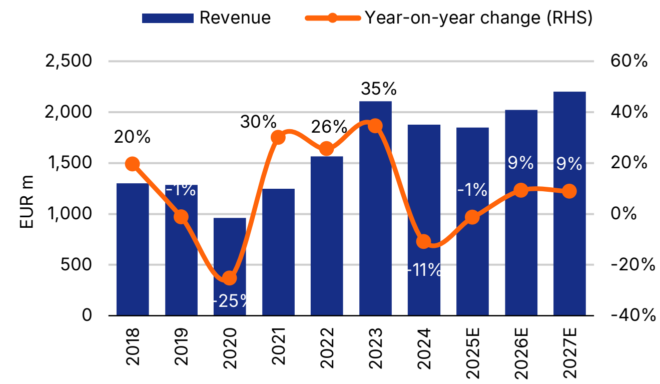
Revenue in 2024 declined by 11% YoY to EUR 1.9bn from EUR 2.1bn in 2023. Here, a 16% organic decline was partly offset by consolidation effects (total impact of around EUR 103.5m) from the acquisition of IMS, Tecma and Assali Stefen in 2024 and the full-year consolidation of Haldex, which was only consolidated from 21 February last year. The organic decline was particularly due to the soft trailer OEM market (down 21% YoY) in North America and EMEA and the weak truck OEM market, especially in EMEA. Besides low freight rates, which weakened the economic performance of haulage companies and led to a reluctance to invest, the North American trailer market suffered from the persistently high interest rate environment. The truck and trailer markets in EMEA suffered from the challenging economic environment combined with customers' reluctance to buy following fleet renewals in recent years. In contrast, aftermarket revenue grew by 8.2% YoY driven the strong OE sales in the previous years and acquisition effects (especially Haldex).

Figure 9: Higher margin level sustained through Haldex acquisition in 2023



Sources: SAF-HOLLAND, Scope estimates

Figure 10: Revenues broadly flat in 2025, with a pick-up in 2026



Sources: SAF-HOLLAND, Scope estimates

Key targets of the recently announced Strategy 2030

At the recent Capital Markets Day, SAF-HOLLAND presented its new Strategy 2030, which sets the group's revenue target at over EUR 3bn in 2030 (8.1% CAGR, approx. 5% organic growth). To achieve this goal, SAF-HOLLAND plans to leverage its expanded product portfolio from recent acquisitions in existing and adjacent industries and add approximately EUR 500m in revenue from M&A activities. The focus here is on the expansion of the group's product portfolio to achieve a higher penetration in its customers segments as well as to grow its customer base into adjacent industries such as agriculture and mining. SAF-HOLLAND expects an adjusted EBIT margin in the range of 10% to 12% for 2030, i.e. the group plans to at least maintain the record profitability achieved in 2024 with an adjusted EBIT margin of 10.1%. SAF-HOLLAND aims to achieve this via operational improvements and SG&A cost savings, economies of scale, positive product mix effects from its strategy of selling trailer systems rather than components, and growth in the profitable Indian OEM market.

SAF-HOLLAND's revenue guidance in 2025: EUR 1.85bn to EUR 2.0bn

In 2025, SAF-HOLLAND has guided for revenue in the range of EUR 1.85bn to EUR 2.0bn. This is based on trucks and trailers in the core markets of EMEA and North America remaining weak in H1 2025, a recovery beginning in H2 2025 and growth in APAC, driven by the Indian market in particular. SAF-HOLLAND assumes a stable aftermarket business due to the increased population from OE deliveries. In view of high economic uncertainty, we have assumed revenue of EUR 1.85bn at the lower end of the group's guidance. Assuming a market recovery, we have forecast revenue of EUR 2.0bn in 2026.

Possible benefit from some mitigating effects in the event of tariffs

Regarding the potential negative impact of tariffs, we see some mitigating factors for SAF-HOLLAND: i) approx. 60% of the trucks sold in the US are currently manufactured in Mexico; ii) depending on the product, almost all of the group's competitors have production locations in Mexico or Canada and market concentration means it is often possible to pass on tariffs to customers; and iii) SAF-HOLLAND's products are for the most part USMCA compliant. However, tariffs could dampen overall demand, as recently indicated by Traton and Daimler Truck, and weigh on SAF-HOLLAND's profitability through lower and volatile capacity utilisation.

SAF-HOLLAND expects lower profitability in 2025 vs. 2024

SAF-HOLLAND has guided for a lower adjusted EBIT margin in the 9%-10% range in 2025 compared to 10.1% in 2024. This is due to general inflation-related cost increases, higher wages and freight costs. As we expect the OE business to be subdued in 2025, we see the aftermarket business keeping the gross profit margin above 22% in 2025, thus supporting profitability. In 2026, we expect the gross profit margin to decrease slightly to around 21%, as the share of OE business increases again. Having said that, we assume that SAF-HOLLAND plans to further expand its aftermarket business, which in perspective could keep its aftermarket revenue above 35%. Overall, we anticipate a Scope-adjusted EBITDA margin of around 12.5% in 2025 and around 12.0% in 2026. In combination with our revenue projections, we expect a Scope-adjusted EBITDA of around EUR 230m in 2025, rising to around EUR 240m in 2026, driven by the assumed upswing in revenue.

8. Financial risk profile: BBB

SAF-HOLLAND's unchanged financial risk profile reflects the group's continued strong credit metrics, supported by its prudent financial policy, and its high exposure to the profitable and resilient aftermarket business.

Promissory note loans are primary source of financing

Gross debt of EUR 774m largely comprises promissory note loans (EUR 434m), bank loans (EUR 202m) and leases (EUR 90m). In order to calculate Scope-adjusted debt, we have: i) added uncovered pensions totalling EUR 12m; and ii) deducted trapped cash of EUR 4.5m. Based on the aforementioned adjustments, Scope-adjusted debt amounted to EUR 490m at year-end 2024, slightly up from EUR 486m at year-end 2023. The cash outflows of EUR 40.0m for the acquisitions of the IMS Group B.V., Tecma Srl and Assali Stefen and dividend payments of EUR 38.6m had a negative impact.

Business model allows for faster deleveraging, but debt-financed M&A activity is likely to accelerate

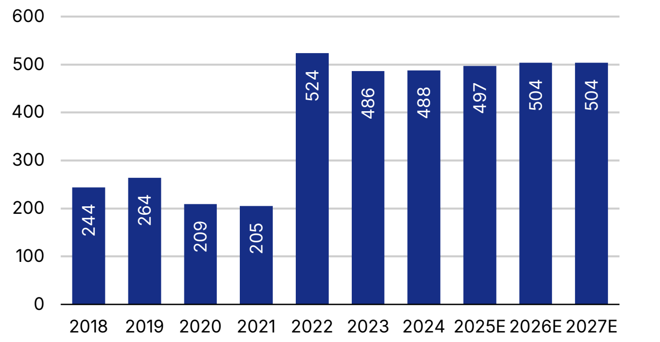
SAF-HOLLAND's business model, with a significant share of the resilient and highly profitable aftermarket business, generates sufficient cash flow to fundamentally reduce debt. However, the recently announced M&A strategy might increase debt in the coming years. At the most recent Capital Markets Day, SAF-HOLLAND spoke of a firepower of up to EUR 1.5bn for M&A. This figure suggests that debt-financed M&A activity is likely to accelerate, although the group has stated that no major transactions are currently planned. We have factored in M&A cash outflows of around EUR 50m per year in 2025-26, resulting in Scope-adjusted debt of about EUR 500m, respectively.

Some large maturities, especially in 2025 and 2027

The debt maturity profile includes some large maturities, especially in 2025 and 2027. Given the available cash, solid internal cash flow generation and the group's good standing in the promissory note market, we do not see any difficulties in financing the upcoming maturities.

Figure 11: Scope-adjusted debt at around EUR 500m in 2025-26

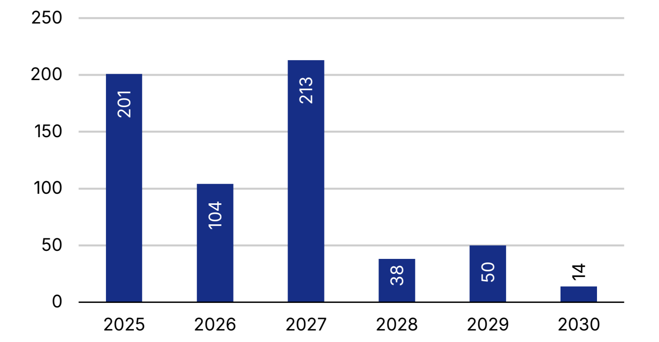
Scope-adjusted debt



Sources: SAF-HOLLAND, Scope

Figure 12: Substantial maturities in 2025 and 2027

Debt maturity profile



Source: SAF-HOLLAND, Scope estimates

Leverage, as measured by Scope-adjusted debt/EBITDA at 2.0x remained stable in 2024.

SAF-HOLLAND accepts M&A driven leverage of close to 3.5x, subsequently reduced to below 2.0x

Based on its recently presented M&A approach, SAF-HOLLAND accepts M&A-driven leverage of close to 3.5x net debt/EBITDA (close to 4.0x based on Scope's definition) immediately after the acquisition, as happened in 2022, with leverage increasing to 3.4x after the Haldex acquisition. The 3.5x maximum leverage also corresponds to the financial covenant defined under the syndicated credit facility (RCF) and the two term loan. At the same time, management has reaffirmed its commitment to reducing leverage to below 2.0x in the years following the acquisition, as occurred recently following the Haldex acquisition. Based on our assumptions for M&A-related cash outflows, we project Scope-adjusted debt/EBITDA at around 2.0x in 2025-26.

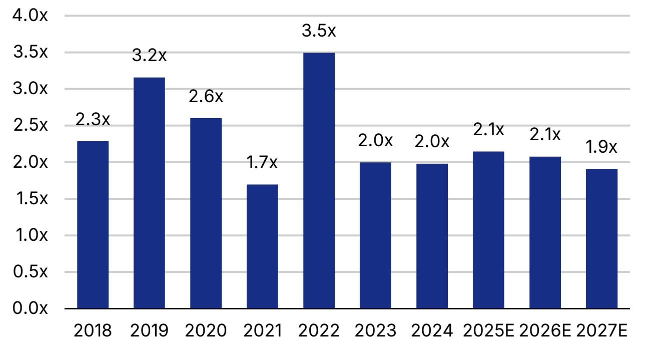
We project Scope-adjusted debt/EBITDA at around 2.0x in 2025-26

We see continued strong FFO-based leverage in 2025-26

SAF-HOLLAND's funds from operations (FFO)-based leverage decreased slightly to 32% in 2024 from 35% in 2023. This was the result of lower Scope-adjusted FFO, which decreased to around EUR 158m in 2024 from EUR 169m in 2023, as positive effects from lower interest costs and cash taxes were offset by negative effects from the utilization of provisions and other non-cash transactions predominantly due to M&A. We expect a broadly unchanged Scope-adjusted FFO of around EUR 160m in 2025 and a slight increase to around EUR 170m in 2026, resulting in a strong Scope-adjusted FFO/debt ratio of 30%-35% in 2025-26.

Figure 13: Leverage of around 2.0x in the base case

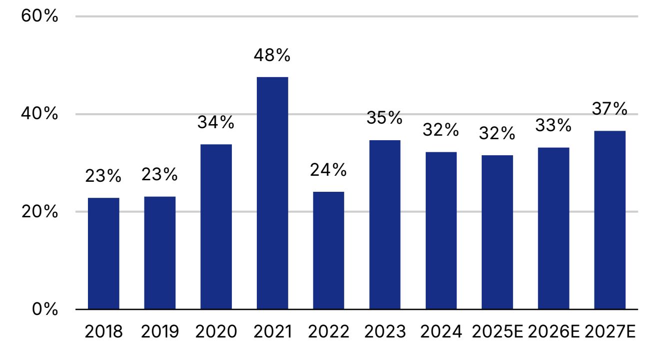
Scope-adjusted debt/EBITDA



Sources: SAF-HOLLAND, Scope estimates

Figure 14: FFO-based leverage expected at above 30%

Scope-adjusted FFO/debt



Sources: SAF-HOLLAND, Scope estimates

Historically strong EBITDA interest cover

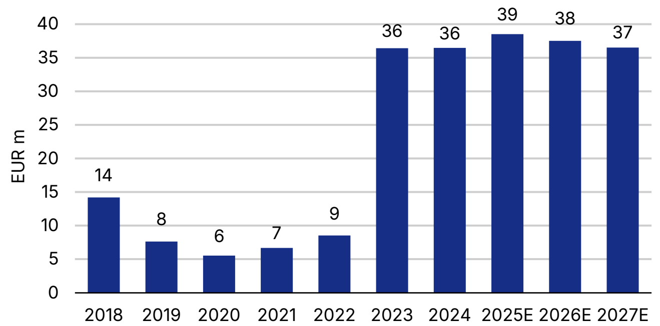
EBITDA interest cover has historically been strong, averaging 12.5x over 2018-2021, with a peak close to 18x in 2021. This debt protection metric fell to 6.7x in 2023 due to increased debt in connection with the acquisition of Haldex and higher interest rates. Most outstanding debt is related to the Haldex acquisition and was taken on balance at the end of 2022 in an elevated interest rate environment. In 2024, the share of debt with a variable interest rate was around 80%.

We foresee continued strong interest cover of over 6x in 2025-26

Despite the increase in financial debt, Scope-adjusted interest remained stable at EUR 36m in 2024 (EUR 34m in 2023), as higher interest on leases offset lower interest on financial debt (excl. leases), supported by the lower interest rate environment and the high proportion of variable-rate debt. The debt protection metric remained strong at 6.8x. We expect Scope-adjusted interest to range between EUR 35 and EUR 40m in 2025-26. This is because higher expected leverage should be mitigated by the large proportion of floating-rate debt and the further expected decline in the Euribor base rate. We foresee continued strong interest cover of over 6x in 2025-26.

Figure 15: Scope-adjusted interest in the EUR 35- EUR 40m range

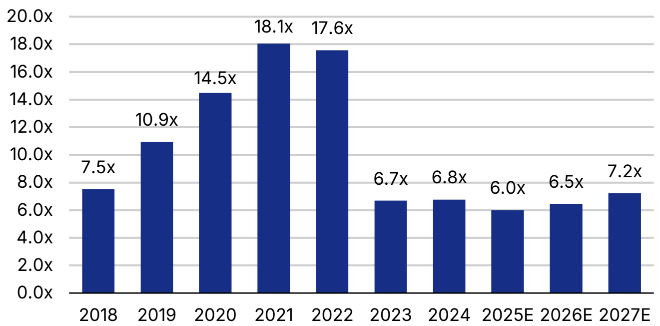
Scope-adjusted interest



Sources: SAF-HOLLAND, Scope estimates

Figure 16: Interest cover to remain above 6x

Scope-adjusted EBITDA/interest cover



Sources: SAF-HOLLAND, Scope estimates

SAF-HOLLAND's Scope-adjusted FOCF/debt ratio is strong at around 20% in 2022-24, with 15% to 20% expected in 2025-26.

Scope-adjusted FOCF of EUR 93m in 2024 broadly stable vs. EUR 94m in 2023

Scope-adjusted FOCF at EUR 93m in 2024 was broadly stable compared to EUR 94m in 2023, as higher lease amortisation and unfavourable changes in other assets and liabilities had a negative impact. It was supported by lower net working capital (NWC; down EUR 29.5m) due to market slowdown and lower net capex (EUR 48m in 2024 vs. EUR 55m in 2023).

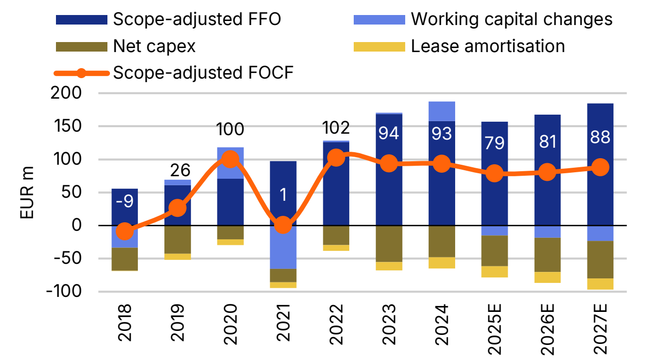
Aftermarket business generally ties up more capital

Despite a reduction in absolute terms, the NWC ratio increased to 15.5% in 2024 from 14.1% in 2023. The increase reflects the higher share of the aftermarket business, which generally ties up more capital, and the structurally larger inventory levels of the acquired companies. As in previous years, SAF-HOLLAND used factoring (EUR 39.4m in 2024) to optimise liquidity. NWC management remains a top management priority, with a medium-term NWC target range of 14% to 17% of revenue. We expect the NWC ratio to rise to around 16.4% in 2025 due to the planned further expansion of the aftermarket business and inventory build-up in preparation for the expected recovery effects. In 2026, we expect the NWC ratio to decline towards 16%.

Expected Scope-adjusted FOCF of around EUR 80m in 2025-26

Due to the decrease in revenue, the capex ratio of 3.1% in 2024 was slightly above the group's maximum target capex ratio of 3.0%. SAF-HOLLAND has confirmed its forecasted capex ratio of up to 3%, which we have also included in our forecast. Overall, we expect Scope-adjusted FOCF to be around EUR 80m per year in 2025-26.

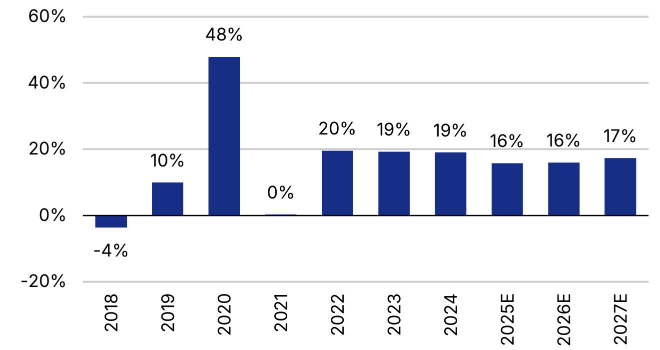
Figure 17: FOCF and its drivers



Sources: SAF-HOLLAND, Scope estimates

Figure 18: Stable cash flow cover in the range 15%-20%

Scope-adjusted FOCF/debt



Sources: SAF-HOLLAND, Scope estimates

Adequate liquidity

SAF-HOLLAND's liquidity profile is "adequate" as available liquidity sources, in particular cash on the balance sheet, undrawn credit lines and projected Scope-adjusted FOCF, cover upcoming cash uses over the next 12-18 months by well over 200%.

Table 1. Liquidity sources and uses (in EUR m).

	2024	2025E	2026E
Unrestricted cash (t-1)	235	296	314
Open committed credit lines (t-1)	227	188	225
Free operating cash flow (t)	93	79	81
Short-term debt (t-1)	13	205	115
Liquidity	**>200**	**>200%**	**>200%**

Sources: Elixir, Scope estimates

Cash sources

Principal cash sources comprised:

- Bank balances amounted to EUR 301m at year-end 2024, of which EUR 4.5m is trapped cash.
- EUR 188m in undrawn funds under the EUR 250m revolving credit facility with a maturity date of 2027 and two one-year extension options up to 2029.
- Expected Scope-adjusted FOCF of around EUR 80m per year in 2025-26.

Cash uses

We expect the following cash uses:

- Dividend payments of around EUR 39m per year in 2025-26.
- M&A-related payout of around EUR 50m per year in 2025 and in 2026.
- Debt repayments of EUR 205m in 2025 and around EUR 115m in 2026. We anticipate that the company will finance the upcoming maturities in 2025 from both cash and additional promissory notes.

Full covenant compliance expected going forward

SAF-HOLLAND's syndicated credit facility (RCF) and the term loan issued (total used amount of around EUR 155m at year-end 2024) have a financial covenant defined as a ratio of net financial debt/EBITDA of less than 3.5x. The group has been compliant as per last year: based on SAF-HOLLAND's definition, the net debt/EBITDA ratio was 1.9x in 2024. In view of the group's business model, with a significant share of the resilient and highly profitable aftermarket business, we see limited risk of a covenant breach and expect SAF-HOLLAND to remain compliant with comfortable headroom.

9. Supplementary rating drivers: +/- 0 notches

Credit-neutral financial policy

We have a neutral view on SAF-HOLLAND's capital allocation. The group's financial policy is credit neutral, supported by its targeted leverage corridor of 1x-2x and its proven ability to return to this corridor shortly after a major M&A transaction.

Shareholder-friendly dividend policy, but dividend payments are largely covered by FOCF

The group's dividend policy is shareholder-friendly in view of the stated pay-out ratio target of 40%-50% of the previous year's net profits. However, we do not consider the dividend policy to be aggressive, as dividend payments are largely covered by FOCF and the balance sheet has improved after the Haldex acquisition. Moreover, SAF-HOLLAND has flexibility in terms of dividend payments, as evidenced by the board's decision not to pay a dividend during the Covid-19 crisis (i.e. for 2019 and 2020) in order to preserve liquidity.

For now, share buybacks have not been part of the shareholder remuneration policy.

M&A activity is likely to accelerate based on recently presented M&A strategy

Over the past decade, the group's growth has been supported by an active acquisition strategy (York, KLL, Orlandi, Axscend, Pressure Guard and the Stara Group). This culminated with the acquisition of Haldex in 2023. In 2024, SAF-HOLLAND made three small add-on acquisitions (IMS Group B.V., Tecma Srl and Assali Stefen) for a total of EUR 40m. Based on the M&A strategy announced at the last Capital Markets Day, the group has firepower for M&A of up to EUR 1.5bn. This figure suggests that M&A activity is likely to accelerate, although the group has stated that no major transactions are currently planned.

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