News Release

Japan Credit Rating Agency, Ltd.

23-I-0036
August 18, 2023

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

FORVIA SE (security code: -)

<Assignment>

Foreign Currency Long-term Issuer Rating:	A-
Outlook:	Stable

Rationale

(1) FORVIA is a global automotive supplier headquartered in France and listed on Euronext Paris. It acquired HELLA, a long-established German supplier, in January 2022 to form the FORVIA Group. HELLA remains an independent listed company after the acquisition, but JCR considers the group to be highly integrated given the company's position as a controlling shareholder with 81.6% of HELLA's issued shares, its funding activity based on financial statements that fully consolidate HELLA and its high business affinity. FORVIA's rating is supported by the company's solid and diversified customer base, global manufacturing network, diversified business portfolio, ability to respond to changes in the business environment such as a shift to electric vehicles, and a prudent financial policy committed to debt reduction. On the other hand, the rating is constrained by the company's increased debt burden following the acquisition and uncertainty in the market environment.

(2) In 1997, ECIA, a parts subsidiary of PSA Peugeot Citroën founded in 1987, acquired Bertrand Faure, Europe's largest seat manufacturer founded in 1914, to form Faurecia, the predecessor of FORVIA. Faurecia acquired Clarion from Hitachi, Ltd in 2019 and HELLA in January 2022 to form FORVIA group, the world's seventh largest automotive supplier group with six business units: seats, interiors, electronics, clean mobility (emission parts), lighting and lifecycle solutions (after services). HELLA, a well-established company founded in 1899 and listed on the Frankfurt and Luxembourg stock exchanges, develops and manufactures auto lighting equipment and electronic parts and systems. It also has its own aftersales service unit and has been beefing up its electronic parts segment in recent years. HELLA operates as an independent listed company after the consolidation, but FORVIA ensures the integrity of the group's operations through the dispatch of members to HELLA's Supervisory Board and Shareholders' Committee and the creation of an Integration Committee. The company changed its name from Faurecia SE to FORVIA SE in May 2023.

(3) FORVIA, with a strong customer base, has been maintaining stable business relationships with major OEMs for many years. While VW and Stellantis respectively rank top and second as its customers, FORVIA retains a diversified customer base made up of more than 80 companies in line with its policy to keep the customer concentration ratio below 20%. One of the company's competitive edges comes from its global manufacturing network comprising 300 plants and 77 R&D facilities in Europe, the United States and Asia. Its sales are geographically diversified, with the regional shares in 2022 being 44% in Europe, 28% in the US and 27% in Asia. Sales in Asia are expected to grow, particularly in China, and the company plans to expand Asia's share to 30% by FY2025. FORVIA is also focusing on the development of new technologies applicable in areas where growth is expected, such as electrification, automated driving and digital cockpits, with R&D costs accounting for 8% of sales. JCR believes that FORVIA's acquisition of HELLA will contribute to diversifying its business portfolio and enhancing its ability to respond to changes in the business environment: The sales in FY2021 broke down into 39% for seats, 30% for interiors, 26% for clean mobility and 5% for Clarion electronics. For FY2022 after the acquisition, the shares changed to 30% for seats, 22% for interiors, 19% for clean mobility, 14% for electronics, 12% for lighting and 4% for lifecycle solutions. While seats and interiors are stable markets where FORVIA boasts larger shares, they are highly mature and subject to constant price pressure from OEMs. Clean mobility is currently generating strong cash flows, due partly to the needs related to environmental regulations, but there are concerns about a future decline of demand resulting from the growing spread of electric vehicles. To address those medium- and long-term challenges, FORVIA pursues a strategy to strengthen future growth areas such as advanced driver assistance and automated driving, and transform its business portfolio through the acquisition of HELLA, while the internal combustion engine business generates sufficient cash flows. The cooperation between HELLA, whose main customers are European luxury car manufacturers, and FORVIA, which has global distribution channels, is expected to broaden the group's sales channels.

HELLA's lifecycle solutions business is expected to become a stable source of earnings as it has a high profit margin despite its small sales volume.

(4) FORVIA has kept expanding annual profits before the outbreak of COVID-19 pandemic, reporting 7.2% in operating income margin in FY2019. Its net debt/EBITDA ratio rose from 1.2x in FY2018 to 2.0x in FY2019 following the acquisition of Clarion. The company incurred a loss in FY2020 due to reduced global automobile production caused by the spread of the pandemic but returned to a profit in FY2021 on recovery from the pandemic. Sales for FY2022, the first year after the consolidation of HELLA at the end of January 2022, amounted to EUR 25.5 billion. Operating margin was only 4.4% due to troubles in the seat segment's new programs launched in North America. The company ended the year with a net loss of EUR 250 million due to one-off increase in costs resulting from its withdrawal from Russia and the acquisition of HELLA. The net debt/EBITDA ratio went up to 2.6x in FY2022 due to an increased interest-bearing debt stemming from acquisitions. The net worth ratio, calculated as a percentage of total shareholders' equity, remained at 19%. In the first half of FY2023, sales excluding accounting effects grew by 18.6% year-on-year, with the operating margin recovering to 5.0%.

(5) FORVIA's POWER25 medium-term business plan made public in November 2022 focused on improving profitability, lowering the break-even point and reducing debt, setting targets of EUR 30 billion in sales, an operating margin in excess of 7% and the net debt/EBITDA ratio of 1.5x or less in FY2025. The company committed itself to reducing its leverage which had increased due to acquisitions. It expects sales will increase on a pickup of automobile production, which has been depressed by a shortage of semiconductors and lockdowns forced by pandemic. Sales are also expected to benefit from increasing orders in the electronics segment, driven by the increasing electrification of vehicles and the expansion of sales channels in the Asian market, particularly in China. The company plans to improve profitability by solving the troubles in the North American seats business, realizing synergies from the acquisition, promoting digitalization and optimizing its R&D facilities. It prioritizes profitability improvement over sales growth. As to debt reduction, its net interest-bearing debt is to be cut from EUR 7.9 billion at the end of December 2022 to EUR 6 billion by the end of December 2025 through EUR 1 billion worth of asset sales and increased free cash flow. The planned asset sales are already on track. The company has announced a FY2023 forecast of EUR 26.5-27.5 billion in sales, an operating margin of 5.2-5.6% and a net debt/EBITDA of 2.0-2.2x, and remains committed to achieving its POWER25 targets.

(6) Points of immediate attention are improvement of profitability through realization of acquisition synergies and progress on the debt reduction plan. The market environment is changing faster due to the progressing automated driving and EVs. While further growth is expected in China, where FORVIA puts priority, there are concerns over rise of local manufactures and intensifying price completion. With its next major debt redemption scheduled in 2026, JCR considers it important for the company to reduce its leverage to the target level by FY2025 as planned.

Kiichi Sugiura, Masato Hotta

Rating

Issuer: FORVIA SE

<Assignment>

Foreign Currency Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: August 17, 2023

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014) and "Auto Parts Manufacturers" (August 1, 2023) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	FORVIA SE
Rating Publication Date:	August 18, 2023

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Audited financial statements presented by the rating stakeholders

  B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

E) Rise and Fall in General Economy and Markets
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Kiichi Sugiura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

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General Manager of International Rating Department

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