

Rating Action: Moody's upgrades Valeo to Ba1; outlook stable

Global Credit Research - 29 Jul 2010

Frankfurt, July 29, 2010 -- Moody's Investors Service has today upgraded Valeo's corporate family rating to Ba1 from Ba2. The outlook is stable.

Falk Frey, lead analyst for Valeo, said: "The upgrade reflects the sizeable achievements in adjusting the company's cost base and improvements in its operating footprint." Frey went on: "Financial results for the first half of 2010 evidence the company's progress ahead of expectations incorporated in the previous rating. Although the phase-out of scrapping schemes across Europe will adversely affect Valeo, we expect the company to meet financial ratios in line with a Ba1 rating in 2010."

On July 27, Valeo reported revenues of EUR4,787 million for the first six months of 2010, up 38% compared to the prior year period. The Operating profit as reported (before Moody's adjustments) amounted to EUR292 million (6.1% of sales) versus an operating loss of EUR51 million in 2009. Reported net financial debt before Moody's adjustments) reduced to EUR438 million from EUR722 million at the end of 2009.

While the strong improvements were supported by the scrapping incentives introduced across Europe in 2009, the results also reflect operational and structural improvements at Valeo. The company estimates to have lowered its break-even point from EUR 8.1 billion pre-crisis to EUR 7 billion. Major elements of recent restructuring efforts were a shift of production capacity from high cost/low growth to high growth/low cost countries and a significant reduction of the company's workforce. In addition, management has streamlined the group's purchasing activities and Valeo continued to enhance its operating efficiency.

Although we expect a notable, though temporary, decline in European car production volumes as the effect of the various scrapping schemes is phasing out, we believe these improvements will allow for financial ratios in line with the current rating. This view also considers that Valeo generates approximately one third of revenues outside Europe. The current rating reflects the guidance laid out previously for an upgrade, ie that Valeo should achieve in Moody's view an EBIT-margin of 3% or more in 2010 with further improvement onwards, (ii) positive free cash flow generation in 2010 as well as (iii) Debt/EBITDA reduced towards 3.5x or lower in 2010 with further improvement in the years beyond (all ratios after Moody's adjustments).

Major risks in our view are a more pronounced decline in production rates, in Europe or elsewhere, driven by a deterioration in the overall economic environment, increasing price pressure from OEM-customers and potential volatility in raw material costs.

The further development of Valeo's rating will be largely driven by evidence that the recent recovery in financial results can be maintained on a sustainable basis or even surpassed in future.

Upgrades:

..Issuer: Valeo S.A.

....Probability of Default Rating, Upgraded to Ba1 from Ba2

....Corporate Family Rating, Upgraded to Ba1 from Ba2

....Multiple Seniority Medium-Term Note Program, Upgraded to Ba1, Ba2 from Ba2, Ba3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2

The principal methodology used in rating Valeo was Moody's Global Auto Supplier Industry Methodology, published in January 2009 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Moody's last rating action on Valeo was a downgrade of the Corporate Family Rating from Ba1 (negative outlook) to Ba2 (stable outlook) on 12 August 2009.

Headquartered in Paris, Valeo S.A., is one of the leading global suppliers of automotive components. In 2009 Valeo generated net sales of EUR 7.5 billion.

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