BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

Faurecia

Transformers

14th September 2016

Automotive

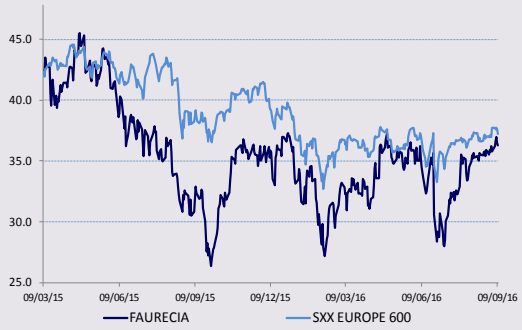
Fair Value EUR47 (price EUR36.29) **BUY**

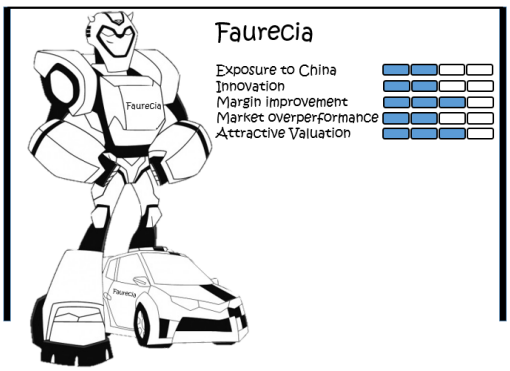
Coverage initiated

Bloomberg	EO FP
Reuters	EPED.PA
12-month High / Low (EUR)	37.3 / 26.4
Market capitalisation (EURm)	5,004
Enterprise Value (BG estimates EURm)	5,808
Avg. 6m daily volume ('000 shares)	557.6
Free Float	48.5%
3y EPS CAGR	20.6%
Gearing (12/15)	36%
Dividend yields (12/16e)	2.85%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	18,770	19,103	19,897	20,746
EBIT(EURm)	830.00	934.48	1,041	1,154
Basic EPS (EUR)	2.60	5.18	3.94	4.59
Diluted EPS (EUR)	2.60	3.70	3.92	4.56
EV/Sales	0.37x	0.30x	0.29x	0.26x
EV/EBITDA	4.8x	3.7x	3.6x	3.1x
EV/EBIT	8.3x	6.2x	5.5x	4.7x
P/E	13.9x	9.8x	9.3x	8.0x
ROCE	12.6	16.7	17.0	17.5

Price and data as at close of9th September





Following the sale of its exteriors business (FAE), Faurecia now has a more coherent and technological-based product portfolio. Strengthened by the new management team that has implemented a strategy focused on one of the main growth markets in the sector, the group is one of the rare car components manufacturers capable of increasing its EBIT margin by 150bp over the short term. This growth combined with an attractive valuation explains why we are initiating coverage of the stock with a Buy recommendation (FV of EUR47).

- **A group in a transformation phase…** The disposal of **FAE** to **Plastic Omnium**, an expert in plastic components in the sector, has enabled Faurecia to deconsolidate a **very European business with low margins**, while drastically reducing its debt and leaving the door open to potential strategic and technological acquisitions, especially in the field of connected and autonomous vehicles.
- **…positioned in growth markets:** Via its more coherent and more technological positioning, Faurecia is now aiming to outperform annual automotive production by **4pp**, compared with **2.3pp** on average between 2012 and 2015. The main sector trends (*reducing vehicle weights, reducing CO_2/NOx emissions, electric vehicles, connected and autonomous vehicles*) should be fully addressed by these three segments (*seats, cockpit and emissions control*).
- **Heading for EBIT margin of 6%?** Previously considered as a European car components makers with the lowest value added, the group is now aiming to deliver a **6% EBIT margin by 2018** compared with **4.4%** in 2015, thanks to various sources of leverage to the operating cost base. Improvement potential looks high, especially in view of rival operating performances.
- **High potential, even with cautious 2018 estimates:** Faurecia is still the least well valued car parts supplier, despite high growth potential for EPS over 2016-18 *(+11% CAGR)*. Even though our 2018 forecasts are more cautious than the group's, we consider that the current share price still offers high upside potential. We are initiating coverage of the share with a Buy recommendation and a **FV of EUR47**.

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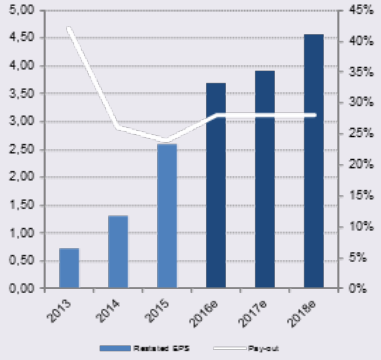

Company description

Faurecia is a France-based automotive equipment supplier. The Company is active in three key business areas: Automotive Seating, Interior Systems and Emissions Control Technologies. The group designs and manufactures instrument panels, and center consoles providing comfort, perceived quality, safety and weight reduction. It also designs vehicle interiors for peak acoustic performance. The Company produces seat components as frames, adjustment mechanisms, foam, covers and others. It is also involved in the emissions control with the acquisition of Emcon Technologies, the group takes care of vehicles' environmental performance against the backdrop of ever stricter legislation. Faurecia SA creates seat blueprints and designs solutions combining safety, new functionalities and weight reduction.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	18,029	18,829	18,770	19,103	19,897	20,746
Change (%)	*3.8%*	*4.4%*	*-0.3%*	*1.8%*	*4.2%*	*4.3%*
Adjusted EBITDA	1,070	1,232	1,442	1,552	1,597	1,781
EBIT	538	673	830	934	1,041	1,154
Change (%)	*4.8%*	*25.1%*	*23.3%*	*12.6%*	*11.4%*	*10.9%*
Financial results	(234)	(244)	(207)	(159)	(148)	(136)
Pre-Tax profits	211	344	571	733	856	981
Exceptionals	(5.2)	(81.2)	(65.3)	(57.3)	(50.0)	(50.0)
Tax	(64.7)	(115)	(186)	(201)	(236)	(271)
Profits from associates	14.0	0.80	12.8	14.1	13.0	13.5
Minority interests	(55.8)	(63.2)	(74.1)	(76.3)	(78.6)	(81.0)
Net profit	87.6	166	372	711	541	629
Restated net profit	87.6	166	372	511	541	629
Change (%)	*-38.4%*	*89.2%*	*124%*	*37.3%*	*6.0%*	*16.3%*
Cash Flow Statement (EURm)						
Operating cash flows	927	1,037	1,154	1,159	1,143	1,305
Change in working capital	364	263	(932)	62.5	47.5	50.7
Capex, net	(788)	(932)	(932)	(898)	(935)	(975)
Financial investments, net	(12.3)	(33.3)	(30.9)	0.0	0.0	0.0
Dividends	(47.9)	(57.0)	(77.3)	(89.2)	(142)	(151)
Other	(5.8)	300	(294)	663	(0.69)	0.49
Net debt	1,519	1,388	946	110	45.3	(134)
Free Cash flow	140	197	223	261	208	330
Balance Sheet (EURm)						
Tangible fixed assets	2,028	2,230	2,247	1,773	2,060	2,312
Intangibles assets	686	851	935	1,024	1,116	1,213
Cash & equivalents	711	1,025	939	1,775	1,840	2,019
current assets	3,987	4,284	4,312	5,053	5,305	5,628
Other assets	919	712	719	(141)	(198)	(369)
Total assets	8,331	9,100	9,153	9,484	10,123	10,803
L & ST Debt	2,230	2,412	1,885	1,885	1,885	1,885
Others liabilities	4,459	4,812	4,896	4,857	5,090	5,285
Shareholders' funds	1,502	1,717	2,398	2,785	3,151	3,597
Total Liabilities	8,331	9,100	9,390	9,777	10,416	11,096
Capital employed	4,405	4,543	4,548	4,117	4,486	4,825
Ratios						
Operating margin	2.99	3.58	4.42	4.89	5.23	5.56
Tax rate	30.63	33.46	32.53	28.00	28.00	28.00
Net margin	0.49	0.88	1.98	2.67	2.72	3.03
ROE (after tax)	5.33	8.83	14.25	23.41	15.73	16.03
ROCE (after tax)	8.79	9.88	12.59	16.69	17.00	17.51
Gearing	92.50	73.95	36.24	3.64	1.32	(3.42)
Pay out ratio	41.98	26.18	23.98	28.00	28.00	28.00
Number of shares, diluted	132	133	146	137	137	137
Data per Share (EUR)						
EPS	0.73	1.31	2.60	5.18	3.94	4.59
Restated EPS	0.73	1.31	2.60	3.70	3.92	4.56
% change	*-40.6%*	*78.8%*	*98.1%*	*42.2%*	*6.0%*	*16.3%*
EPS bef. GDW	0.73	1.31	2.60	5.18	3.94	4.59
BVPS	11.39	12.89	16.37	20.29	22.96	26.20
Operating cash flows	7.04	7.79	7.88	8.45	8.33	9.51
FCF	1.06	1.48	1.52	1.90	1.51	2.40
Net dividend	0.30	0.35	0.65	1.04	1.10	1.28

Source: Faurecia; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now?

The reason for writing now

We are initiating coverage of French automotive components supplier **Faurecia** as part of the publication of our auto sector report. Following the disposal of its auto exteriors business (FAE) to **Plastic Omnium**, the group is now entering a transformation phase aimed at generating higher growth and better margins. While the target for **6%** EBIT margin by 2018 looks slightly ambitious, prospective growth looks very attractive in view of the share's valuation even when applying cautious assumptions.

Cheap or Expensive?

Valuation

As for **Hella, Plastic Omnium** and **Valeo,** we value **Faurecia** via two methods: **historical multiples for EV/sales, EV/EBIT** and **P/E, and** a **DCF calculation**. This yields a valuation for **Faurecia** of **EUR47** per share, reflecting upside potential of **more than 29%** relative to the recent share price. The share is currently trading on a **20% discount** to P/E and EV/EBIT multiples relative to European peers.

When will I start making money?

Catalysts

In our view, the various announcements stemming from carmakers on the development of the **electric** or **autonomous vehicle** are positive. We see no specific catalyst for Faurecia, at least not in the short term. **The Paris motor show could potentially trigger positive newsflow for the entire sector.**

What's the value added?

Difference from consensus

We are currently in line with the consensus in terms of 2016-18 sales as well as for EBITDA, but are **9%** higher in terms of EPS. Like us, the 2018 consensus does not fully factor in the targets for **6%** margin and EPS of **EUR5** per share, implying significant upward revision potential (+19%).

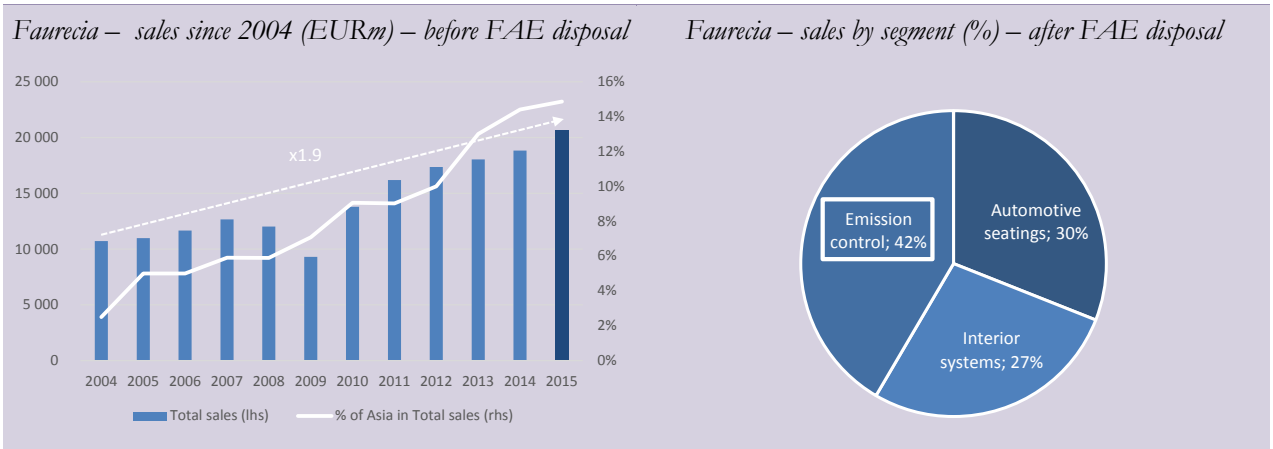
Could I lose money?

Risks to our investment case

The automotive cycle is on the point of slowing, in both mature countries and emerging markets, and this slowdown could be worse than expected, especially in view of **Brexit** and **international tension**. Like all car components suppliers, Faurecia could suffer from **a rapid slowdown in automotive production.**

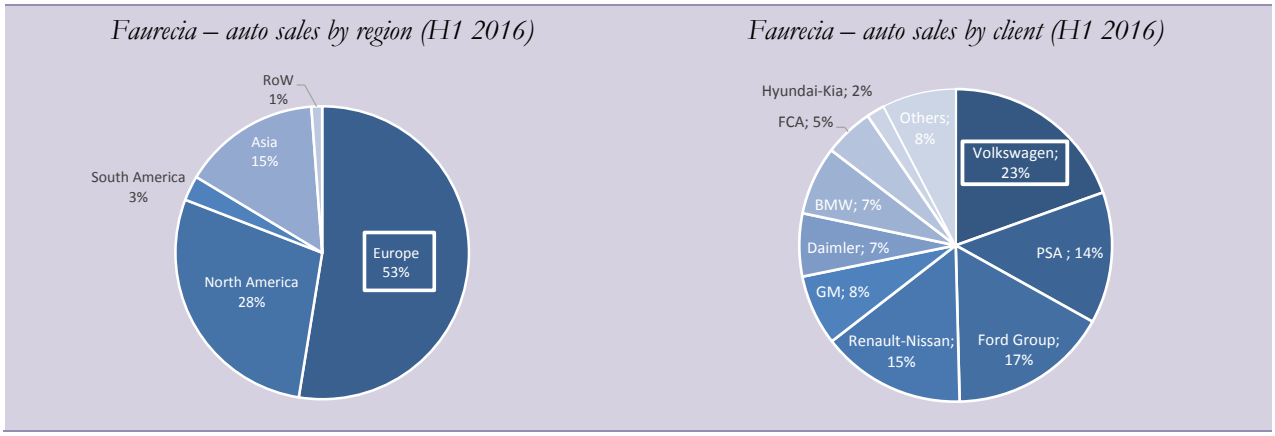
2. Faurecia in six charts

Fig. 1: Growth driven by Asia and the emissions control segment



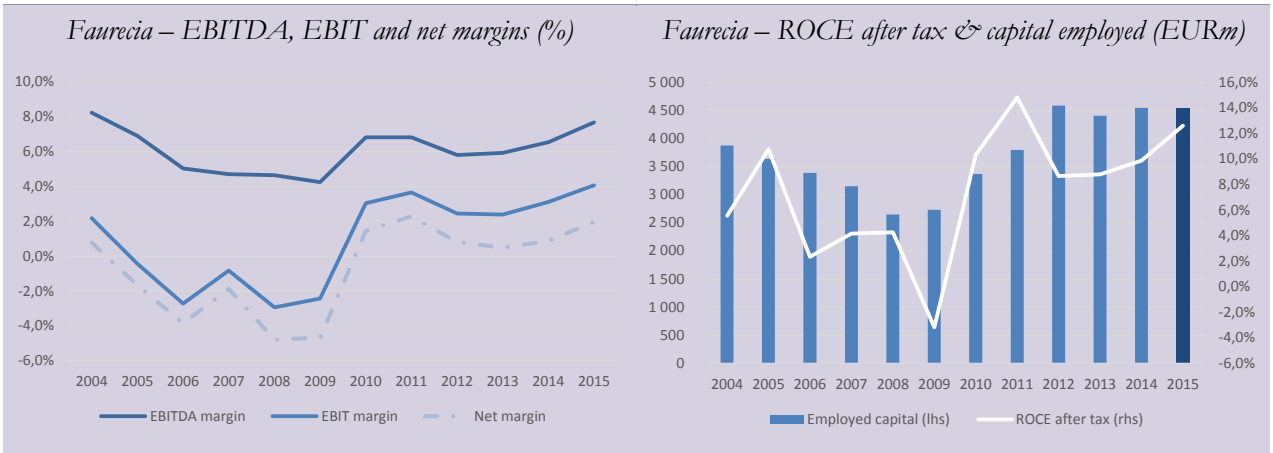
Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 2: A very European and US group



Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 3: Growth in EBIT margin and ROCE



Source: Faurecia; Bryan, Garnier & Co ests

3. "Transformers"

Following the disposal of its auto exteriors business *(FAE)* to **Plastic Omnium,** an expert in plastic components in the sector, car parts supplier **Faurecia** *(former subsidiary of French carmaker **PSA**)*, now boasts a more coherent and technological-based product portfolio. Strengthened by a new management team that has implemented a strategy focused on the main growth markets in the sector, the group is among the car components makers capable of increasing EBIT margin by more than **150bp** in the short term**.**

Previously very European with weak profitability in the US and very exposed to French carmakers, Faurecia was considered as the European parts maker with the lowest value added. The strategic plan presented on **April 19th 2016** by new CEO **Patrick Koller** *(former Head of Operations since February 2016 and former Vice-Chairman of Faurecia Automotive Seating since 2006)*, after the separation of the positions of **CEO** and **Chairman of the Board** *(position still managed by **Yann Delabrière**, former CEO since 2007)*, aims to reposition the group in higher value-added growth activities, while enabling a significant improvement in EBIT margin *(from 4.4% at end-2015 to a prospective margin of 6% in 2018)* and cash generation.

Boasting expertise in **the design and assembly of innovative car seats**, combined with know-how in the **cockpits and interior body parts segments as well as CO_2/NOx emissions**, Faurecia is a player present in all the sector's long-term growth themes enabling not only an outperformance relative to automotive production, but also an improvement in profitability.

Although we consider the 2018 targets **ambitious** (our 2018 EPS estimates are 8% lower than the group's), especially in terms of the sharp increase in the sales performance expected by the group relative to the automotive market *(+4pp annual outperformance between 2016 and 2018 vs. an average over 2012-15 of 2.3pp)* **short-term EPS growth potential nevertheless looks attractive to us *(11% CAGR over 2016-18)*.**

Faurecia remains the least well valued car components maker (discount of 20% to P/E and EV/EBIT multiples relative to European peers), despite strong potential to improve margin and EPS growth over 2016-18 *(CAGR of 11%)*. Despite our more cautious estimates than the group's for 2018, the current share price offers high upside potential *(more than 29%)*.

We are initiating coverage of the share with a **Buy** recommendation and a **FV** of **EUR47**.

4. A disposal that makes sense

In December 2015, Faurecia announced the signing of an agreement with **Plastic Omnium** under the framework of the takeover of its **exterior modules business** for **enterprise value of EUR665m** *(multiples of 7.7x EBITDA and 13.3x EBIT)*. This segment represented **less than 10% of Faurecia's sales** and was present primarily in the European bumpers market, front-end modules, and also tailgates and plastic wing parts on behalf of German premium clients.

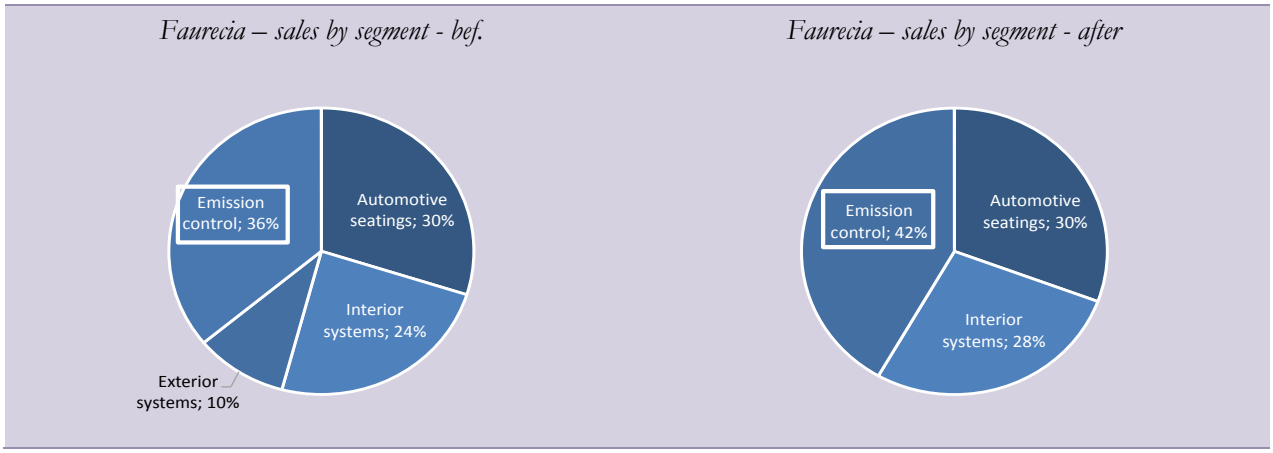
Although the deal was **closed on 29th July 2016**, the final scope of the operation was changed due to competitions requirements by the European Commission and now concerns estimated sales of **EUR1.2bn** for the full-year 2016, **5,500** employees and **14** plants compared with estimated sales of **EUR2bn** for the whole unit signed for in December 2015. The operation is therefore the largest acquisition ever made in the history of **Plastic Omnium** since 2010, when the group bought Solvay's stake in a joint venture for **EUR330m**, and also the largest disposal ever made by **Faurecia**.

This sizeable operation has enabled the group to pay down debt substantially and has a considerable earnings enhancing impact on the group's margin

4.1. A less European group…

Following this operation, Faurecia is now present in only three businesses compared with four previously: **Faurecia Emissions Control Technologies**, **Automotive Seating** and **Interior Systems**, and generates more than **50%** of sales outside Europe compared with just **46%** previously.

Fig. 4: Faurecia, before and after disposal of its FAE business (sales by segment)



Source: Faurecia; Bryan, Garnier & Co ests

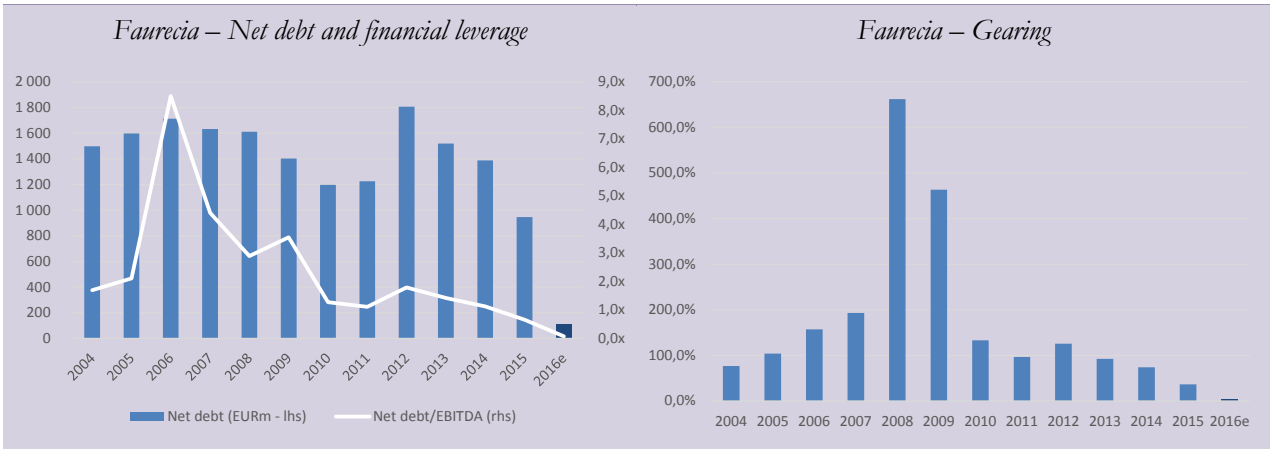
Fig. 5: Faurecia, before and after disposal of FAE business (sales by region)

Source: Faurecia; Bryan, Garnier & Co ests

4.2. …and less debt

Via this operation, the group is reducing its net debt to **EUR665m** enabling it to post a net debt/EBITDA ratio of **0.1x at end-2016**, vs **0.7x at end-2015** and **1.1x in 2014,** and to reduce its gearing from **36%** at end-2015 to **3.6%** at end-2016. The impact on the group's net debt should be visible as of H2 2016, after the deal was closed on **29th July 2016.**

Fig. 6: Change in group net debt since 2004



Source: Faurecia; Bryan, Garnier & Co ests

Although Faurecia's leverage was already low in 2015 compared with recent years, but also compared with the covenant of **2.5x** associated with the group's **EUR1.2bn** credit facility, the disposal enables the group to potentially position itself as a consolidator in the sector in the three segments where it dominates the market. Faurecia's aim to increase its exposure to the connected and autonomous vehicle segments could potentially underlie a **very technological acquisition** in the human machine interface (HMI) sector for example. The group has set itself two investment restrictions that limit its growth potential via acquisitions: **1)** acquisitions need to have a **short-term earnings-enhancing impact** on **EBITDA** and **EPS** and **2)** the **net debt/EBITDA ratio** must not exceed 1.0x thereby implying a maximum amount to be spent of **EUR1.4bn.** We estimate that this leverage could have an earnings-enhancing impact of more than **20%** on the group's **2017e EPS** and an impact **of EUR5 on FV**.

5. A group present in growth markets …

5.1. Heading for cleaner and connected vehicles

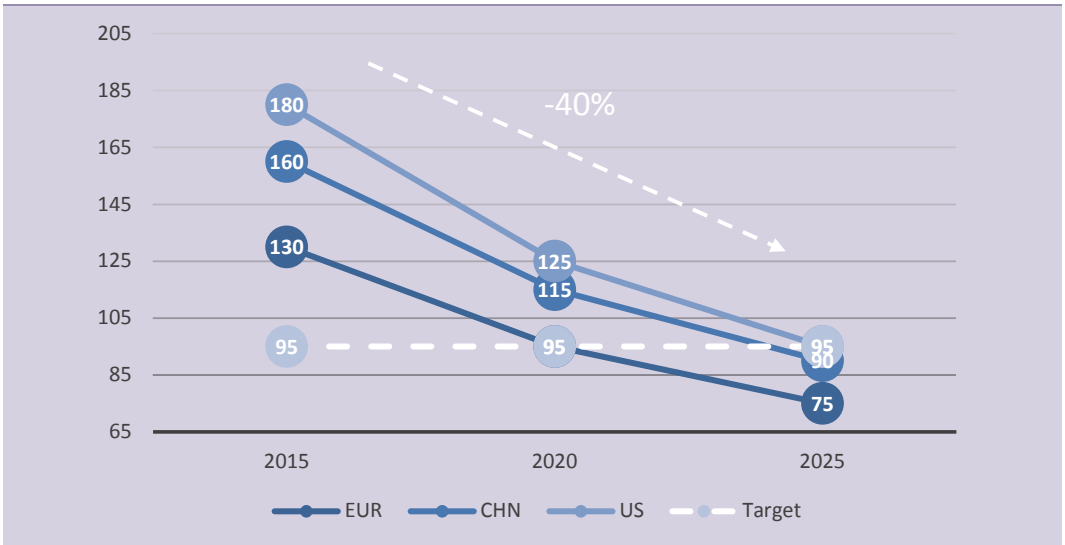
5.1.1. A reduction in CO_2 emissions by reducing vehicle weight

5.1.1.1. Limited solutions for meeting regulatory pressure

Since the early 2000s, carmakers have been subject to two types of pressure, one stemming from **consumers demanding that vehicles consume less fuel** following the surge in oil prices (up to EUR150/b) and the other from **regulatory authorities establishing ever stricter CO_2 emissions standards.**

The need to reduce fuel consumption and emissions has become a priority for carmakers while the **European Union, Japan and the US** have gradually imposed restrictive standards concerning emissions of CO_2 per km. Since the transport sector represents around a third of global CO_2 emissions, regulations in mature countries have rapidly been implemented in order to reduce their impact on the environment, but also on the health of the population. For example, the European Union set a target of **95g/km of CO_2 for 2020** as an average for each carmaker, with a penalty system of **EUR95 per gram for each car** emitting more than the set threshold once the average level for the group is exceeded. This same type of regulatory restriction also exists in other mature countries such as the **US** and **Japan**. China has also recently launched itself in the hunt for emissions obliging carmakers to change the way they design cars.

Fig. 7: Restrictive targets to reduce CO_2 emissions (CO_2 g/km)



Source: Faurecia; Bryan, Garnier & Co ests.

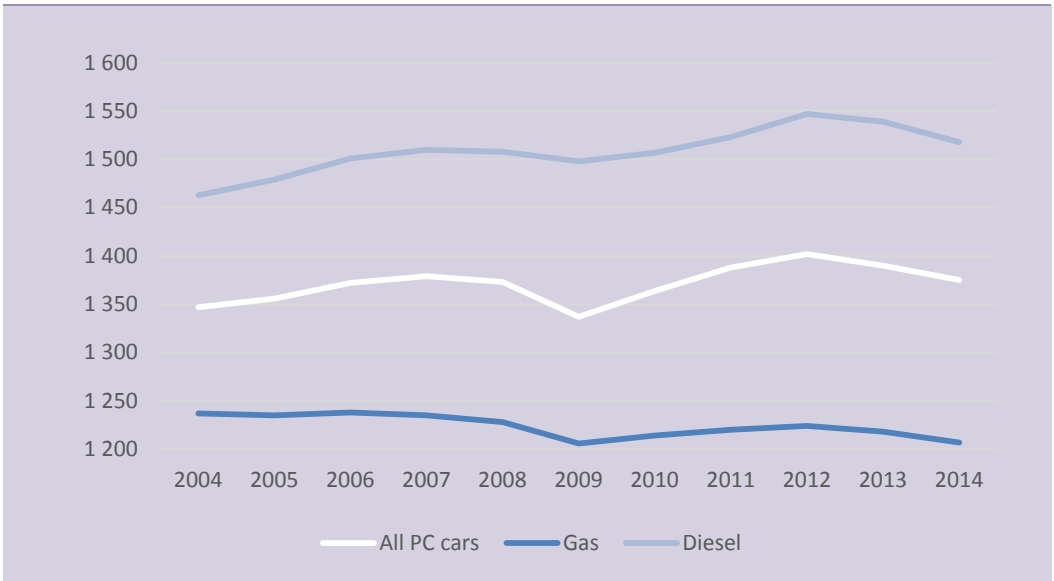
Carmakers therefore have **five solutions** to respond to commercial and regulatory pressure: **1) reducing vehicle weights**, **2) aerodynamics**, **3) emission reduction technologies** associated with the engine and exhaust systems, **4) engine downsizing** and finally, **5) hybridisation of vehicles**.

5.1.1.2. Carmakers looking for innovative products and materials

On a global level, average vehicle weights have not stopped increasing due to safety and acoustics restrictions, to stand at **1.4 tonnes in 2010**, a record level that should now start falling in a car exteriors market that is tending to reduce the amount of parts and components used on-board and gradual increase lighter materials in body-parts. **Note that reducing the weight of a vehicle by 100kg helps generate fuel savings of 0.35l/100km or a 10g/km reduction in CO_2 emissions**.

As the European case shows, carmakers have so far used technological leverage to reduce emissions in order to comply with standards. The new vehicles that came into circulation in the European Union between 2004 and 2014 therefore reduced their **CO_2 emissions by 40g/km,** whereas their weight increased slightly (+2%). A closer looks shows that the weight of petrol engine cars dropped by **2.4%** over the period, whereas for diesel engines it increased by **3.7%**, notably in view of the installation of particle emission reduction systems (NOx trap or SCR system).

Fig. 8: European vehicles slightly heavier in 2014 than in 2004 (kg)



Source: European Environmental Agency; Bryan, Garnier & Co ests.

The real potential to reduce emissions now lies in reducing the weight of vehicles

The **real potential to reduce emissions therefore now seems to lie in reducing the weight of the car,** which notably involves an overhaul in industrial processes for in-car parts and the use of lighter materials such as composites in a move also set to prompt savings in fuel consumption. Note nevertheless that this trend to reduce the weight of vehicles is likely to be hampered slightly by momentum in hybrid/electric cars, given that batteries massively increase the weight of the car *(20% of total weight of a car vs. 12% for combustion engine vehicles)*.

Plastic is not the only material that has gained in importance in vehicle design to the detriment of steel, with **so-called composite materials already shaping up to be the next technological corner**. Composite materials are a combination of a polymer matrix *(i.e. plastic)* and another material,

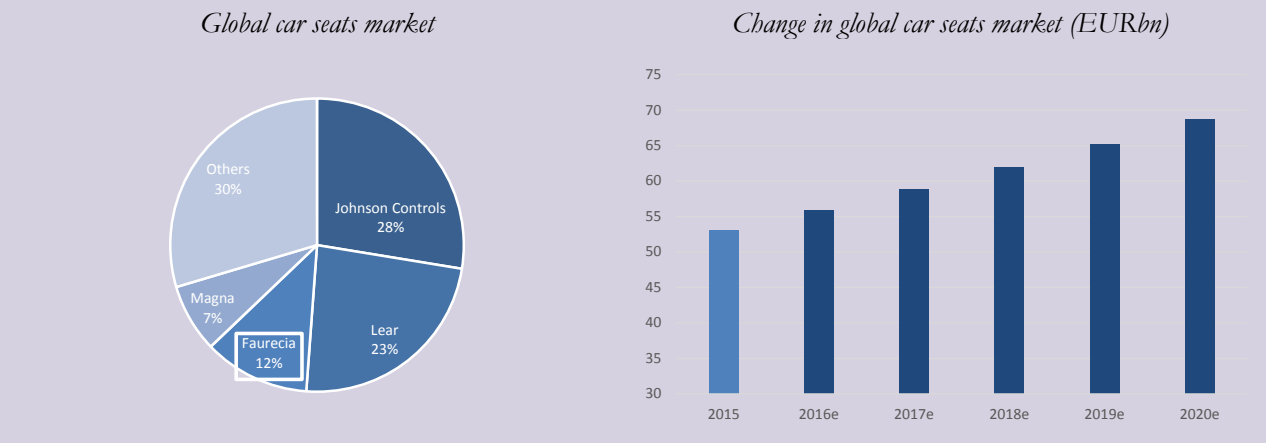
in the form of a woven fibre, thereby forming three main families of composite materials in the auto sector: glass fibres, carbon fibre and natural fibres.

The advantage of associating two materials is the ability to change the characteristics of the association, thereby making the composite material **lighter** *(50% lighter than steel)*, **more malleable** and also capable **of including more functions per part.** This ultralight combination has nevertheless historically remained reserved for single-driver Formula 1 cars, luxury models such as the **Aventador by Lamborghini**, the structure of which is entirely made out of carbon fibre, and more recently, certain electric models such as the **i3 produced by BMW**, primarily due to their **high prices**. At present, consumer cars only benefit from these applications in tailgates, seats and bumpers.

5.1.1.3. Faurecia: a range of products that are lighter and have a higher technological content

Via its **automotive seating** division *(EUR5.8bn in sales generated by 77 production sites and 19 R&D centres)*, Faurecia is notably positioned in this trend to reduce vehicles. In the auto seating segment, the group offers: **1) seat structures and mechanisms** where Faurecia is the global **no. 1** *(17% market share)* and **2) entire seats** including frames, mechanisms, control panels, accessories and coverings, for which Faurecia ranks **world no. 3** *(12% market share)* behind US components makers **Johnson Controls** and **Lear**.

Fig. 9: A global seats market of EUR53bn, still dominated by US components makers (2015)



Source: Faurecia; Bryan, Garnier & Co ests; MarketsandMarket

Fig. 10: Faurecia, in the top league for car seats

Faurecia seat structure and mechanisms - 17% global market share

Faurecia full seat - 12% global market share

Source: Faurecia; Bryan, Garnier & Co ests.

Seats represent 6% of the overall weight of a vehicle and 5% of total production costs

The group's momentum among the global leaders in the car seats market stems in particular from its offering focused on **lower vehicle weights and connectivity**, for a significant part of a vehicle with seats accounting for **6% of total weight and 5% of the total cost of a vehicle**. The group's innovative nature means it is constantly matching its offer to market requirements having filed 489 patents in 2015, with two specific innovations over the year:

- The **Active Wellness smart seat**, the first seat in the world capable of detecting its occupant's tiredness or stress levels via sensors integrated in the seat and capable of detecting the driver or passengers' heart and respiratory rhythms, with a type of specific massage and circulation of air in the ventilation systems then triggered automatically to wake up or relax the driver.

- The **Lightweight & Roominess** seat, which uses a multitude of technologies and new industrial procedures allowing a weight gain of **2.3kg** relative to a classic seat as well as a **3cm** space gain for passengers sitting in the back.

Faurecia should therefore fully benefit from growth in the seats markets in coming years, a market that should grow in value by more than **5% a year by 2020** (*MarketsandMarkets*). Its technological contribution to this segment is also an excellent means of strengthening its pricing power with carmakers, or moving upscale and strengthening its exposure to premium carmakers.

In addition to its other flagship products such as the Global & Modular front seat *(1.6kg lighter)*, Faurecia is also expanding in **composite materials.** Note that this segment was previously part of the **Faurecia automotive exteriors division** but was not part of the disposal to Plastic Omnium. It has one R&D centre and a production plant housed in France. Via its numerous research partnerships, the main one being the R&D agreement signed in 2012 with the Fraunhofer Institut in engineering and prototyping of innovative industrial procedures for the manufacture of composite materials, the group has gradually developed its expertise in composites by offering **composite body parts** *(wings, roofs, doors)*, **semi-structural parts** *(spare tyre bin)* and **structural parts for** truck cabins**.**

The **Faurecia automotive composites business** (*created in 2012*) has nevertheless raised **concerns since the loss of contracts** with **McLaren** (*tailgates*), **Renault** (*trunk floors*) and **Man** (*grills*) in 2015, now obliging the group to restructure its subsidiary. This restructuring includes the closure of the

Redon production plant in France, thereby leaving only the St Malo and Theillay sites operational. We expect Faurecia to slow the development of its composites business, in view of this commercial setback and the very low profitability of this still-emerging business in the auto industry. **Ruling out composites as part of the group's strategy is set to penalise it over the long term, bearing in mind that other components makers such as Plastic Omnium are taking the lead by increasing their investments and extending their ranges.**

A third of the energy produced by a heat engine is lost as heat in the exhaust system

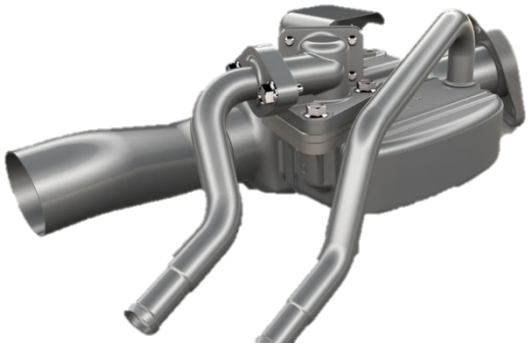
5.1.1.4. Faurecia is targeting hybrid vehicles with energy recovery

Energy recovery is an answer to two issues: **1) reducing CO_2 emissions** and **2) extending the autonomy of hybrid vehicles. Note that 30% of energy generated by the engine is estimated to be lost via the heat in exhaust fumes.** Energy recovery systems can therefore have two functions, either heat-to-heat, whereby the heat recovered is destined to heat the inside of the vehicle and therefore replace the heating system, or heat-to-electricity whereby the heat recovered is used to recharge the battery of the hybrid vehicle.

Via the emissions control business, since 2006, Faurecia has marketed energy recovery heat systems (**EHRS)** destined for hybrid engines with the technology capable of clearly boosting energy performances of a vehicle while recovering 40% of lost energy (*up to 5% in fuel savings and a 3g/km reduction in CO2)*. In detail, the heat is recovered by a heat exchanger fitted into the exhaust pipe. The energy recovered is then used to heat the engine and the inside of the car, enabling the car to work for longer in electric mode. The latest generation of this system is more focused on lightening the weight of vehicles, with a **2kg** gain compared with the previous version of the product, bringing the weight of the system to below **3kg**. This latest EHRS system was launched in 2016 and was recently adopted by **Hyundai** to equip its **Ioniq hybrid and electric vehicles.**

Fig. 11: Products focused on hybrid engines

Faurecia EHRS energy recovery system



Hyundai IONIQ Hybrid – the first car equipped with the latest EHRS

Source: Faurecia; Bryan, Garnier & Co ests.

Strengthened by this expertise, Faurecia is currently developing even more innovative systems such as the exhaust heat power generation device **EHPG** and the thermo-electric generator **TEG**, innovations that help convert lost heat in the exhaust pipe into mechanical power or electricity. Mass production and marketing of these products are nevertheless not expected before **2020**.

Faurecia's positioning in the heat-to-heat energy recovery segment, where it aims to obtain a **30%** market share looks **beneficial and capable of generating growth over the long term**. Although the automotive segment is gradually moving towards electrification, hybrid vehicles are likely to enjoy the highest growth *(longer-autonomy and more affordable than 100%-electric models)*. However, **energy recovery systems are one of the means for hybrid vehicles to present characteristics that are increasingly comparable to heat engines and which are currently the major brake on their purchase.** Faurecia expects an extension in the energy recovery market of around **EUR1bn** by 2025.

5.1.2. SCR system in hand, eliminating NOx emissions

5.1.2.1. Faced with regulatory pressure …

Like Europe where standards for emissions of polluting substances have become constantly tougher since the first one was introduced in 1993, regulatory bodies throughout the world, whether in mature or emerging countries, are increasingly focusing on **emissions of CO_2 and NOx particles in new vehicles.** Whereas Europe has recently committed itself to **Euro 6** standards that are soon to be strengthened with a **Euro 6 d** norm, the basis of which is still being studied, the **US** has not been inactive with the **Tier 3 Standards** set to be applied as of **2017.**

Fig. 12: Emissions limits for polluting substances in European standards for diesel and petrol engines

g/km		Carbon monoxide (CO)	Hydrocarbons (HC)	Non-methane hydrocarbons (NMHC)	Nitrogen oxide (NOx)	HC+Nox	Particles
Euro 1	*Petrol*	2,72				0,97	
	Diesel	2,72				0,97	0,140
Euro 2	*Petrol*	2,20				0,50	
	Diesel	1,00				0,70	0,080
Euro 3	*Petrol*	2,20	0,20		0,15		
	Diesel	0,64			0,50	0,56	0,050
Euro 4	*Petrol*	1,00	0,10		0,08		
	Diesel	0,50			0,25	0,30	0,025
Euro 5	*Petrol*	1,00	0,10	0,068	0,06		0,005
	Diesel	0,50			0,18	0,23	0,005
Euro 6	*Petrol*	1,00	0,10	0,068	0,06		0,005
	Diesel	0,50			0,08	0,17	0,005

Source: ACEA; Bryan, Garnier & Co ests.

5.1.2.2. … a technology that stands out: SCR

Carmakers now have two depollution means/systems in order to face recent regulatory pressure concerning NOx particle emissions from their diesel engines: **1) SCR** systems (*Selective Catalytic Reduction*), **2) NOx-trap systems**.

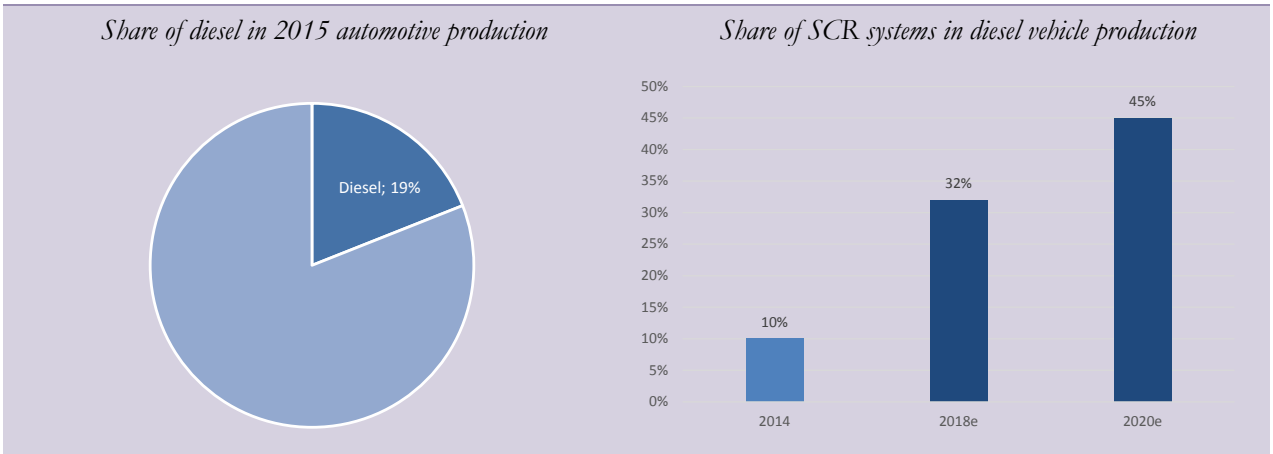
Of the two solutions, the most sophisticated but also the most efficient is clearly the **SCR system**, which enables a chemical conversion *(reduction)* of nitrogen oxide into diatomic nitrogen and water vapour by pulverising liquid ammonia.

This technology claims to have an efficacy rate of **90-95%** in the best cases but costs **EUR100-200** more than a traditional **NOx-trap** system *(a full SCR system costs between EUR300 and EUR500 per vehicle).*

The less efficient **NOx-trap** system *(70% efficient)* is used less than the SCR system due to a clogging problem that blocks the EGR valve. This problem means carmakers are obliged to reduce the number of recirculation processes, thereby implying an increase in temperature and hence, a rise in the rate of NOx particles to exceed the amount of NOx that the NOx-trap can handle. Since the SCR system is capable of handling a higher volume of exhaust fumes, it is less sensitive than the NOx trap to the decline in the gas recirculation rate.

Faced with the rapid tightening in regulations on emissions, carmakers are now increasingly inclined to fit their new models with SCR systems, which are admittedly more expensive, but which drastically reduce nitrogen oxide waste. Furthermore, this **fundamental trend is accompanied by a catching-up effect** for European carmakers historically positioned in NOx-trap systems such as Renault, which is likely to shift to SCR following the diesel scandal at Volkswagen. **Volkswagen** still has a large share of diesel production and is partly equipped with NOx-trap systems and is also planning to gradually abandon this technology in favour of SCR in order to reduce emissions and restore its image. As such, out of a global market of **3-4 million units of SCR systems,** Plastic Omnium as a player active in the depolluting technology ecosystem, estimates that the figure could reach **10 million by 2020/21**, driven by **both regulatory trends and a catch-up effect stemming from Volkswagen**.

Fig. 13: Heading for more SCR systems in diesel vehicles



Source: Faurecia; IHS; Bryan, Garnier & Co ests.

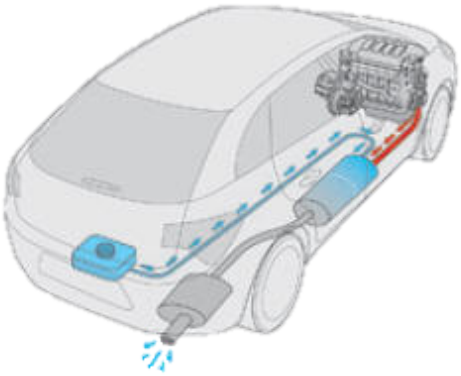
5.1.2.3. Faurecia, a precursor in new generation SCR systems?

In the market to reduce NOx emissions, Faurecia is historically positioned in the technology linked to AdBlue liquid with its **Blue Box SCR mix system,** currently used for **trucks** (*under the name Nitro*) and for PC & LCV segment (*with PSA notably*). The Blue Box system fitted with a vortex module mixes urea *(AdBlue liquid)* with the gases to then project the mixture obtained on the nitrogen oxide. It has the feature of fitting into the SCR architecture close to the engine, enabling faster start-up and a quicker reduction in NOx emissions. In addition to its full insulation enabling good heat management, the mixer helps reduce the vehicle's weight by **3-4kg** *(i.e a reduction in CO_2 emissions of 0.3-0.4g/km)*.

Faurecia is also active in the segment of **heavy commercial vehicles** in the US *(especially trucks)* via the exclusive commercial agreement signed with the leading global diesel engine manufacturer for commercial vehicles, **Cummins**. Under the framework of this agreement, Faurecia is the exclusive supplier of SCR mixer systems for trucks with **Cummins** *(US diesel engine manufacturer)*, which offers a cylindrical **EcoFit Single Module** system assembling four emissions reduction products in one module *(a diesel oxidation catalyst, a particles filter, Faurecia's SCR mixer and a SCR system)*. This all-in-one product offers space savings of **50%** and a **30%** decrease in weight relative to the previous model. Note that the commercial partnership between **Faurecia and Cummins** is currently preparing a new product due to come on the market in **2017**. However, although emission standards in the US are destined to become increasingly restrictive for trucks, the **truck market is currently in decline** *(Volvo is forecasting a 14% plunge in North America and Brazil)*. Cummins is forecasting a decline of **6-10%** in components sales in 2016 *(including its emissions expertise, energy recovery and filters)*, forecasts **that are likely to hamper truck production and take a negative toll on Faurecia's deliveries to Cummins**.

Fig. 14: SCR system (Selective Catalytic Reduction) and Blue Box mixer

Functioning of Plastic Omnium SCR with AdBlue liquid



Faurecia SCR Blue Box

Source: Faurecia; Plastic Omnium; Bryan, Garnier & Co ests.

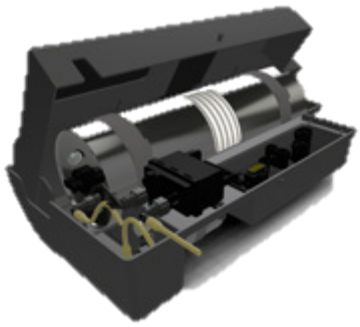
However, like other components makers *(Plastic Omnium in particular)*, Faurecia has already started development of other alternative SCR technologies not requiring AdBlue liquid. Announced at the motor show in Frankfurt in 2011, Faurecia's Ammonia Storage Delivery System **(ASDS**) looks to be the most promising given its advanced state of progress and the result of its test phases presented at the end of 2015.

ASDS is a selective catalytic reduction system that diffuses very precise quantities of ammonia stored in solid form in cartridges full of salt in the exhaust pipe catalyst. This procedure uses a chemical reaction to efficiently eliminate nitrogen oxides in exhaust fumes from diesel engines by transforming the nitrogen oxides into nitrogen and water.

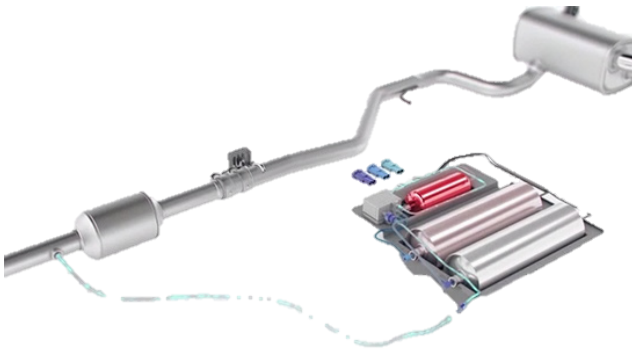
Among the tests carried out on buses in several cities, those in London showed a conversion rate of **85%** of NOx particle emissions into water over a 10-month trial period *(compared with 32% for classic SCR systems)*. Tests on buses in Copenhagen carried out over 15 months showed that vehicles fitted with the technology only emitted 1.5g/kWh of NOx vs. 6g/kWh previously *(i.e. a 75% reduction)*. The results from a bus in Copenhagen *(conversion of 95% of NOx emissions over 11 months)* **therefore suggest that the new technology is perfectly capable of presenting conversion performances at least the equivalent to systems based on AdBlue urea.** Note also that these tests were carried out in real driving conditions and over a long period.

Fig. 15: ASDS: ammonia now stored in solid form

Ammonia cartridge



ASDS system architecture



Source: Faurecia; Amminex; Bryan, Garnier & Co ests.

In addition to its conversion performances in trucks *(in which classic emission reduction systems seem little suited)*, Faurecia's ASDS has a number of competitive advantageous of a technical nature: **1) faster distribution** of the product to convert NOx particles *(the ASDS functions fully as of 150°C vs. 180°C for the classic SCR, with its conversion ability reaching 50% at this optimal temperature vs. 28% for urea systems)*, **2) a better resistance at low temperatures** *(urea freezes below -11°C, thereby requiring more time to heat and up make the system work)*, **3) increased density of ammonia** per litre *(2-3 litres of AdAmmine required to store 1kg of ammoniac compared with 5.4 litres of AdBlue)*, requiring a less frequent refilling of the system, **4) a lighter weight** given that the reservoir is replaced by a cartridge, **5) less maintenance for cleaning** the particles filter bearing in mind that the ASDS system does not produce deposits.

Faurecia positioned itself in this technology as of 2011 when it took a **21%** stake in **Amminex** *(the Danish group that invented the procedure to contain ammonia in solid form known as AdAmmine)* for EUR19.6m. This capital operation went hand in hand with a strategic partnership with the group to develop the ammonia cartridge as well as the associated distribution system.

Even if this product developed by the partnership between **Faurecia and Amminex** is still in the test phase and only in the segment of buses and commercial vehicles, we estimate that its development and potential penetration of the light vehicles market should rely on its numerous technical advantages relative to the AdBlue urea systems**. If the ASDS system proves to be successful for trucks, the transposition of this technology to the mass passenger car segment would therefore be more than likely and beneficial for Faurecia, ensuring it a leadership position in a rapidly expanding market.**

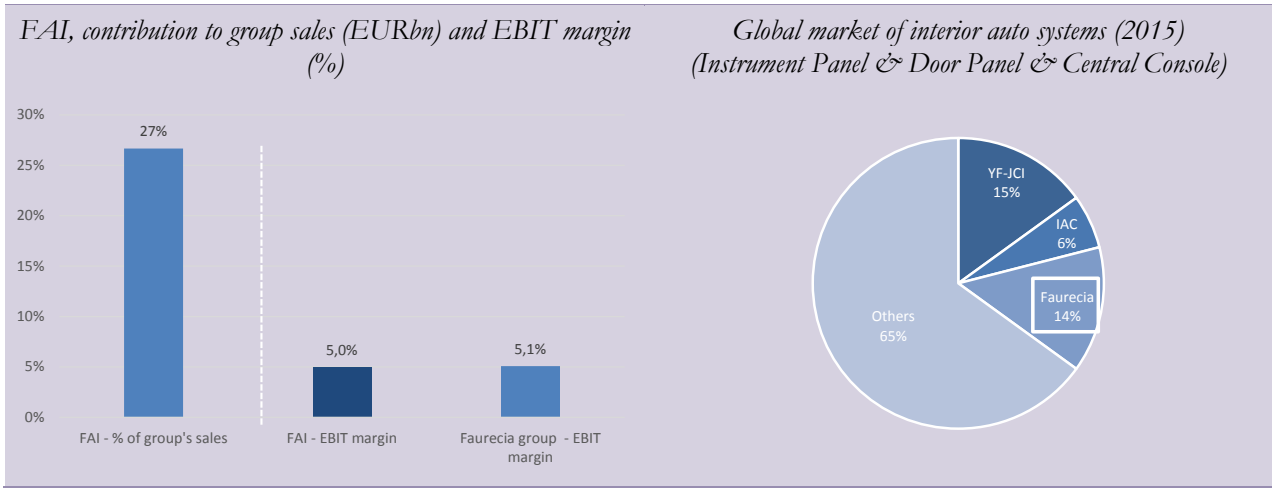
5.1.3. Focus on connected and autonomous vehicles

5.1.3.1. Beneficial momentum and a change in strategy...

Faurecia has only **very recently positioned itself in the connected car segment** via its division **Faurecia Interior Systems**, a business that contributes significantly to the group's sales *(around 27%)* but which remained on the side-lines of the group's major strategic plans. A few years ago, the interior systems market was still very competitive and lead by five global-class players whereas the rest of the ecosystem remained very fragmented in a difficult environment, making the business fairly unprofitable *(1.8% EBIT margin vs. a group average of 3%)*. The shift into the **"cockpit of the future"** as the group calls it *(connected or autonomous in-car environment)* only really took place in **2015** when the competitive backdrop became less intense with three major groups leaving the market and profitability on a group level enabling higher capex allocation to this division and promising market prospects in connected and autonomous vehicles. As such, the group's investments in the division jumped **20%** yoy in 2015 to **EUR190m**.

Note that the FIS division currently generates **EUR5bn** in sales via **85 production sites** and **eight R&D centres** in the world. Its margin generation nevertheless remains structurally lower than the group's seats and emissions control divisions *(3.9% EBIT margin vs. respectively 4.9% and 4.8%)*, whereas the **division's profitability should improve over the short-term with an offer tending towards more technological content and pricing power.** Faurecia's division offers a range of modules and systems destined to equip the vehicle interior: flooring, central consoles, door panels and modules, acoustic modules and products, decorative parts. The group already boasts a strong competitive foothold with a **14% market share on a global level behind YF-JCI but ahead of IAC.**

Fig. 16: Faurecia in the auto interior systems market



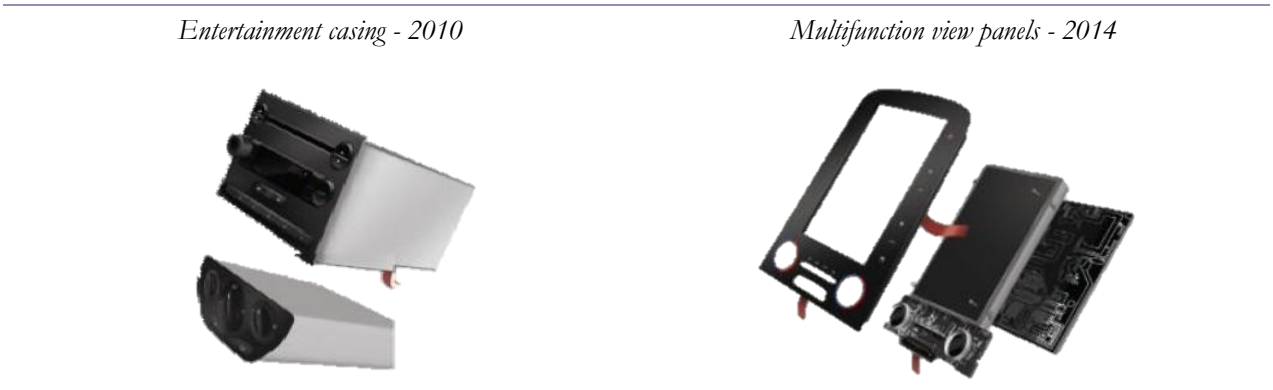
Source: Faurecia; Companies data; Bryan, Garnier & Co ests.

5.1.3.2. … in favour of HMI systems

The advent of the connected and autonomous vehicle, already visible via numerous technological partnerships created between carmakers, components suppliers and technological player, as well as the amounts invested in R&D, implies a radical overhaul of the vehicle interior and more precisely, the cockpit. **New materials** are necessary and the **architecture needs to be rethought in order to integrate smartphones and tablets**, while the installation of **sensors for data collection** is also vital, therefore requiring far more electronics components.

Long-term technological trends represent a growth factor for **HMI** systems (human machine interface), potential development areas for which include doors, the driver's side, the passenger's side and finally the central controls zone. The aim of this technology is to optimise the connectivity between the driver and the vehicle and the driver and the carmaker, by using applications and smartphones. The most visible technological shift in HMI is in central control panels. Indeed, since 2010 and the era of car radio casing and air-conditioning/heating control panels, systems have evolved towards ever larger screens that are more tactile and centralised. The next few years should see the emergence of tactile digital keyboards integrated into the car cockpit, for greater interaction with the driver and the vehicle as well as the integration of smartphones into the relationship.

Fig. 17: From casing …



Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 18: … to an integrated smart surface

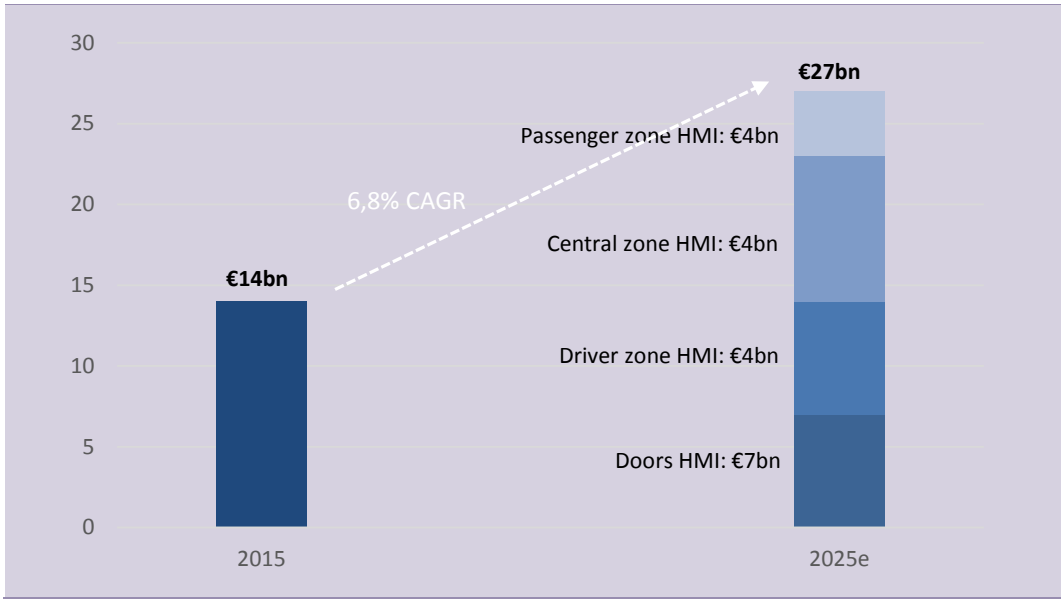
Fully tactile viewing screens - 2016

Viewing integrated directly into the smart surface decor - post 2018

Source: Faurecia; Bryan, Garnier & Co ests.

In this market, Faurecia is forecasting a **CAGR of 6.8% out to 2025 to reach EUR27bn**, with the central control zone and driver zone to take centre stage. The group is also aiming for a 10-20% global market share out to 2025 *(EUR2.7bn to EUR5.4bn)*, **a sizeable strategy focused on an increasingly technological portfolio, thereby breaking with the division's history in recent years**.

Fig. 19: Growth forecasts for the global auto HMI systems market (EURbn)



Source: Faurecia; Bryan, Garnier & Co ests.

5.1.3.3. Higher value added for greater pricing power

For the moment, Faurecia is above all **positioned in cockpit design and architecture** via interior mechanical components, decoration and control panel surfaces. To underpin its strategic plan to strengthen the HMI systems segment, the group has launched an innovation programme focused on its expertise in central commands, tactile films for screens and more widely, everything related to tactile devices. This plan also concerns acquiring new skills in central, driver and passenger smart screens, doors and seats also integrated in the cockpit decoration. **This welcome trend to move towards more electronic and technological know-how and hence more value-added for increased pricing power is set to be the main catalyst behind margin improvement in coming years**.

In terms of interior decoration, Faurecia's expertise in high-end materials such as leather, aluminium and wood, which remains an extremely difficult material to make lighter and more flexible, ensures it an **increasingly wide exposure to premium carmakers** with Audi, **Mercedes-Benz** and **Alfa Romeo**. This portfolio of premium clients for decoration is certainly a privileged client base for addressing future HMI systems in which Faurecia intends to focus as of present. Among the projects concerning HMI systems, two seem particularly buoyant and technological:

- The **Intuition** demonstrator, covering an entire range of innovations and developments destined to improve in-car connectivity was presented at the Frankfurt motorshow in 2015. It includes invisible screens integrated into the cockpit that merge into the car interior when not in use, curved tactile and high-definition central console screens, as well as smart tactile surfaces in aluminium serving as a control panel.

A number of elements presented in the cockpit were also the object of a commercial agreement following the motorshow, like the **Black Panel** screen adopted by **Alfa Romeo** for its **Giulia** model and **BMW** for its **Series 7 model**. This control panel is located in front of the driver and stands out for the elegance of its mat black surface when the car is switched off. Once the ignition is started, the indicators and lights that the driver considers to be the most important light up.

Fig. 20: Faurecia Intuition demonstrator

Source: Faurecia; Bryan, Garnier & Co ests.

- The **First Inch demonstrator** is a module that includes a central command panel, a recharge dock and the central front arm-rest, **all destined to integrate smartphones and tablets.** The module also integrates a dock and wireless charge system for smartphones and tablets via induction technology. The smartphone screen can also be projected onto the tactile screen on the central console.

The main screen was created from a "plastronics" system associating plastics and electronics in order to allow the creation of an ultra-slim tactile screen covered with a curved transparent decorative surface. This optical collage improves performances and life-span of the screen by reducing reflections while increasing resistance to vibrations and humidity. Note that a **DecoDisplay** screen already equips the **Giulia model by Alfa Romeo** since the end of 2015.

Fig. 21: Faurecia First Inch demonstrator

Source: Faurecia; Bryan, Garnier & Co ests.

5.2. Conquering China

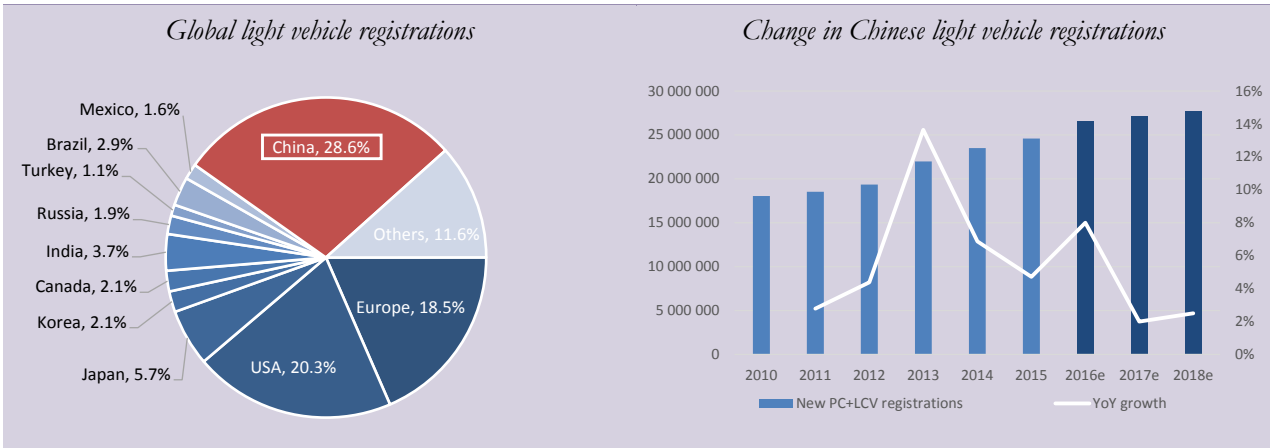
5.2.1. The automotive eldorado

Currently representing more than **40%** of new car registrations and more than **50%** of global automotive production, it is indeed vital for all sector players to be present locally in Asia and more precisely in China, a country representing alone **29%** of sales and **26%** of global automotive production.

China alone accounts for 29% of sales and 26% of global automotive production

Although very different from mature markets *(lower average age of buyers, slow share of financing in purchases, low market share of local carmakers)*, this market remains very buoyant and should continue to grow substantially in coming years, with the move in the vehicle ownership rate to join levels in Europe, Japan and the US being the main catalyst, driven primarily by the increase in size and wealth of the middle classes. **As such, we are forecasting growth of 8% in car registrations in China for 2016 followed by a return to normal at 2.5% further out.**

Fig. 22: The Chinese automotive market as a global locomotive



Source: Renault; Bryan, Garnier & Co ests

Faurecia has been present in China since **1994** when it opened the Faurecia Emissions Control Technologies (FECT) business in the country, followed by the arrival of Faurecia Automotive Seating (FAS) in 2002 and then Faurecia Interior Systems (FIS) in 2005. Note that the group also has an exterior modules business located in a plant that was finally not included in the disposal of **Faurecia Automotive Exteriors** to Plastic Omnium. Faurecia exceeded the symbolic threshold of **EUR1bn** in overall sales in China as of 2010 and now generates almost **EUR2.6bn** *(15% of sales)* in the country, primarily via its three core businesses.

The group currently has around **40 production** sites in China *(12% of total)*, **four R&D centres** *(13% of total)* and engineers present in the country account for **17%** of the group's research headcount. The country is therefore a priority focus for the group and should continue to generate a large share of its future growth in view of the orders taken in 2015 *(20% of the group's order intake concerns China)*.

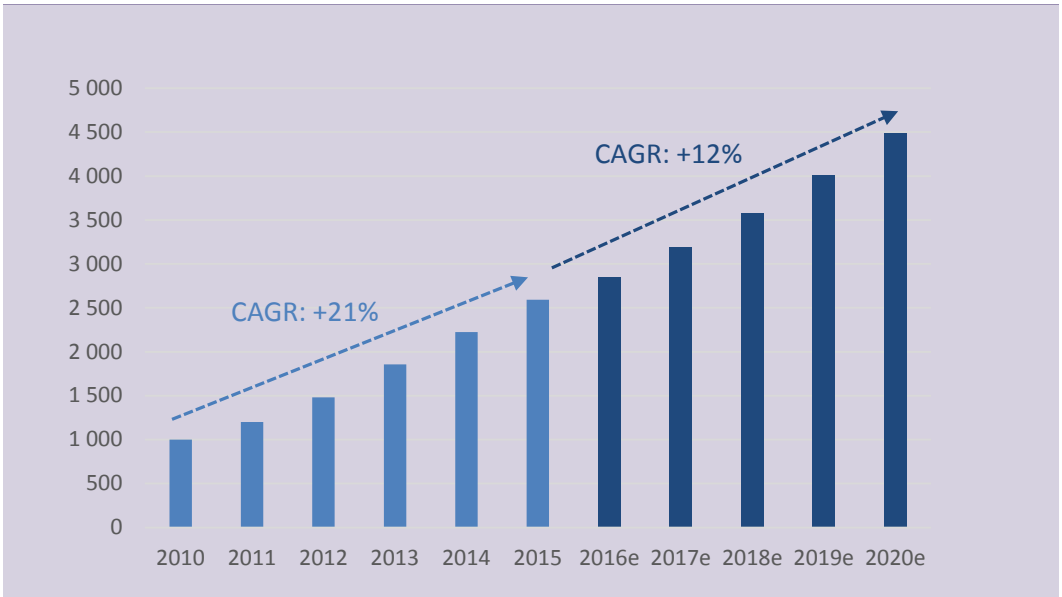
Among our universe of car parts makers (Faurecia, Hella, Plastic Omnium and Valeo), Faurecia is the most exposed to the Chinese automotive market.

5.2.2. A strategic plan focused on China and local carmakers

Initially, the positioning in China was destined for mass production of innovations designed in western countries in order to make the most of cheaper local supply of raw materials and manual labour. Since then, Faurecia has gradually left more autonomy to its Chinese subsidiary *(to the point that 100% of managers at the company are now Chinese)* up to launching in 2010 a vast local innovation programme in order to meet the specific needs of the Chinese market and increase its exposure there.

Via a strategy to **multiply partnerships in the country and strengthen its three key businesses organically,** Faurecia is targeting sales of **EUR4bn** in China in 2018 and **EUR5bn** in 2020 *(compared with EUR2.6bn at end-2015)*. This target implies a CAGR in sales of around 14% over the period, a pace far higher than growth in auto production in the region *(5% in 2016 then 2% according to IHS)*. This guidance, which would bring the weight of China in the group's overall sales to **19%** in 2018 and **22%** in 2020, nevertheless looks **realistic in terms of a portfolio tending towards more technological know-how that Chinese carmakers will require in order to catch up their technological lag in models from Chinese/foreign joint ventures.** Only a total shift in the market that could potentially result in a halt to tax incentives by the Chinese central government for small cars implemented at end-2015, would be capable of genuinely questioning the group's targets in China.

Fig. 23: Faurecia is aiming to double its sales in China over five years (EURm) - BG estimates - EURbn



Source: Faurecia; Bryan, Garnier & Co ests.

Faurecia has multiplied the number of strategic alliances in China by creating joint-ventures with local players, among which **Dongfeng** and **Geely primarily concerning its skills in interior systems**, a segment in which Faurecia still needs to ramp-up with market share of just **4%** behind the leaders *(Yanfeng, Johnson Control and Mobis)*. This partnership approach enables Faurecia to indirectly strengthen its ties with Chinese carmakers while showing them its expertise.

Note that the group generated **12%** of its sales with these same local carmakers during H1 2016 and that it is targeting a share of **20%** in 2018 followed by **30%** in 2020.

Gaining greater exposure to local carmakers is an efficient means of **warding off political risks weighing on Chinese/foreign joint ventures already set up** and which could be thrown into question at any moment by the Chinese government. Furthermore, the market concentration likely in coming years, combined with the rising momentum of local carmakers in the **SUV** *(Sport Utility Vehicle)* and **MPV** *(Multi-Purpose Vehicle)*, segments that are set to grow massively in coming years, shows the wisdom of this strategic choice.

Fig. 24: Multiple joint-ventures created in interior systems

Partner	Structure	Date	Field of activity
Geely	50/50	Dec-2010	Interior systems, bumpers
Ningbo Huazhong Plastics Products	50/50	Jan-2011	Exterior systems
Changchun Xuyang	50/50	Jun-2011	Interior systems, seats
ChangAn	50/50	Apr-2013	Interior systems
Dongfeng	50/50	Mar-2015	Interior systems
Dongfeng	50/50	Mar-2015	Exterior systems

Source: Faurecia; Bryan, Garnier & Co ests.

In view of prospective organic growth, Faurecia aims to strengthen its positions in its three main businesses with a particular emphasis on **seat systems** *(35% of sales in China)* and **emissions control** *(44% of sales in China)*. **Faurecia Automotive Seating** intends to develop its expertise in whole seats via new joint ventures while seat structures and mechanisms for which Faurecia has market share of **13%** and **16% respectively** should benefit from this leadership and the acquisition of new clients *(Renault, FCA, Hyundai etc.)*. The group therefore intends to generate **EUR1.7bn** in sales in this segment by 2018, bringing the FAS division's exposure to China to **29%** *(vs. 15% in 2015)*.

Given its leadership position in emissions control systems in China *(27% market share in 2014 ahead of Tenneco, Sango and Sejong)*, Faurecia is almost uniquely exposed to light vehicles and very little to commercial models. This shortfall is about to be made up for with the strengthening of the **Cummins-Faurecia** partnership in the trucks segment in China as well as the marketing of the NOx emissions reduction system **ASDS** planned for 2017. The addition of this product to Faurecia's offer should help it increase its exposure by 2018 with **EUR1.6bn** in sales *(bringing the share of China in Faurecia Emission Control Technologies above 20%)*.

The group's high exposure to China should last over coming years, adding weight to its no. 1 position in our coverage for this market.

6. Heading for a margin of 6%?

During the investor day organised by the group on 19th April 2016, Faurecia unveiled a number of ambitious 2016-18 targets, for both sales growth and margins, and cash generation.

Via its presence in these three businesses, the group is therefore aiming to outperform the market by **four points on average between 2016 and 2018**, thereby enabling it to generate a CAGR in sales of around **6%**. Note that over 2012-15, the group generated a CAGR of **5-6%** in sales, outperforming the market by **2.3pp** on average, and published an EBIT margin of **3.5%**, below the sector average.

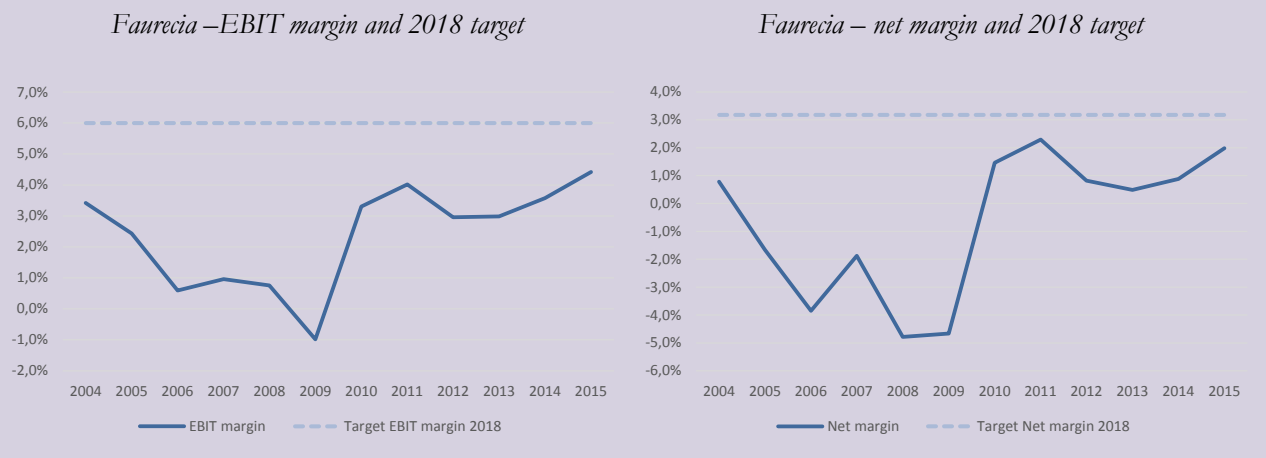
Whereas the aim to outperform the market seems feasible to us, a **6% margin target looks ambitious**, especially since the group has never reached this level of profitability in more than 10 years.

Fig. 25: Faurecia 2016-18 targets vs. 2012-15

	2012-15	2016-18	Change
Sales CAGR	**6,0%**	**6,0%**	**0,0%**
Market growth CAGR	3,7%	2,0%	-1,7%
Outperformance	2,3%	4,0%	1,7%
EBITDA margin	6,5%	10,0%	3,5%
EBITDA margin (on value added sales)	7,3%	12,0%	4,7%
EBIT margin	**3,5%**	**6,0%**	**2,5%**
EBIT margin (on value added sales)	3,9%	7,0%	3,1%
Net cash flow	84,8	> €500m	-
Net margin	**1,0%**	**3,2%**	**2,1%**

Source: Faurecia.

Fig. 26: Change in Faurecia EBIT margin and net margin



Source: Faurecia; Bryan, Garnier & Co ests

Various sources of leverage should help the group delivers its targets for EBIT and net margin improvement:

- The disposal of FAE
- The improvement in the product mix, to the benefit of innovative products and margin
- Optimisation of the cost base
- Optimisation of financial expenses and tax
- Investments under control

6.1. Disposal of FAE, a boost to margins relative to 2015

By selling off its least profitable business, the group's margin should logically improve considerably relative to the 2012-15 average of **3.5%**, to **4.4%**, implying just a **+150bp improvement to be found over** 2017 and 2018 to reach group's guidance. Although Faurecia's margin improvement guidance already reflects this boost *(2016-18 guidance with 2016 already adjusted for the disposal)*, the operation is clearly positive and should contribute to its transformation.

6.2. Improvement in the product mix, to the benefit of innovative products and margin

As indicated previously, the increase in R&D spending in recent years mean the group's product mix should improve over coming years, to the benefit of margins and cash generation. The various innovative solutions offered by Faurecia to carmakers, combined with its rising exposure to premium carmakers *(25% of sales)* should have a substantial impact on its pricing power. Although this improvement is difficult to quantify and analyse, for several years now we have nevertheless noted an improvement in the group's margin combined with higher sales growth compared with the global auto market. **This commercial outperformance relative to the industry therefore benefits Faurecia's EBIT margin.**

6.3. Optimisation of the cost base

Faurecia has always had a higher cost structure than other car components suppliers, especially in terms of **SG&A spending and production costs.** Compared with direct rivals **Plastic Omnium, Magna, Lear** and **Johnson Controls**, Faurecia spends an average of **5pp more of sales per year** on its production costs, to the detriment of operating margin.

Potential to adjust the cost base and SG&A expenses therefore looks possible in the short term.

As such, in order to reach a margin of **6%** by **2018**, Faurecia is aiming to **1)** optimise its materials consumption in order to reduce spending on raw materials and production costs *(reduction potential estimated at EUR80m)*, **2)** improve its industrial processes by integrating a higher share of automation and digitalisation *(reduction potential also estimated at EUR80m)*, **3)** reduce the development time per

module by **30%** to the benefit of development costs and R&D spending, and **4)** reduce SG&A spending by around **EUR100m** by 2018 relative to 2015.

The improvement in EBIT margin in the US, a region that has long penalised the group's profitability with an average margin of around **2.5%** over 2012-15 *(vs. 3.5% on average for the group)*, should be a considerable source of leverage to the group's margin over 2016-18. Since the nomination of a new vice-president to head the group's US unit *(Mark Stidham)*, in March 2015, profitability has increased, thanks especially to a reduction in quality defaults. The unexpected halt to production of the **Chrysler 200** imposed by the FCA is clearly set to have a negative impact on margins in the region in 2016, although compensations by the Italian group could take place in coming years for other orders.

The group expect these optimisation plans could have a combined impact of around **EUR250-300m** on its cost base relative to 2015 *(adjusted for the disposal of FAE)*, or **1.5%** of 2018e sales, in line with the target to widen the margin from **4.4%** to **6%.**

6.4. Optimisation of financial expenses and taxes

Thanks in particular to the disposal of FAE, which should help the group recover **EUR665m**, reduce its financial leverage *(net debt/EBITDA)* and reduce overall gross debt, Faurecia's financial expenses should fall by around **EUR50m** over 2017-18 relative to 2016.

The group recently issued two seven-years bonds with coupons of **3.125%** and **3.625%** respectively, compared with an average interest rate on debt of **5.1%** in 2015 and **5.4%** in 2014, and also redeemed two bonds with coupons of more than **8%** (for a total of **EUR740m**).

Fig. 27: Faurecia – Recent bond moves

Issue date	Due date	Bond type	Amount	Annual interest	Implied coupon in EURm
Recently redeemed bonds	-	-	-	-	-
May 2012	15 June 2019	Bonds	250	**8,75%**	21,9
November 2011	15 December 2016	Bonds	350	**9,38%**	32,8
February 2012	15 December 2016	Bonds	140	**9,38%**	13,1
Recently issued bonds	-	-	-	-	-
March 2015	15 June 2022	Bonds	500	**3,125%**	15,6
April 2016	15 June 2023	Senior notes	700	**3,625%**	25,4

Source: Faurecia; Bryan, Garnier & Co ests.

The group is therefore guiding the market on a decline in net financial expenses of **EUR100m** vs. **>EUR160m** in 2015 implying a positive impact of **EUR0.26** in EPS, or **13%** of the EPS improvement target *(of EUR3 in 2015 and EUR5 in 2018)*.

Concerning taxes, thanks to the carry forward of tax losses in France and South America, the group should benefit from a tax rate of below 30% over 2016-18 vs. **>32%** in 2015 and **>33%** in 2014.

6.5. Investments likely to remain under control

In the same logic of optimising the cost base, like a number of car components players, the group aims to keep a tight rein on investments and R&D spending.

Faurecia intends to maintain its investments and capitalised R&D spending at below **5%** between 2016 and 2018, as in 2014 and 2015, a ratio below the sector average and below the average noted at Hella, Plastic Omnium and Valeo. In our view, this difference in investment policy stems partly from the group's previous commercial underperformance relative to the global automotive market compared with other car components makers.

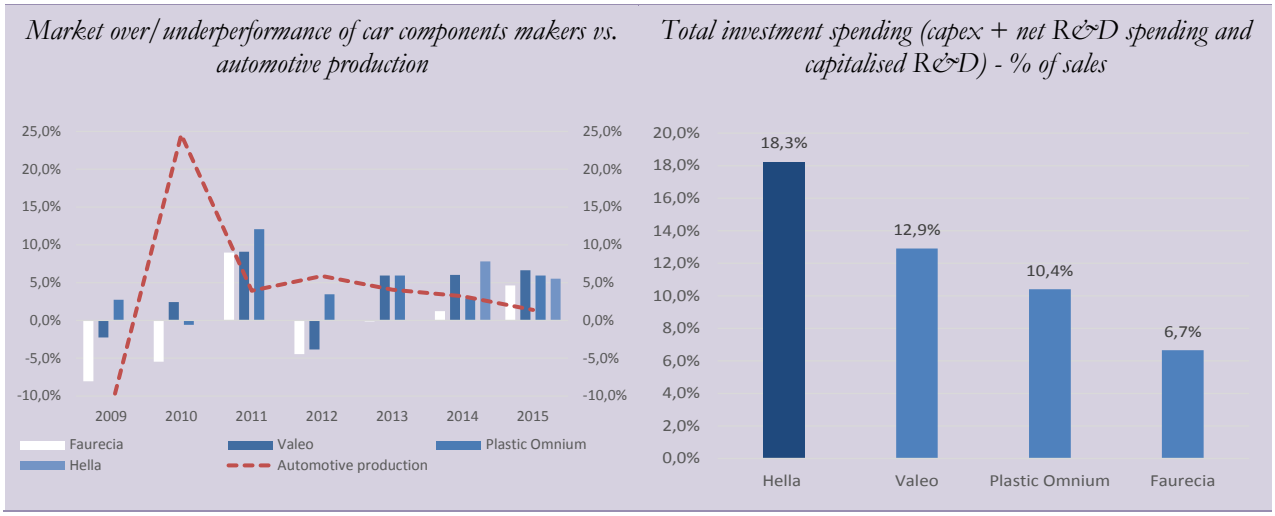
Fig. 28: Faurecia – change in investment spending since 2005 (EURm)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capex	(434)	(302)	(307)	(329)	(169)	(323)	(451)	(557)	(518)	(519)	(621)
Capitalised R&D	(216)	(208)	(159)	(145)	(104)	(153)	(180)	(267)	(270)	(322)	(311)
Capex on sales	4,0%	2,6%	2,4%	2,7%	1,8%	2,3%	2,8%	3,2%	2,9%	2,8%	3,3%
Capitalised R&D on sales	2,0%	1,8%	1,3%	1,2%	1,1%	1,1%	1,1%	1,5%	1,5%	1,7%	1,7%
Total investment on sales	**5,9%**	**4,4%**	**3,7%**	**3,9%**	**2,9%**	**3,5%**	**3,9%**	**4,7%**	**4,4%**	**4,5%**	**5,0%**

Source: Faurecia; Bryan, Garnier & Co ests.

In addition, when compared with the level of total spending by Faurecia for investments and research *(R&D spending in the P&L account and capitalised R&D spending)*, with spending at other components makers, this difference is all the wider.

Fig. 29: More investment spending for more outperformance?



Source: Company data; Bryan, Garnier & Co ests

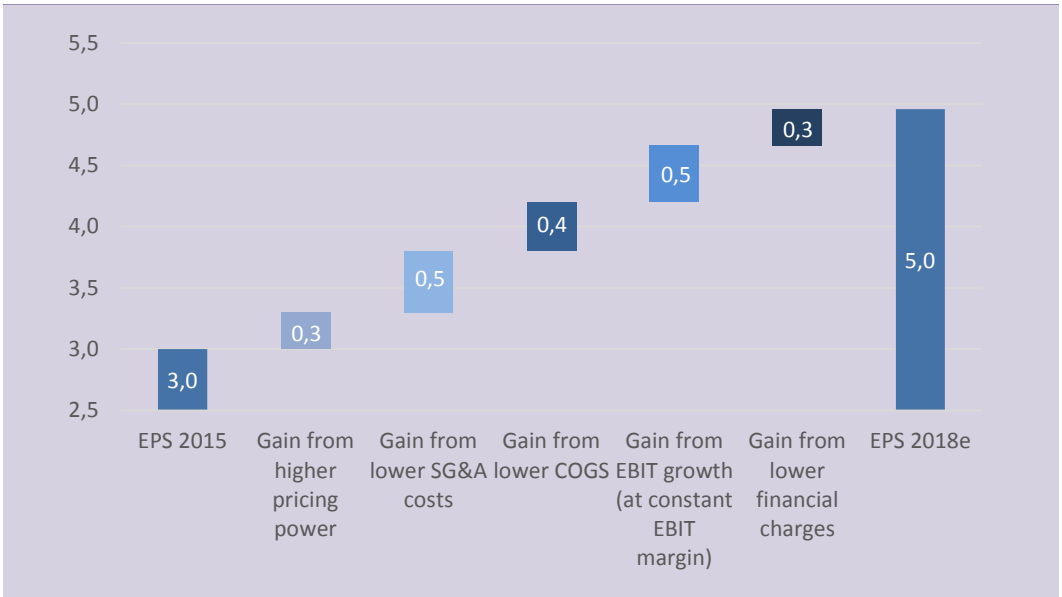
This strategy to optimise and control investment spending is unlikely to have a positive impact on the group's margin or cash generation relative to 2015 given that this optimisation already existed, **although it seems to contradict the group's aim to outperform global automotive production by 4pp per year over coming years.**

As such, in our Faurecia model, we do not forecast an organic outperformance of **4pp** relative to global auto production over the 2016-18 period, but of **3pp since we estimate that maintaining the level of investments at 5% of sales should limit the group's growth, even if the group's orderbook is at a peak level of EUR54bn and that new orders reached EUR21bn in 2015, up 16% relative to 2014.**

6.6. Heading for EPS of EUR5 in 2018?

The various sources of leverage presented above should help Faurecia reach its 2018 target to generate EPS up **67%** between 2015 and 2016, **to EUR5 per share**.

Fig. 30: Faurecia – group forecast for change in EPS between 2015 and 2018



Source: Faurecia; Bryan, Garnier & Co ests.

The 2015-18 EPS growth estimate that **we consider ambitious**, is currently the highest among the four car components players for which we are initiating coverage in our sector report, excluding Plastic Omnium which is to benefit from the integration of FAE.

However, like the market, we currently believe that this target will not be fully delivered. Our % sales growth estimates for the period **are 30% below** the group's targets *(CAGR of 4.2% for 2016-18 vs. a target for 6%)*. This difference is partly due to our lower growth estimates for global auto production, but also to the lack of acceleration in investment spending, which is set to penalise the group's organic growth between now and 2018. We are currently forecasting EPS of **EUR4.6/share** for 2018, compared with **EUR4.2/share expected by the market.**

7. Our estimates

As for **Hella**, **Plastic Omnium** and **Valeo**, our **Faurecia model** includes auto production estimates of **+2.4%** for 2016, followed by **+1.7%** for 2017 and **+1.7%** for 2018. We then expect market growth of around **+1.5%** over 2019-2025.

In our Faurecia model, we have factored in the disposal of the Faurecia auto exteriors businesses (*EUR1.2bn in sales and EUR50m in EBIT)* as of **29th July 2016** *(closing date*) for an overall amount of **EUR650**.

Fig. 31: Faurecia – Income statement – EURm

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Revenues	**13 796**	**16 190**	**17 365**	**18 029**	**18 829**	**18 770**	**19 103**	**19 897**	**20 746**
Change (%)		17,4%	7,3%	3,8%	4,4%	-0,3%	1,8%	4,2%	4,3%
Adjusted EBITDA	941	1 105	1 009	1 070	1 232	1 442	1 552	1 597	1 781
EBIT	**456**	**651**	**514**	**538**	**673**	**830**	**934**	**1 041**	**1 154**
Change (%)		42,9%	-21,1%	4,8%	25,1%	23,3%	12,6%	11,4%	10,9%
Financial results	(116)	(118)	(196)	(234)	(244)	(207)	(159)	(148)	(136)
Pre-Tax profits	330	522	265	211	344	571	733	856	981
Exceptional	(36)	(58)	(87)	(5)	(81)	(65)	(57)	(50)	(50)
Tax	(98)	(108)	(78)	(65)	(115)	(186)	(201)	(236)	(271)
Profits from associates	27	46	34	14	1	13	14	13	14
Minority interests	(31)	(42)	(42)	(56)	(63)	(74)	(76)	(79)	(81)
Net profit	**202**	**371**	**142**	**88**	**166**	**372**	**711**	**541**	**629**
Restated net profit	202	371	142	88	166	372	511	541	629
Change (%)		84,1%	-61,7%	-38,4%	89,2%	124,4%	37,3%	6,0%	16,3%

Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 32: Faurecia – Cash flow statement – EURm

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Operating cash flows	**749**	**726**	**25**	**927**	**1 037**	**1 154**	**1 159**	**1 143**	**1 305**
Change in working capital	31	(184)	(387)	364	263	(932)	62	48	51
Capex, net	**(476)**	**(632)**	**(824)**	**(788)**	**(932)**	**(932)**	**(898)**	**(935)**	**(975)**
Financial investments, net	0	(66)	(71)	(12)	(33)	(31)	0	0	0
Dividends	0	(54)	(66)	(48)	(57)	(77)	(89)	(142)	(152)
Other	22	51	688	(6)	300	(294)	663	(1)	0
Net debt	1 197	1 226	1 807	1 519	1 388	946	110	45	(133)
Free Cash flow	**273**	**94**	**(799)**	**140**	**197**	**223**	**261**	**208**	**330**

Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 33: Faurecia – Balance sheet – EURm

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Tangible fixed assets	1 576	1 733	1 972	2 028	2 230	2 247	1 773	2 060	2 312
Intangibles assets	435	464	588	686	851	935	1 024	1 116	1 213
Cash & equivalents	606	630	629	711	1 025	939	1 775	1 840	2 019
current assets	3 052	3 566	3 935	3 987	4 284	4 312	5 053	5 305	5 628
Other assets	812	871	937	919	712	719	(141)	(198)	(368)
Total assets	**6 480**	**7 265**	**8 062**	**8 331**	**9 100**	**9 153**	**9 484**	**10 123**	**10 803**
L & ST Debt	1 803	1 856	2 436	2 230	2 412	1 885	1 885	1 885	1 885
Others liabilities	3 780	4 142	4 150	4 459	4 812	4 896	4 857	5 090	5 286
Shareholders' funds	811	1 154	1 306	1 502	1 717	2 398	2 785	3 151	3 596
Total Liabilities	**6 480**	**7 265**	**8 024**	**8 331**	**9 100**	**9 390**	**9 777**	**10 416**	**11 096**
Capital employed	**3 369**	**3 794**	**4 584**	**4 405**	**4 543**	**4 548**	**4 117**	**4 486**	**4 825**

Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 34: Faurecia – Ratios – %

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Operating margin	**3,3%**	**4,0%**	**3,0%**	**3,0%**	**3,6%**	**4,4%**	**4,9%**	**5,2%**	**5,6%**
Tax rate	29,6%	20,7%	29,4%	30,6%	33,5%	32,5%	28,0%	28,0%	28,0%
Net margin	1,5%	2,3%	0,8%	0,5%	0,9%	2,0%	2,7%	2,7%	3,0%
ROE (after tax)	22,5%	29,3%	9,9%	5,3%	8,8%	14,2%	23,4%	15,7%	16,0%
ROCE (after tax)	**10,3%**	**14,8%**	**8,7%**	**8,8%**	**9,9%**	**12,6%**	**16,7%**	**17,0%**	**17,5%**
Gearing	133%	97%	126%	92%	74%	36%	4%	1%	-3%
Pay-out ratio	13,4%	10,4%	0,0%	42,0%	26,2%	24,0%	28,0%	28,0%	28,0%
Number of shares, diluted	113	126	120	132	133	146	137	138	138

Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 35: Faurecia - Per share data – EUR

Data per Share (EUR)	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
EPS	**1,82**	**3,00**	**1,24**	**0,73**	**1,31**	**2,60**	**5,18**	**3,94**	**4,59**
Restated EPS	1,82	3,00	1,24	0,73	1,31	2,60	3,70	3,92	4,56
% change		65,0%	-58,8%	-40,6%	78,8%	98,1%	42,2%	6,0%	16,3%
EPS bef. GDW	1,82	3,00	1,24	0,73	1,31	2,60	5,18	3,92	4,56
BVPS	7,20	9,17	10,87	11,39	12,89	16,37	20,29	22,82	26,04
Operating cash flows	6,7	5,8	0,2	7,0	7,8	7,9	8,4	8,3	9,5
FCF	2,4	0,7	-6,7	1,1	1,5	1,5	1,9	1,5	2,4
Net dividend	**0,25**	**0,35**	**0,00**	**0,30**	**0,35**	**0,65**	**1,04**	**1,10**	**1,28**

Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 36: Faurecia - Valuation – EURm

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Market capitalization	**1 716**	**2 526**	**1 675**	**2 225**	**3 546**	**5 046**	**4 980**	**4 980**	**4 980**
Net debt	1 197	1 226	1 807	1 519	1 388	946	110	45	(134)
Pensions	157	162	172	150	200	188	178	169	161
Minorities	261	286	496	1 417	1 352	1 006	749	727	644
Financial assets	0	162	171	171	199	233	233	233	233
EV	**3 332**	**4 037**	**3 979**	**5 140**	**6 287**	**6 952**	**5 784**	**5 689**	**5 418**
EV/Sales	24%	25%	23%	29%	33%	37%	30%	29%	26%
EV/EBITDA	3,5x	3,7x	3,9x	4,8x	5,1x	4,8x	3,7x	3,6x	3,0x
EV/EBIT	**7,9x**	**6,8x**	**9,3x**	**11,9x**	**10,7x**	**9,1x**	**6,6x**	**5,7x**	**4,9x**
P/E	8,7x	7,6x	29,3x	49,4x	27,6x	13,9x	9,8x	9,2x	7,9x
Dividend Yield (%)	**1,6%**	**1,0%**	**0,0%**	**0,8%**	**1,0%**	**1,8%**	**2,9%**	**3,0%**	**3,5%**

Source: Faurecia; Bryan, Garnier & Co ests.

8. Valuation

As for **Hella, Plastic Omnium** and **Valeo**, we have valued **Faurecia** using two methods: **1/historical multiples** and **2/ DCF**. In all, the combination of the various methods *(three FVs stemming from multiples and one from DCF, with a weighting of 25% for each method)*, implies a **FV of EUR47** per share, thereby implying upside of **>29%** relative to the last listed share price.

As for other car parts suppliers, we have decided to **overweight the multiples valuation *(75% of FV)* to the detriment of the DCF valuation** *(25%)* in order to reflect the cyclical nature of the segment and the industry, and sharp volatility in the sector.

Although we consider Faurecia's 2018 targets ambitious with our estimate for 2018 EPS 8% lower the group's guidance, our valuation method points to more than 25% upside relative to the recent share price. The group's transformation is underway.

We are therefore initiating coverage of Faurecia with a Buy recommendation.

Fig. 37: Attractively valued relative to peers...

Valuation	Faurecia	Hella	Plastic Omnium	Valeo	Average suppliers
EV/EBIT 2015	9,1x	11,4x	11,6x	12,0x	11,1x
EV/EBIT 2016e	6,6x	9,2x	10,8x	11,7x	9,6x
EV/EBIT 2017e	5,7x	8,3x	8,0x	10,0x	8,0x
EV/EBIT 2018e	4,9x	7,1x	6,8x	8,9x	6,9x
Average 16-18	*5,7x*	*8,2x*	*8,5x*	*10,2x*	*8,2x*
Premium/Discount	**-29,7%**	**0,4%**	**4,4%**	**25,0%**	**-**
P/E 2015	13,9x	15,2x	17,0x	14,2x	15,1x
P/E 2016e	9,8x	11,5x	13,5x	13,7x	12,1x
P/E 2017e	9,2x	10,6x	10,9x	11,8x	10,6x
P/E 2018e	7,9x	9,3x	9,6x	10,7x	9,4x
Average 16-18	*9,0x*	*10,5x*	*11,4x*	*12,1x*	*10,7x*
Premium/Discount	**-16,2%**	**-2,4%**	**6,0%**	**12,7%**	**-**
PEG 2015	0,1x	-2,4x	1,1x	0,5x	-0,2x
PEG 2016e	0,2x	0,4x	0,5x	0,8x	0,5x
PEG 2017e	1,4x	1,3x	0,5x	0,7x	1,0x
PEG 2018e	0,5x	0,7x	0,7x	1,1x	0,8x
Average 17-18	*0,7x*	*0,8x*	*0,6x*	*0,9x*	*0,7x*
Premium/Discount	**-4,0%**	**5,6%**	**-22,1%**	**20,5%**	**-**

Source: Company Data; Bryan, Garnier & Co ests.

The Faurecia share is currently trading on a discount of **30%** relative to peers on EV/EBIT multiples and of **16%** relative to P/E multiples whereas the difference in terms of EPS growth over 2016-18 only stands at **1-2pp** with Hella and Valeo *(Plastic Omnium benefits from a positive scope effect on EPS)*.

Fig. 38: …Despite EPS growth similar to rivals

	Faurecia	Hella	Plastic Omnium	Valeo	Average suppliers
EBIT growth 2015	30,3%	-2,0%	12,8%	16,7%	14,4%
EBIT growth 2016e	14,7%	21,9%	21,4%	24,8%	20,7%
EBIT growth 2017e	13,0%	7,4%	22,8%	14,7%	14,5%
EBIT growth 2018e	11,4%	12,2%	12,4%	8,5%	11,2%
Average 16-18	**13,0%**	**13,8%**	**18,9%**	**16,0%**	**15,4%**
EPS growth 2015	98,1%	-6,4%	15,8%	29,0%	34,1%
EPS growth 2016e	42,2%	32,5%	25,7%	16,4%	29,2%
EPS growth 2017e	6,6%	8,4%	23,8%	16,8%	13,9%
EPS growth 2018e	16,3%	13,1%	13,2%	9,6%	13,1%
Average 16-18	**21,7%**	**18,0%**	**20,9%**	**14,3%**	**18,7%**
CAGR 16-18	**11,3%**	**10,7%**	**18,4%**	**13,2%**	**13,4%**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 39: Faurecia – FV @ EUR47

Faurecia - FV sum-up	**Multiples**	**FV**
EV/Sales *(2016-25) - 25%*	**35%**	**€40,9**
EV/EBITDA *(2016-25) - 25%*	**7,0x**	**€47,6**
P/E *(2016-25) - 25%*	**13,0x**	**€50,1**
DCF model *(2016-25) - 25%*		**€48,7**
o/w WACC	9,1%	
o/w LTG	2,0%	
o/w Average EBIT margin	5,3%	
o/w LT EBIT margin	5,0%	
Implied FV		**€47,0**
Current price		€36,3
Upside		29,7%

Source: Bryan, Garnier & Co ests.

8.1. Valuation via historical multiples

We have taken into account the group's historical **EV/sales, EV/EBIT and P/E** multiples to value **Faurecia.** Our FV's are calculated over the 2016-2025 period *(discounted by WACC each year)* implying respectively **EUR40.9**, **EUR47.6** and **EUR50 of FV**. We value Faurecia with **35%** sales, **7.0x** EBITDA and **13.0x** EPS multiples, slightly below European peers to reflect notably the lower than average margin generated by the group.

8.2. DCF valuation

We have also valued **Faurecia** via a DCF model, based on the following estimates.

- **WACC** of **9.1%**
- **A growth rate to infinity of 2%,** implying a slight outperformance by **Plastic Omnium** relative to the auto market (+1.5%).
- **EBIT margin** (with restructuring and without joint ventures) of an average **5.3%** and a margin to infinity of **5.0%**.

Fig. 40: Faurecia –DCF estimates – EURm

	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Revenues - Core business	**19 103**	**19 897**	**20 750**	**21 662**	**22 638**	**23 390**	**24 190**	**25 041**	**25 948**	**26 916**
Revenue Growth Rate	0,0%	4,2%	4,3%	4,4%	4,5%	3,3%	3,4%	3,5%	3,6%	3,7%
Operating Margin	4,6%	5,0%	5,3%	5,7%	6,0%	6,2%	6,4%	6,6%	6,9%	7,1%
EBIT *(excluding JVs & Associates, with restr. Charges)*	**877**	**991**	**1 104**	**1 225**	**1 353**	**1 450**	**1 553**	**1 663**	**1 781**	**1 907**
Adjustment for provisions	(7)	(1)	0	1	2	0	1	2	3	4
(-) Taxes on EBIT	(246)	(277)	(309)	(343)	(379)	(406)	(435)	(466)	(499)	(534)
(+/-) Movements in working capital	62	48	51	54	58	45	48	51	54	58
(+) Depreciation and amortization	618	556	627	695	747	811	858	903	947	990
(-) Capital Expenditures	(573)	(597)	(622)	(650)	(679)	(702)	(726)	(751)	(778)	(807)
(-) Intangibles	(325)	(338)	(353)	(368)	(385)	(398)	(411)	(426)	(441)	(458)
Free Cash Flow	407	381	498	614	718	801	888	976	1 066	1 159
Present Value of Free Cash Flow	**395**	**339**	**406**	**459**	**492**	**503**	**511**	**515**	**516**	**514**

Source: Faurecia; Bryan, Garnier & Co ests.

Fig. 41: Faurecia – DCF @ EUR49

PV of Free Cash Flows	4 651
PV of Terminal Value	3 948
EV implied - EURm	**8 600**
- Net financial debt (N-1) - EURm	946
- Pensions Liabilities (N-1) - EURm	188
- Minority Interest value - EURm	1 006
+ Financial assets - EURm (N-1)	233
Value of Equity	**6 694**
Value of Equity per share	**48,8**
Price	36,3
Upside/Downside	34,5%

Source: Bryan, Garnier & Co ests.

We are initiating coverage of the share with a FV of EUR47.

9. Faurecia – SWOT

Fig. 42: Faurecia – SWOT analysis

Strengths	Weaknesses
• Core skills in **vehicle weight reduction**, long-term growth trends in the automotive sector • A product portfolio widening to include hybrid vehicles and rechargeable hybrid vehicles • Diversified geographical exposure in the automotive segment with **Asia** (15% of sales) and **the US** (28% of sales) • Rising exposure to **German carmakers** (>33%) • A refocusing on the most profitable businesses following the disposal of the FAE activities	• Weak presence in the connected and autonomous car segment • Product offering still limited to the composites segment • Low operating margin relative to other auto parts makers
Opportunities	**Threats**
• **Disposal of the FAE division** in favour of acquisitions, with the group having received **EUR650m**, enabling it to reduce its **net debt/EBITDA multiple to 0x** • Commercial development of the **ASDS** depollution systems with individual carmakers.	• A slowdown in the global auto market would directly affect **100%** of Faurecia's sales • Confirmation of a Chinese market slowdown in the event of a halt to government incentives • Momentum in the **solid SCR depollution** systems (**DINOx solid**) at Plastic Omnium, at the same time as the Faurecia ASDS system

Source: Bryan, Garnier & Co ests.

10. Faurecia in short

10.1. A bit of history

Now ranking among the few listed French car components makers *(Faurecia, Plastic Omnium, MGI Coutier, Plastivaloire, Valeo)*, **Faurecia** was created in **1997** from the merger of **ECIA** *(Equipements et Composants pour l'Industrie Automobile)*, the then subsidiary of French carmaker **PSA Peugeot Citroën,** and the car seats supplier **Bertrand Faure**. The group has since relied heavily on acquisitions to expand, especially thanks to the takeover of car components maker Sommer-Allibert in 2001, three years after the group was created. The trend gained momentum in the 2010s with the acquisition of Plastal Germany and Plastal Spain, specialised in plastic body parts, as well as the takeover of Sora Composites' auto businesses in 2012, when it was positioned in composite plastics, and finally, Plastal France during the same year. Although carmaker PSA group was historically **Faurecia's** leading shareholder with a stake of more than **50%**, this has now dropped below the **50%** threshold, diluted by convertibles operations, prompting questions that the carmaker would withdraw entirely as was the case in the past with the majority of carmakers and their former subsidiaries.

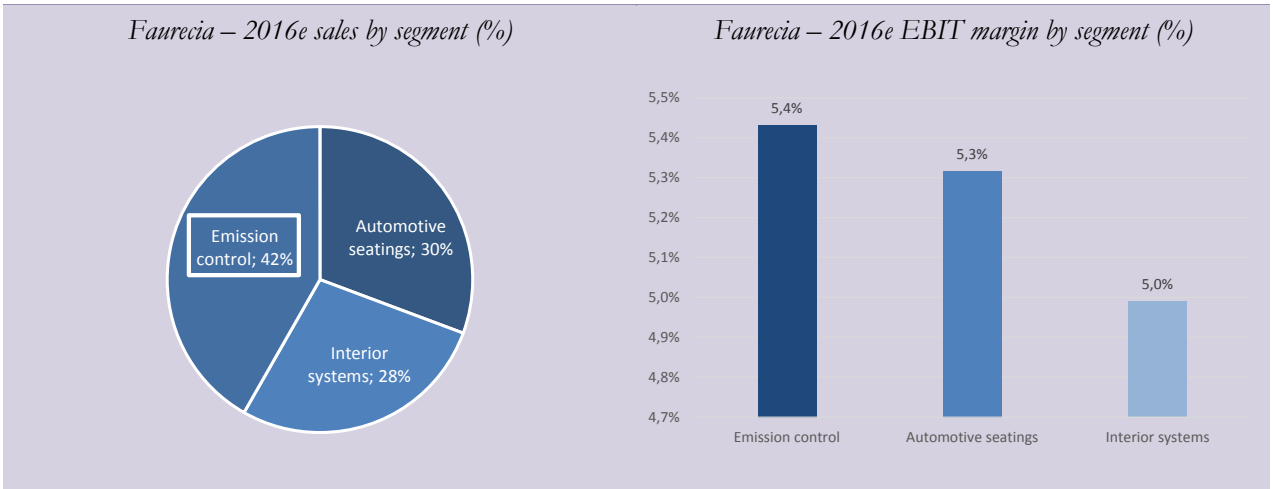
With sales of **EUR18.7bn** at end-2015 *(excluding businesses being sold)*, generated entirely in the OEM market and hence, focused on carmakers, Faurecia is now the leading components maker in France. More generally, prior to the disposal of FAE, the group was **no. 7** in the global ranking of car components suppliers, ahead of **Valeo** *(no. 11)* as well as **Plastic Omnium** *(no. 40)*. Faurecia has embarked on a reorganisation of its business portfolio following the signing of a definitive disposal agreement for the exterior modules segment ***(sales of EUR2bn and EBIT of EUR49 sold for EV of EUR665m)*** to Plastic Omnium. The deal materialises the group's aim to rebalance its geographical exposure and client portfolio.

10.2. Refocusing on three businesses

Historically positioned in four businesses, the group's future is now set to focus on three flagship activities in the automotive market: **1) automotive seating**, covering all stages of seat assembly, **2) emissions control**, which consists of developing and producing exhaust systems, **3) interior systems,** housing cockpit modules *(dashboards and central consoles)* and decoration. These three businesses are fairly balanced pillars in Faurecia's portfolio, although the emissions control activity nevertheless stands out for its contribution to sales and even more so to EBIT margin *(42% of group EBIT margin before adjustment for IFRS5)*. Note that each business also benefits from tool sales, R&D and prototypes businesses in their sales destined for carmakers.

The exterior modules business is currently being solid off *(including bumpers and front-end modules)* to French components maker **Plastic Omnium**. This was the business that contributed the least to group sales and generated the lowest EBIT margin *(9.8% of sales, 2.4% of EBIT margin prior to adjustment for IFRS5)*.

Fig. 43: Group now focused on three businesses



Source: Faurecia; Bryan, Garnier & Co ests

10.2.1. Automotive Seating - 33% of sales - 35% of EBIT

Faurecia's interior seating activity designs and manufactures **whole interior seats** as well as all seat parts including **structures, mechanisms, mousses, seat coverings and electronic systems**. Faurecia is the number three player in the global car seats market with **sales of EUR6.2bn** and no. 1 in the seat structures and mechanisms segment.

Focused on car seats, this division can either manufacture and deliver a whole seat or more simply, supply the majority of components making up the seat. The group is better positioned in the manufacture of components and individual mechanisms with market share of **17%** compared with market share of **12%** in whole seat sales. Design of the parts is based on three major subjects, namely their lightness in a bid to reduce the overall weight of the car and fuel consumption, a constant improvement in comfort via electronics, pneumatics and fillings, and finally, the development of the module-based character of seats made possible by mechanisms and new structures.

Development of the seats division is set to focus on two themes: **1) "premiumisation"** and **2) China**, both of which are powerful growth drivers for delivering a CAGR in organic growth of around **6%** for Faurecia in this segment. Since the group already has German manufacturers of major saloon brands among its customers, the business should benefit from new contracts with other specialised brands in upscale cars. This strategic positioning means premium brands could account for more than **20%** of the group's overall sales further out.

Accounting for almost a third of production starts in 2015, China is easily one of the group's favourite zones for the development of its business. However, all of the contracts won concern only seat structures in a sign that local Chinese carmakers and joint ventures still prefer to use other components suppliers for other seats components such as coverings and electronic systems. Note that Europe also accounts for a third of production starts during the year.

10.2.2. The emissions control division – 40% of sales – 42% of EBIT

Faurecia's **emissions control** business is the largest segment in terms of both sales and EBIT margin *(EUR7.4bn in sales for EUR360m in EBIT)* and focuses on the development and production of exhaust systems. Faurecia is the global no. 1 *(27% market share)* on PC & LCV market. Note that almost half of these sales concern **monoliths**, components bought for catalytic pipes by the car components maker from a supplier designated by the carmaker beforehand and whose supply cost is invoiced directly to the carmaker with no margins.

In an increasingly demanding backdrop for control and reduction of greenhouse emissions, the product range has been constantly renewed in line with regulations and now **includes all components associated with exhaust pipes** *(silencers, collectors, catalysers, depollution systems and exhaust pipes)*. The group is focused on three innovation sources: **1)** weight reduction as part of the aim to reduce the overall weight of vehicles, with a 50% reduction in the weight of valves, **2)** control of polluting emissions in order to meet ever-tougher regulatory conditions by placing systems as close as possible to the engine in order to reduce nitrogen oxide emissions, and **3)** energy recovery, which is a genuine concern for the automotive industry. Faurecia is already working on internal combustion engines equipped with technologies capable of recovering some of the thermal energy created by the engine and lost in the exhaust pipe in the form of heat, and the group estimates that mass marketing of these engines is likely in around 2020.

This division is above all driven by the multitude of new and tougher regulations constantly implemented throughout the world, affecting both developed and emerging countries. On the one hand, new individual cars need to meet drastically lower requirements in terms of CO_2 emissions within the next few years with a minimum reduction planned from **6L/100km in 2015 to 3.3L/100km in 2025**. Efforts in terms of NOx emissions in real driving conditions for diesel engines are likely to be similar *(-70%)* as soon as the **RDE** regulation comes into force **in 2017** *(European Real Driving Emissions Regulation)*. Off-highway vehicles equipped with powerful engines are also set to face stricter regulations on their emissions, contrary to practices so far. On the other hand, with the same aim of reducing emissions, internal and hybrid combustion engines are set to ramp-up. **These trends should generate EUR16bn in additional sales for car components makers out to 2025.**

Strengthened by these fresh sources of growth, the emissions control market should reach **EUR66bn** in 2025 at a **CAGR of 5%**. Faurecia already has technologies capable of limiting CO_2 emissions and complying with **Euro6.c in 2017 and Euro6.d in 2020** and has embarked on the development of technologies for internal combustion engines. These skills meet new regulatory requirements and the market opportunities that these open. All of these assets play in favour of the group's target for market share of **30% further out**, especially as **Hyundai Kia** gains momentum in its client portfolio, with sales to the group set to double.

10.2.3. Interior systems – 27% of sales – 23% of EBIT

The **interior systems division** includes the design and manufacture of all decoration systems making up the vehicle cockpit segment. Faurecia is the **world no. 2** in the business behind **YF-JCI** with sales of **EUR5bn**.

Faurecia's offer concerns the **front segment of the vehicle interior**: flooring, central consoles, panels and door modules, acoustic modules and decorative parts. This genuine living area is increasingly subject to style and comfort requirements. In line with this trend, the group is one of the most upscale suppliers in the segment, enabling it to sign contracts with German brands in particular *(BMW, Porsche, Audi)*. The design of connected and autonomous vehicles is also set to oblige components makers to review all of their modules over the medium-term **with a far greater electronic component.** In a segment currently in the throes of consolidation around the world, Faurecia boasts market share of **14%**.

The division's development strategy is based on two factors: **1)** diversification in the product portfolio as the group strengthens its positions in interface screens, central consoles, driver, passenger and doors, in which the offer is currently limited *(activities with the highest electronics know-how)*, contrary to design and architecture in which the group has developed significant expertise, **2)** China. Penetration of the Chinese market is also at the centre of the group's attention having multiplied partnerships with local carmakers and components makers in the country. In 2013, a joint venture was created with **Chang'An** in order to work on flooring, door panels and acoustic modules, a segment then rounded out with the creation of another joint venture with **Dongfeng** in March 2015. We estimate that these two joint ventures should generate **EUR2.5bn in consolidated sales in 2020.** Note finally the most recent partnership signed with Chinese group **Beijing Automotive Parts** at end-2015, concerning the manufacture of aluminium decorative parts.

The auto interior systems market is therefore set to show a **CAGR** of **6.8% between 2015 and 2025 to reach EUR27bn.** Divided into four sub-segments, central consoles are set to remain the largest part with **EUR9bn**, following by systems associated with doors and the driver (**EUR7bn each),** and decoration systems destined for the front-seat passenger for **EUR4bn**. Faurecia is generally targeting market share of around **20% in this market**.

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Distribution of stock ratings

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