FAURECIA SE

Annual General Meeting of 30 May 2023

ANSWERS TO WRITTEN SHAREHOLDERS' QUESTIONS

(Free translation of questions and answers originally written in French, for information purposes)

<u>Question from Ms Yutong LI, individual shareholder:</u>

We know that the company has two ways to return profits to shareholders: dividends and share buybacks. I noticed that your company has been very active in the use of share buybacks in recent years. So, I'd like to know why you bought back the stock rather than only paying out dividends? What are the reasons for you to buy back your own stock? And what are the differences for you between buybacks and dividends? In addition, on what criteria do you base your allocation between share buybacks and dividends? I am aware that you have an employee share ownership plan, but could you give me reasons other than these, please, because I found that there was a significant difference between your share buyback program and the needs of the employee share ownership plan.

Answer

To date, the only way to redistribute profits to our shareholders has been the payment of dividends.

> The company is committed to applying a balanced dividend policy that simultaneously enables shareholder returns, financing growth and continued debt reduction. The history of dividends paid to shareholders, as well as the distribution policy, can be found in the 2022 Universal Registration Document, page 454.
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> Given the current top priority to accelerate the Group's debt reduction in the short term, following the acquisition of a majority stake in HELLA in early 2022 and in a tense macro-economic context, the Board of Directors decided not to propose a dividend payment for the 2021 and 2022 financial years.

However, each year, we propose that the General Shareholders' Meeting approve a share buyback program.

> This programme is used to implement the liquidity contract set up since 2019, the objectives of which are those provided for by applicable regulations and in accordance with market practices accepted by the French Financial Markets Authority.

It can also be used for other objectives, which, along with the liquidity contract, are detailed in the 2022 Universal Registration Document, pages 450 and 451.

Over the past three financial years, share buybacks only occurred during the allocation of performance shares and during the implementation of the Faur'ESO employee share ownership plan in 2021. Share buybacks were not used as a means of remunerating the company's shareholders but only as a means of neutralising the dilution resulting from the issue of new shares under employee share ownership plans or bonus share allocation programmes. Details of the transactions carried out by Faurecia involving its own shares in 2022 are provided in the 2022 Universal Registration Document, pages 450 and 451.

Questions from Mr Achour REZZIK, individual shareholder:

1. ***I am a loyal shareholder of FAURECIA, who is now rather disgusted by management's behaviour. In 2020, I asked you about the cancellation of the dividend for 2019. You replied that it was an exceptional measure, due to the health crisis, in order to preserve cash flow. For 2020, the amount of the coupon was reduced compared to 2018. And in 2021 and 2022, you made the exception a rule.***

   How do you expect individual investors to have confidence in people like you? Dividends are a determining factor in the decision to invest in a particular company, especially when, as is the case with FAURECIA, the valuation of the individual shareholder's capital is very hypothetical and random.

   Can you establish and announce once and for all in a serious and predictable manner a shareholder remuneration policy, something you promised a few years ago, but you did not follow through on your commitment? It would be nice if you did so with the same thoroughness and mindset as those you put to establishing your own remuneration.

Answer

Thank you for your loyalty as a shareholder, and we listen with respect to the dissatisfaction you express, to which we can provide the following answers:

- **Between 2015 and 2019, for the years 2014 to 2018,** we continuously increased the dividend from €0.35 to €1.25.

- **Regarding the non-payment of a dividend in 2020, for 2019,** the exceptional situation evoked at that time was the Covid crisis, which had almost completely shut down automobile production for a large part of Q2 2020. This was, you will agree, an unprecedented historical situation: automobile production was down 60% in Europe compared to Q2 2019 and 70% in North America. Like many companies, we then took a series of exceptional measures, including the elimination of the dividend, which allowed us to protect your Company's financial liquidity and weather this historic situation.

- **In 2021, for 2020,** with the automotive market still recovering from the Covid crisis and already severely impacted by the shortage of semiconductors, **we resumed the payment of a dividend of €1.**

- In August 2021, we announced a major strategic acquisition for your Company, the proposed acquisition of HELLA, which we completed at the end of January 2022, acquiring 82% of its shares for a total investment of €5.4 billion, including €4.9 billion in cash.

- What no one had predicted and could not have predicted was the start of the war in Ukraine, some 20 days after the completion of this major investment, with all the cascading implications that you know:
  - decline in automobile production in Europe, our world's largest market, by nearly 20% in Q1 2022 compared to Q1 2021,
  - aggravated shortage and rising commodity prices,
  - crisis and surge in energy prices,
  - temporary closure of financing markets,
  - return of inflation accompanied by restrictive monetary policies leading to a sharp rise in interest rates...

- Here, too, it is not an exaggeration to call this situation historic, and this in a context where your Company had just taken on debt for a major acquisition, whose strategic interest is undeniable and is in no way called into question.

- In this tense context and in the face of this specific combination of circumstances, we have once again taken all the necessary measures to protect your Company in its best interests:
  - we have focused all our efforts on successfully completing the refinancing of the bridge loan granted to finance the acquisition of a majority stake in HELLA: this was achieved throughout 2022 and early 2023 under extremely difficult market conditions, and your Company's financial teams should be congratulated.
  - we decided to accelerate the Group's debt reduction with the announcement of a one-billion euro non-strategic asset disposal programme by the end of 2023: this programme is fully finalised to date and the total inflows of one billion euros will be achieved by the end of the year.
  - finally, at its meeting of 25 April 2022, the Board of Directors of your Company decided exceptionally not to propose to the next General Meeting **the payment of a dividend in 2022, for 2021,** in order to further increase the financial flexibility of your Company.

- In the new macroeconomic environment caused by the war in Ukraine and in the face of the risk aversion of the financial markets, particularly towards companies with debt in the most affected industrial sectors, it is an absolutely priority to implement all measures likely to reduce your Company's debt and "de-risk" its financial profile.

- It was on the basis of this same logic that the Board of Directors of your Company, at its meeting of 2 November 2022, decided not to propose to the next General Meeting **the payment of a dividend in 2023, for 2022.**

- The situation described and the benefit of the measures taken are clearly reflected in your Company's share price:
    - as long as the financial markets were concerned about the refinancing of the acquisition of HELLA shares or the high level of debt following this acquisition, Faurecia's share price was under greater pressure than that of comparable companies in its sector.
    - as soon as the financial markets were reassured about the successful completion of the refinancing or the successful execution of the entire asset disposal programme, Faurecia's share price rebounded strongly and outperformed the shares of comparable companies in its sector.

- We are aware that the elimination of the dividend is always bad news for a shareholder, and be confident that this decision is never taken lightly by your Company. But above all, it is about giving absolute priority to the Group's debt reduction and thus protecting the value of your Company in order to contribute to its continued development.

- **In addition to these economic factors, your Company, during the presentation of its POWER25 plan last 3 November, reaffirmed its general dividend policy** aimed at equitably remunerating its shareholders by paying them a dividend that will grow in line with EBITDA growth and cash generation over the years. The Group's general net cash allocation policy, which was reiterated on the last *Capital Market Day*, is to allocate:
    - approximately 40% of the cash generated to dividends to shareholders and share buyback programmes to avoid any dilution effect when allocating performance shares,
    - about 60% to your Company's needs, with a current priority on continuing the Group's debt reduction.

We hope that we have answered your question and clarified our dividend policy, both in terms of its exceptional aspects and its fundamental aspects.

2. ***Apart from investors' strong mistrust of FAURECIA's management with regard to their strategy and results, do you see other serious reasons for the gigantic valuation differential between FORVIA (FAURECIA + HELLA) and VALEO, which even has a higher capitalisation?***

Market capitalisation alone does not reflect the valuation of your Company.

By valuation, we are talking about enterprise value, i.e. market capitalisation + net debt.

The enterprise value of your Company calculated by taking the market capitalisation at the close of 23 May + the last net debt communicated at last 31 December comes to €12 billion compared with nearly €8.7 billion for Valeo and nearly €4 billion for Plastic

Omnium (we will limit ourselves, for the sake of simplicity, to our two listed French competitors in the automotive suppliers sector).

This enterprise value compared to 2022 revenue is 48% for your Company, compared with 43% for Valeo and 47% for Plastic Omnium.

Compared to the EBITDA generated in 2022, it represents a multiple of 4.0x for your Company versus 3.6x for Valeo, which you cite as a reference, and 4.6x for Plastic Omnium.

Finally, our enterprise value multiples relative to operating income or EBITDA expected over the next 12 months, compared with the main European automotive suppliers (source: FactSet) are in line with this sample.