S&P Global
Ratings

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# TRATON SE

December 14, 2022

## Ratings Score Snapshot


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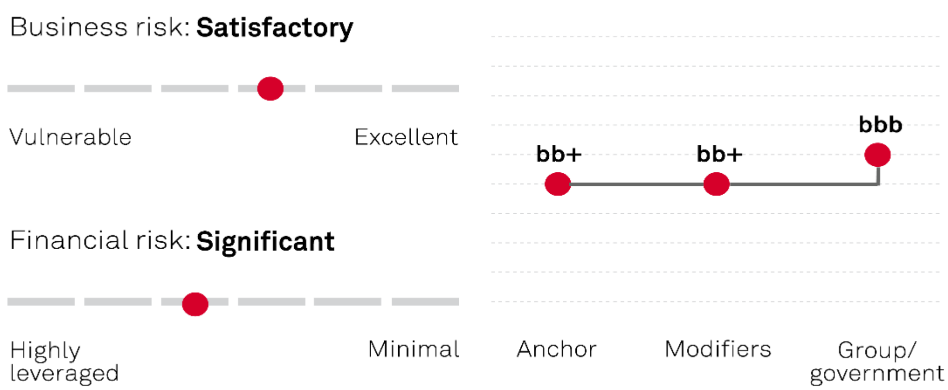



**BBB/Stable/--**

**Issuer credit rating**

## Credit Highlights

## Overview

| Key strengths | Key risks |
|---|---|
| Strong position as the fifth-largest heavy commercial vehicles manufacturer worldwide (as of the end of 2021, in terms of units sold), holding the No. 1 market position in Europe and South America, and a challenger position in the U.S. market. | The recovery and resilience of the group's relatively weak EBITDA margins of about 6%-7% in 2021-2022 meaningfully depends on TRATON's ability to implement a better fixed-cost absorption, complete the MAN re-alignment, and successfully introduce the common base engine across its brands, starting from Scania in 2022. |
| Highly strategic subsidiary for its parent company and 89.7% owner, Volkswagen AG (VW), to which it has close links in terms of financing, IT services, and purchasing. This underpins our rating TRATON one notch below the VW rating, independently from TRATON's stand-alone credit profile. | Relatively high leverage after the acquisition of Navistar, with S&P Global Ratings-adjusted debt reaching €9.1 billion at the end of 2021, with funds from operations (FFO) to debt expected to only gradually improve toward 25%-35% by the end of 2023, from about 12.3% in 2021. |
| The group-wide launch of its common base engine (CBE) across all brands in the period 2022-2028 should help the group to realize significant cost synergies, because the powertrain accounts for up to 65% of the total manufacturing cost of a truck. | Investment requirements likely to remain high over the cycle to meet stringent environmental targets and evolving technology shifts; we expect industrial capital expenditure (including capitalized R&D) of about 4.5%-5.0% of industrial net sales. |
| | Potential supply chain issues in 2023 represent short-to-mid-term challenges that could depress profitability and increase working capital needs. |

*After satisfactory nine-month sales results, S&P Global Ratings expects demand drivers will remain moderately supportive heading into 2023, while MAN's realignment and tight price management should strengthen profitability.* We also expect solid demand in 2023, supported by fleet aging and replacement needs, as well as catching up effects from 2022 lost production, and we anticipate TRATON will sell 295,000-305,000 in 2022 and 310,000-330,000 units in 2023 (271,608 in 2021). Moreover, the price mix and strong aftermarket services will support TRATON's industrial business revenues to increase to €37 billion-€40 billion in 2022 and €38 billion-€43 billion in 2023 (from €29.7 billion in 2021) in our base case.

We expect profitability to remain pressured in 2022, after MAN experienced a six-week shut down of its truck productions, owing to the shortage of specific components previously produced in Ukraine, and Scania was not able to fully absorb its costs mainly due to lower unit sales and the negative impact of capacity utilization as the company gradually deployed its new power train. This will translate in our S&P Global Ratings-adjusted EBITDA margin ranging from 6.0% to 6.5% (virtually unchanged from 6.3% in 2021). We forecast a margin improvement in 2023, mainly supported by positive results stemming from the restructuring measures at MAN Trucks & Bus, and by a material improvement in Scania's profitably, with S&P Global Ratings-adjusted EBITDA ranging from 8.0% to 9.0%. However, supply chain issues and cost inflation continue to represent a downside risk to our forecast.

Despite persistent supply chain pressures, TRATON's unit sales grew by 11% year-on-year (YoY) to €217,143 in the first nine months of 2022, supported by the full consolidation of Navistar (unit sales would have been down 13% YoY excluding Navistar), while sales revenue increased by 32% reaching €28.5 billion, as in addition to higher volumes the group benefited from price increases. Orders declined by about 5%, as the group, in line with other peers, continued to restrict orders, to implement timely cost pass-through and to properly manage supply chain issues and long delivery times. Profitability slightly deteriorated, as MAN and Scania brands still experienced supply bottlenecks, with S&P Global Ratings-adjusted EBITDA reaching 5.6% for the rolling 12 months ended Sept. 30, 2022 (6.3% in the same period last year).

*Supply chain and logistic challenges could continue to affect free cash flow generation in 2023.*
We anticipate S&P Global Ratings-adjusted free operating cash flow (FOCF) generation in 2022 will be negative, ranging from negative €0.5 billion to negative €1.0 billion mostly driven by one off items, to turn positive in 2023, to €0.9 billion-€1.4 billion (€0.7 billion in 2021). In second quarter (Q2) 2022 there were exceptional cash outflows related to the payment of Scania's €937 million fine and the settlement of Navistar's dispute for €420 million. At the same time, working capital headwinds--owing to a €1.3 billion inventory build-up year to date, as opposed to a €0.5 billion change in inventories for the same period a year ago--resulted in a

material negative FOCF for the first nine months of 2022 in the industrial business, reaching €1.6 billion (this compares with a negative balance of €462 million for the same period a year ago). The sharp improvement in FOCF in 2023 is supported by a material improvement of profits, mainly attributable to better cost absorption under our base case.

*TRATON's Global Champion Strategy is now complete but requires integration.*
With its acquisition of Navistar and direct foothold in China through Scania, TRATON has now concluded its geographic expansion. TRATON's increased geographic penetration sustains its business positioning albeit synergies are yet to materialize, thereby affecting margins. TRATON's management targets a reported return on sales on a consolidated basis of 9% by 2024, but a persistent inflationary environment and the lack of components slowing down the deliveries could challenge this strategic objective. In addition, while the level of demand is still sustaining a moderately supportive market for the next couple of years, we believe that TRATON’s cost structure is somewhat less agile and efficient against AB Volvo or Paccar, hereby margin volatility in a downturn will be higher. Finally, we continue to believe that the industrial modularization of TRATON's brands could take up to several years and entails execution risks.

*Our rating reflects TRATON's ongoing strong ties with its parent, VW.*
We consider TRATON a highly strategic subsidiary of VW, reflecting its strong ties with the parent and our expectation that VW's stake in the company will not decrease below 75% for the foreseeable future. We believe that VW regards TRATON as a very important strategic asset and there are close operational links between TRATON and VW. In 2021, TRATON contributed about 12% of VW's consolidated top line. Moreover, TRATON has access to VW's purchasing platforms and both MAN and Volkswagen Truck & Bus' (VWTB)'s financial services are offered through VW's captive operations. In addition, VW has granted TRATON an acquisition facility to support the purchase of Navistar and an uncommitted line of €4 billion. So, as long as we view TRATON as highly strategic to the VW group, we will rate it up to one notch below VW, all else being equal. Should VW's stake in TRATON decrease below 75%, we could reconsider TRATON's group status and the implications for our long-term rating.

# Outlook

The stable outlook on TRATON mirrors that on VW, as long as VW owns more than 75% of TRATON.

## Downside scenario

We could lower our rating on TRATON following a similar action on VW. However, we view a downgrade as unlikely, given VW's solid headroom under the 'BBB+' rating.

## Upside scenario

We could take a positive rating action on TRATON following a positive rating action on VW.

# Our Base-Case Scenario

## Assumptions

- Real GDP growth in the eurozone of 3.3% in 2022 and 0% in 2023. Brazil's real GDP to increase by 2.9% in 2022, followed by 0.5% in 2023. Real GDP in the U.S. will grow 1.8% in 2022, followed by a 0.1% contraction in 2023, while we expect Japan's real GDP to rise by 1.5% in 2022 and by 1.2% in 2023. GDP growth is one of the key variables influencing demand for trucks. Other considerations include the aging and mileage of the fleet, regulatory requirements on emissions leading to pre-buying effects, and truck manufacturers' ability to navigate currently challenging supply chain issues.
- Units sold ranging from 295,000 to 305,000 in 2022, and from 310,000 to 330,000 in 2023, compared with 271,608 in 2021 and 190,180 in 2020. We believe that the group will catch up the lost deliveries in 2023, especially related to production idle at MAN, while Scania will benefit from the new engine that promises fuel savings of up to 8% compared with the former model, and Navistar will start delivering the new powertrain to North American customers from the third quarter of 2023, which promises to improve fuel efficiency by 15% compared with the predecessor.

- Revenue for the industrial business ranging €37 billion-€40 billion in 2022 and €38 billion-€43 billion in 2023, up from €29.7 billion in 2021, owing to both higher units sold and price increases.
- S&P Global Ratings-adjusted EBITDA margin remaining at around 2021 levels at 6.0%-6.5% in 2022 before increasing to 8.0%-9.0% in 2023 considering a boost from Scania's sales of its new CBE, a somewhat better contribution from MAN, and a gradual alignment of Navistar. We also understand that MAN is advancing on its restructuring program, addressing fixed costs; MAN targets a reported 8% return on sales on its manufacturing activities by the end of 2024. This compares with 2.3% in 2021 and 1.0% for the first nine months of 2022.
- Working capital outflow in the industrial business of €1.1 billion-€1.3 billion per year in 2022-2023.
- Payment of the fine by Scania of €937 million in 2022, and about €420 million of settlement expenditure for Navistar against profit-sharing plan disputes.
- S&P Global Ratings-adjusted capital expenditure (capex) of about €1.2 billion-€1.3 billion in 2022 and €1.5 billion-€1.6 billion in 2023.
- Dividend payments of €250 million in 2022, and from 2023 about 30%-40% of prior-year profits, in line with TRATON's dividend policy.
- No material disposals or acquisitions.

## Key metrics

### TRATON SE--Key Metrics*

| Mil. € | 2020a | 2021a | 2022e | 2023f |
|---|---|---|---|---|
| Units sold | 190,180 | 271,608 | 295,000-305,000 | 310,000-330,000 |
| Revenue | 22,156 | 29,656 | 37,000-40,000 | 38,000-43,000 |
| Revenue growth (%) | (16.2) | 33.9 | 25-30 | 5-10 |
| EBITDA | 899 | 1,865 | 2,000-2,500 | 3,000-4,000 |
| EBITDA margin (%) | 4.1 | 6.3 | 6.0-6.5 | 8.0-9.0 |
| Capital expenditure | 1,029 | 1,128 | 1,200-1,300 | 1,500-1,600 |
| Free operating cash flow (FOCF) | 669 | 716 | (500)-(1,000) | 900-1,400 |
| Dividends | 501 | 135 | 250 | 250-350 |
| Debt | 2,087 | 9,111 | 9,500-10,500 | 8,500-9,500 |
| Debt to EBITDA (x) | 2.3 | 4.9 | 4.0-4.5 | 2.0-3.0 |
| FFO To Debt | 19.4 | 12.3 | 15.0-20.0 | 25.0-35.0 |
| FOCF To Debt | 32.1 | 7.9 | (10)-(5) | 10.0-13.0 |

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

# Company Description

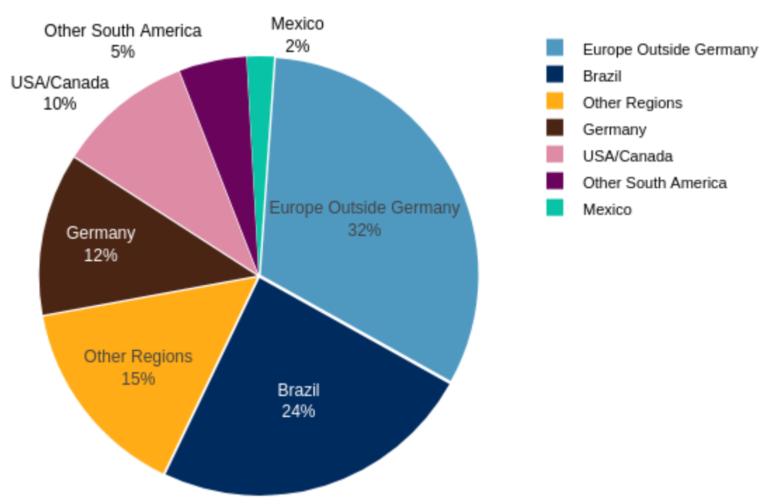
TRATON was founded in 2015 as the commercial vehicle arm of VW. It sells trucks and buses under the Scania, MAN, Navistar, and VWTB brands. TRATON is the market leader in both Europe and South America for heavy duty trucks (class 8) with a market share of about 27% and 38%, respectively (as of the end of 2021, in terms of units sold). The company is mainly active in Germany, the U.S., North America, and South America, with Brazil counting in its international footprint in 16 countries, operating 31 production and assembly sites. Through its July 2021 acquisition of Navistar, TRATON gained material exposure to the North American heavy duty vehicle market. The Navistar acquisition gave TRATON the No. 4 position in the U.S. heavy duty truck market, with 11% of market share as of the end of 2021.

In 2021, TRATON recorded S&P Global Ratings-adjusted revenue of €29.7 billion (€22.2 billion in 2020) and adjusted EBITDA margin of 6.3% (4.1%) under its industrial business. Currently, the company sells its new vehicles supported by either Scania's financial business operations (for the Scania brand) or by VW's financial services (for MAN and VWTB). Navistar manages a small portion of its financial services internally, with the majority dealt with by third-party providers.

TRATON is controlled by VW, which today owns about 90% of its share capital after an IPO in June 2019. TRATON is listed on the Frankfurt stock exchange and the Nasdaq Stockholm. As of Dec. 12, 2022, the company's market capitalization was about €7.4 billion.

Chart 1

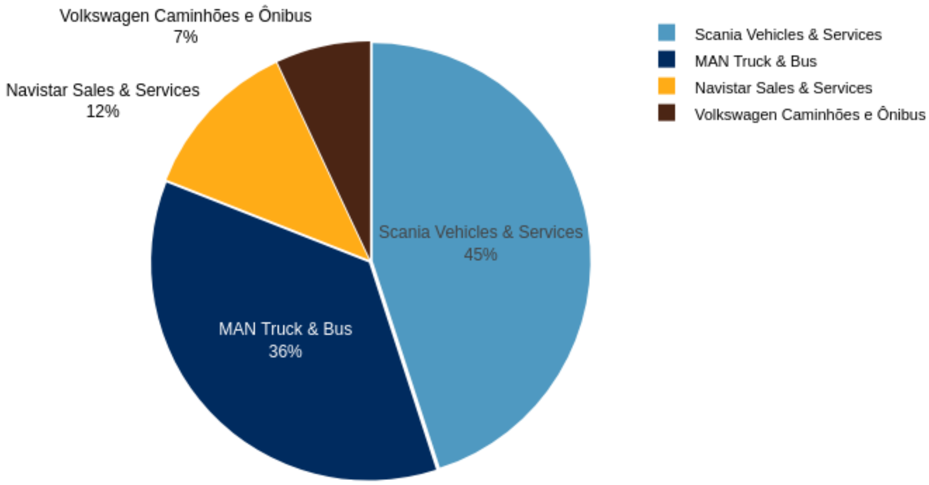
**TRATON SE -- Unit Sales By Country In 2021**




Source: S&P Global Ratings, company data. Figures include Navistar unit sales for a total of six months, consolidated from July 1, 2021.

Chart 2

TRATON SE -- TRATON Operations Revenue Breakdown By Segment 2021




Source: S&P Global Ratings, company data. Figures include Navistar revenues for a total of six months, consolidated from July 1, 2021.

## Peer Comparison

TRATON operates in a highly competitive market. While there are several local players, the main global competitors in the most important profit pools (U.S. and Europe) are German company Daimler Truck AG, Sweden's AB Volvo, and U.S.-based PACCAR Inc. Among these peers, TRATON is the second largest worldwide in terms of market shares, equal to approximately 8% in 2021 (in terms of units sold).

In our view, TRATON has good geographical diversification, on par with Daimler Truck AG and AB Volvo, thanks to its recent geographic expansion in the U.S. through the acquisition of Navistar, and leading market position in its key markets.

In terms of profitability, TRATON has been lagging its main peers, with its S&P Global Ratings-adjusted EBITDA margin reaching 6.4% on average in 2019-2021, against 6.8% of Daimler Truck, 10.6% of PACCAR, and 11.3% of AB Volvo. However, TRATON has a clear ambition to improve its performance under this front, mainly through modularization of components and joint power trains.

Like Daimler Truck, TRATON has a multi brand approach with different market positioning, allowing the group to offer a wide range of products and serve different client needs. The group manages four vehicles' brands: Scania, MAN, Volkswagen Truck & Bus, and Navistar, with Scania being the premium name while VWTB, MAN, and Navistar are the value offerings.

Unlike Daimler Truck, AB Volvo, and PACCAR, TRATON doesn't run its industrial business on an adjusted net cash position, which in our view exposed the company to higher credit risk on its stand-alone basis. In addition, S&P Global Ratings-adjusted debt raised significantly in 2021 to finance the acquisition of Navistar, weighing on credit metrics.

### TRATON SE--Peer Comparisons

| | TRATON SE | Scania AB (publ.) | AB Volvo | PACCAR Inc. |
|---|---|---|---|---|
| Foreign currency issuer credit rating | BBB/Stable/-- | BBB/Stable/A-2 | A-/Positive/A-2 | A+/Stable/A-1 |
| Local currency issuer credit rating | BBB/Stable/-- | BBB/Stable/A-2 | A-/Positive/A-2 | A+/Stable/A-1 |

### TRATON SE--Peer Comparisons

| Period | Annual | Annual | Annual | Annual |
|---|---|---|---|---|
| Period ending | 2021-12-31 | 2021-12-31 | 2021-12-31 | 2021-12-31 |
| Mil. | EUR | EUR | EUR | EUR |
| Revenue | 29,656 | 13,741 | 35,111 | 19,198 |
| EBITDA | 1,865 | 1,815 | 4,451 | 1,894 |
| Funds from operations (FFO) | 1,124 | 1,406 | 3,526 | 1,265 |
| Interest | 347 | 37 | 113 | 0 |
| Cash interest paid | 233 | 12 | 83 | (40) |
| Operating cash flow (OCF) | 1,844 | 1,202 | 3,728 | 1,003 |
| Capital expenditure | 1,128 | 643 | 924 | 492 |
| Free operating cash flow (FOCF) | 716 | 559 | 2,804 | 512 |
| Discretionary cash flow (DCF) | 581 | 297 | (2,102) | (112) |
| Cash and short-term investments | 2,228 | 2,883 | 6,058 | 4,232 |
| Gross available cash | 2,082 | 2,778 | 4,693 | 4,232 |
| Debt | 9,111 | 0 | 0 | 0 |
| Equity | 11,623 | 5,450 | 12,896 | 6,740 |
| EBITDA margin (%) | 6.3 | 13.2 | 12.7 | 9.9 |
| Return on capital (%) | 5.8 | 25.1 | 28.0 | 25.4 |
| EBITDA interest coverage (x) | 5.4 | 48.7 | 39.2 | 5125.9 |
| FFO cash interest coverage (x) | 5.8 | 123.0 | 43.5 | (30.5) |
| Debt/EBITDA (x) | 4.9 | 0.0 | 0.0 | 0.0 |
| FFO/debt (%) | 12.3 | NM | NM | NM |
| OCF/debt (%) | 20.2 | NM | NM | NM |
| FOCF/debt (%) | 7.9 | NM | NM | NM |
| DCF/debt (%) | 6.4 | NM | NM | NM |

## Business Risk

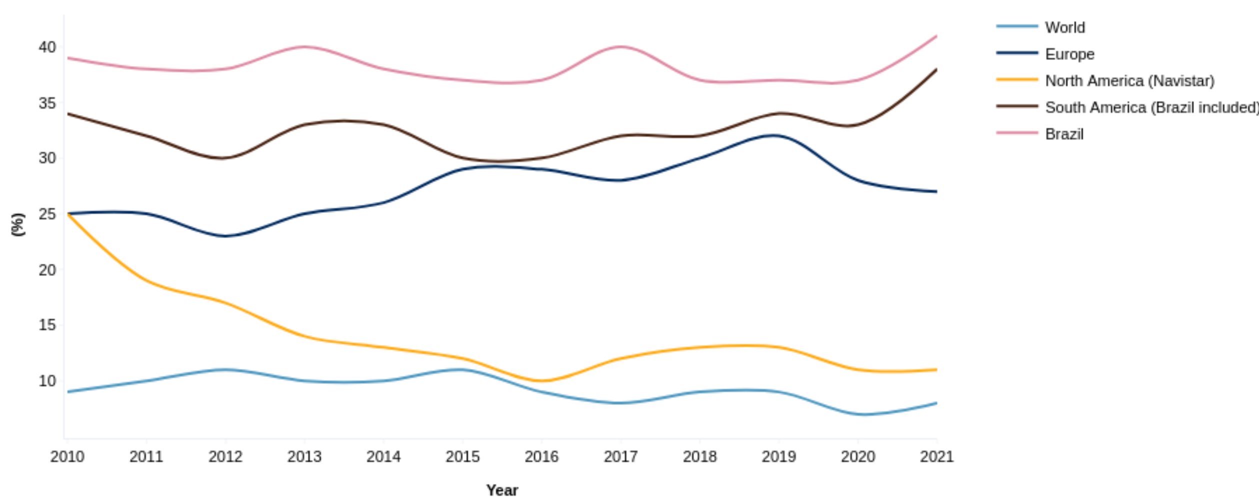
*TRATON's acquisition of Navistar boosts its global reach and potential to increase synergies.*

The company has a leading position in its key markets thanks to its solid combined market shares of its brands Scania, MAN, and VWTB. The acquisition of Navistar in 2021 gave TRATON a foothold in the U.S. market, which is the most profitable globally, and allowed the group to directly compete on a global scale with players such as Daimler Truck or AB Volvo.

According to 2021 S&P Global Mobility figures for Class 8 truck units sold, TRATON is the No. 5 worldwide, with a global market share of about 8%, after Chinese players FAW (12% of the market), Dongfeng (11%), CNHTC (10%), and the European Daimler Truck (9%). In Europe, TRATON's key market, the company has been the market leader for over 20 years, with a share of about 27% as of the end of 2021, followed by AB Volvo (20%) and Daimler Truck (17%). In this region, Scania ranks No. 3, with about 13.5% market share, and MAN is No. 4, with about 13.0%. TRATON is also the largest player operating in South America and Brazil, where it represents about 38% and 41% of the market, respectively. In Latin America, TRATON is present with all its four brands: among them, Volkswagen and Scania hold the No. 2 and No. 4 positions, with about 20% and 15% of market share respectively, while Navistar and MAN represent less than 2% and less than 1% of the market. Navistar is the only brand under which TRATON operates in North America, holding the No. 4 position with 11% of market share, after the undisputed market leader Daimler Truck (38% of market share in 2021) and competitors PACCAR (31%) and AB Volvo (17%). Finally, in China, which is the largest commercial vehicle market worldwide in terms of volumes, TRATON has been the first Western truck OEM that received a production license independent from a local partner. However, the market is still saturated with Asian original equipment manufacturers (OEMs), and TRATON's market share as of the end of 2021 accounted for less than 0.5%.

Chart 3

**TRATON SE -- Market Share In Key Regions In 2021 (Class 8 Heavy Duty Trucks)**




Source: S&P Global Ratings, S&P Global Mobility.

*The lack of modularization currently prevents synergies and an agile cost base.*

Since its IPO date, TRATON started an extensive program to use similar powertrain components across its brands and targeted a reported return on sales of about 9% through the cycle, thanks to better cost absorption and realization of meaningful synergies. The company's integration strategy comprises several steps and is also based on the introduction of the TRATON Modular System across its brands, where the new common-based engine is the first example, launched by Scania in 2021. We expect other common components will follow in mid- to long-term, for example chassis and cabins as well as, especially, e-components. The company expects to have about 50% of its heavy-duty vehicles installed with the CBE engine by 2025, which should help improve cost agility. We understand TRATON plans to implement it at Navistar in 2023, MAN from 2024, and VWTB in 2028, after its roll-out at Scania in 2022. Therefore, we see synergies ramping up from 2024. TRATON's increased scale enables the group to invest more in new technologies, maximizing the returns over the medium term, at the same time the company needs to streamline its R&D efforts and potentially reduce staff numbers. We think in the medium term TRATON should be able to reinforce the technological edge that it received from Scania, to eventually increase its global market reach.

*TRATON is already offering commercial sales of fully electric vehicles, but mostly buses and vans, while in the truck segment it lags behind AB Volvo and Daimler Truck, but is catching up fast.*

In 2021, the total order intake of full electric vehicles amounted to 1,717 units while deliveries amounted to 1,076, in both cases equivalent to less than 0.5% of total units ordered and sold. From January to September 2022, both orders and deliveries of electric vehicles increased both in absolute terms and as a percentage of the group's total orders and deliveries, however still representing a small part of its business. Incoming orders increased by 41% to 1,622 units (representing about 0.6% of total orders), while deliveries increased by 88% to 1,253 (0.6% of total deliveries). Buses and vans continue to represent the main share of electric vehicles sold for TRATON, while for heavy duty trucks the group lags AB Volvo and Daimler Truck, as the two competitors hold the No. 1 and the No. 2 positions, respectively, in terms of electric trucks sold in Europe in 2021, while TRATON is No. 4 after Iveco. However, in the long run, TRATON aims for 50% of its long-haul trucks to be zero-emission by 2030, a goal comparable to that of the main peers, such as Daimler Truck (60% of sales by 2030 and 100% of sales by 2039) and AB Volvo (35% of global deliveries by 2030), while PACCAR has not publicly committed to any targets.

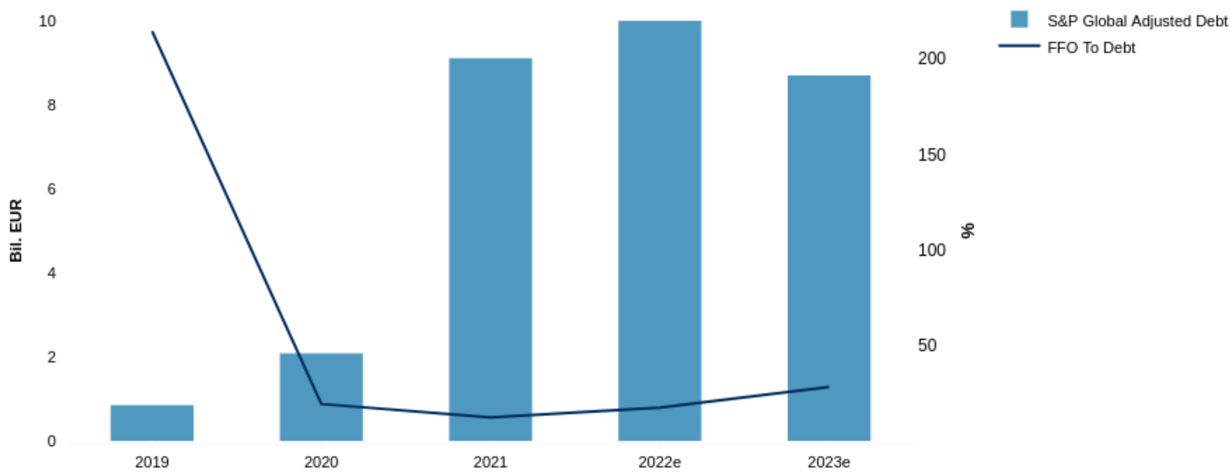
## Financial Risk

*The company's weaker-than-peers' cash conversion limits its opportunities to deleverage.*
TRATON's acquisition of Navistar resulted in elevated debt level, reaching €9.1 billion at the end of 2021. For 2022, we anticipate debt to be €9.5 billion-€10.5 billion as a result of negative FOCF of between -€0.5 billion and -€1.0 billion. In addition, the race toward electrification requires high research and development costs, alongside capex, thus limiting the group's ability to deleverage. For 2023, we anticipate TRATON's FOCF to sales will improve from the negative value in 2022 to around 2%-3%, more in line with historical levels. As a result, we expect credit metrics to remain soft for its 'bb+' stand-alone credit profile (SACP) with FFO to debt improving to 25%-35% in 2023. We would consider revising our SACP assessment if adjusted FFO to debt rises sustainably to about 45% and FOCF to debt strengthens, staying above 15%.

*Easing pension liability will moderately support the company's gradual deleveraging in 2022-2023.*
Increasing interest rates and corporate bond yields are boosting defined benefit pension schemes because of the resulting higher discount rates. This has positive consequences for corporate sponsors that have promised to pay pensioners in future years because those future cash outflows are worth less in today's money and therefore pose less of a burden to the sponsors. For further details please see: "Corporate Defined Benefit Pension Schemes: U.K. Liquidity Crisis Masks A Positive Global Trend Thanks To Higher Discount Rates, Nov. 14, 2022". For TRATON, the pension adjustment as of Dec. 31, 2021 added 1.0 turn of debt-to-EBITDA leverage, whereas the adjustment would have fallen to 0.9 turns using the June 30, 2022 figures, all else being equal. For 2022 and 2023, under our base case we forecast that TRATON's pension liability could reduce to €1.2 billion-€1.5 billion as opposed to €1.9 billion at the end of 2021.

Chart 4

**TRATON SE -- Debt And FFO To Debt Evolution**




Source: S&P Global Ratings. e--Estimate. FFO-Funds from operations.

*The company's captive operations for its brands are not yet integrated.*
TRATON does not have fully centralized captive finance operations. MAN and VWTB rely on captive services offered by VW Financial Services, and Scania offers it through its own financial services business. Only a very small portion of Navistar's financial services operation is consolidated in TRATON's accounts, and the majority is handled by third-party providers. As of year-end 2021, TRATON's captive operations had a debt-to-equity ratio of 5.6x as a result of the first consolidation of Navistar (with Scania alone posting about 8.0x in 2021). We expect TRATON's future strategy will be outlined once its management decides how to run the group's financing arm. We therefore believe that financial services operations are, for the time being, neutral to TRATON's creditworthiness. Any changes to the company's captive business could adjust the treatment of captive business.

*We see the disposal of the Russian business as neutral to the ratings.* On Sept. 13, 2022, TRATON announced the disposal of some business activities in Russia, namely MAN's and Scania's Russian distribution companies and Scania's Russian financing business.

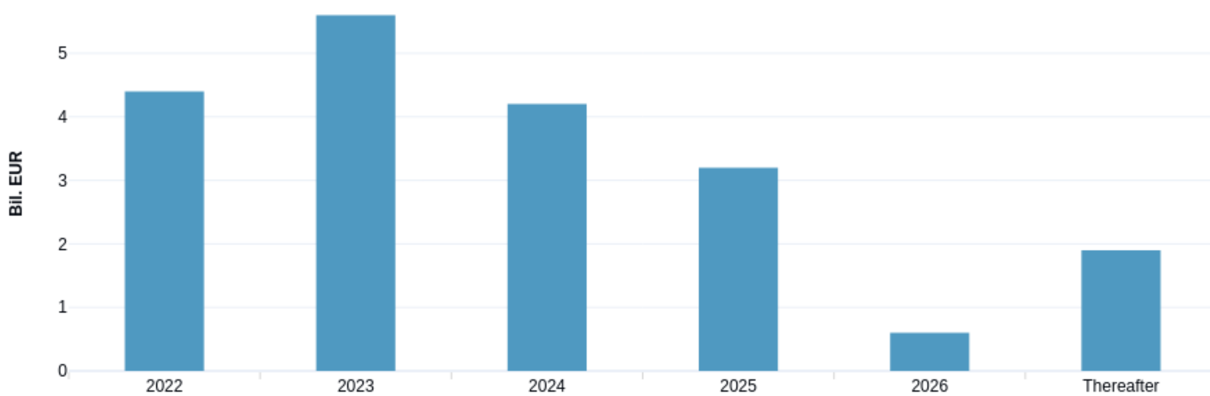
The transactions require the approval of the supervisory boards of TRATON SE and Volkswagen AG as well as various regulatory authorities in the Russian Federation. The transactions are expected to be completed by the first quarter of 2023 and its terms are not publicly available. The classification of the three activities as a disposal group resulted in an accumulated impairment loss of about €600 million in the first nine months, of which approximately 72% is attributable to net impairment losses on financial assets at Scania Finance Russia. We understand TRATON's direct exposure to Russian and Ukrainian markets was below 5% in 2021 in terms of both unit sales--equivalent to about 12,200 vehicles--and revenues, and we do not anticipate any material impact on 2022-2023 financial metrics for TRATON's industrial business.

## Debt maturities

Chart 5

**TRATON SE -- Consolidated Debt Maturity Profile**

As of September 30, 2022




Source: S&P Global Ratings.

### TRATON SE--Financial Summary

| Period ending | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 |
|---|---|---|---|---|
| Reporting period | 2018a | 2019a | 2020a | 2021a |
| Display currency (mil.) | EUR | EUR | EUR | EUR |
| Revenues | 24,963 | 26,444 | 22,156 | 29,656 |
| EBITDA | 1,958 | 2,379 | 899 | 1,865 |
| Funds from operations (FFO) | 1,415 | 1,833 | 405 | 1,124 |
| Interest expense | 277 | 256 | 226 | 347 |
| Cash interest paid | 139 | 132 | 101 | 233 |
| Operating cash flow (OCF) | 1,251 | 1,668 | 1,698 | 1,844 |
| Capital expenditure | 931 | 1,025 | 1,029 | 1,128 |
| Free operating cash flow (FOCF) | 320 | 643 | 669 | 716 |
| Discretionary cash flow (DCF) | 320 | (3,716) | 168 | 581 |
| Cash and short-term investments | 3,095 | 5,091 | 3,819 | 2,228 |
| Gross available cash | 2,950 | 5,031 | 3,746 | 2,082 |
| Debt | 5,418 | 854 | 2,087 | 9,111 |
| Common equity | 16,219 | 13,164 | 12,208 | 11,623 |
| Adjusted ratios | | | | |

## TRATON SE--Financial Summary

| | | | | |
|---|---|---|---|---|
| EBITDA margin (%) | 7.8 | 9.0 | 4.1 | 6.3 |
| Return on capital (%) | 8.2 | 10.2 | 0.9 | 5.8 |
| EBITDA interest coverage (x) | 7.1 | 9.3 | 4.0 | 5.4 |
| FFO cash interest coverage (x) | 11.2 | 14.9 | 5.0 | 5.8 |
| Debt/EBITDA (x) | 2.8 | 0.4 | 2.3 | 4.9 |
| FFO/debt (%) | 26.1 | 214.6 | 19.4 | 12.3 |
| OCF/debt (%) | 23.1 | 195.3 | 81.4 | 20.2 |
| FOCF/debt (%) | 5.9 | 75.3 | 32.1 | 7.9 |
| DCF/debt (%) | 5.9 | (435.0) | 8.0 | 6.4 |

## Reconciliation Of TRATON SE Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial year | Dec-31-2021 | | | | | | | | | |
| Company reported amounts | 16,968 | 13,443 | 30,620 | 3,125 | 393 | 308 | 1,865 | 1,534 | 135 | 1,599 |
| Cash taxes paid | - | - | - | - | - | - | (567) | - | - | - |
| Cash interest paid | - | - | - | - | - | - | (389) | - | - | - |
| Trade receivables securitizations | 85 | - | - | - | - | - | - | (5) | - | - |
| Lease liabilities | 1,237 | - | - | - | - | - | - | - | - | - |
| Postretirement benefit obligations/ deferred compensation | 1,938 | - | - | (5) | (5) | 39 | - | - | - | - |
| Accessible cash and liquid investments | (1,853) | - | - | - | - | - | - | - | - | - |
| Capitalized development costs | - | - | - | (468) | (169) | - | - | (468) | - | (468) |
| Dividends from equity investments | - | - | - | 86 | - | - | - | - | - | - |
| Captive finance operations | (10,177) | (1,823) | (964) | (259) | (259) | - | 215 | 783 | - | (3) |

**Reconciliation Of TRATON SE Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)**

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Nonoperating income (expense) | - | - | - | - | 554 | - | - | - | - | - |
| Noncontrolling/ minority interest | - | 3 | - | - | - | - | - | - | - | - |
| Debt: Litigation | 913 | - | - | - | - | - | - | - | - | - |
| EBITDA - Gain/(loss) on disposals of PP&E | - | - | - | (2) | (2) | - | - | - | - | - |
| EBITDA: Settlement (litigation/ insurance) costs | - | - | - | 510 | 510 | - | - | - | - | - |
| EBITDA: other | - | - | - | (1,122) | (1,122) | - | - | - | - | - |
| D&A: other | - | - | - | - | 1,122 | - | - | - | - | - |
| Total adjustments | (7,857) | (1,820) | (964) | (1,260) | 629 | 39 | (741) | 310 | - | (471) |
| **S&P Global Ratings adjusted** | **Debt** | **Equity** | **Revenue** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from Operations** | **Operating cash flow** | **Dividends** | **Capital expenditure** |
| | 9,111 | 11,623 | 29,656 | 1,865 | 1,022 | 347 | 1,124 | 1,844 | 135 | 1,128 |

# Liquidity

We assess TRATON's liquidity as adequate. We project the group's ratio of liquidity sources to uses for the industrial division will be about 1.4x for the 12 months from Sept. 30, 2022.

## Principal liquidity sources

- Cash and equivalents of about €1.5 billion as of Sept. 30, 2022, excluding cash and cash equivalents at the financial service business, and our estimate of inaccessible cash.
- €3.5 billion of undrawn committed lines maturing beyond 12 months, excluding our expectation of peak commercial paper use of up to about €1.0 billion. TRATON's syndicated revolving credit facility amounts to €4.5 billion.
- Industrial's reported cash FFO of €3.9 billion-€4.1 billion over the next 12 months.

## Principal liquidity uses

- Debt maturities at TRATON's industrial business of about €2.8 billion over the next 12 months and about €3.1 billion over the following 12 months.
- Working capital outflows in the industrial business of about €1.1 billion-€1.3 billion both over the next 12 months and the following 12 months.
- Reported capex (including capitalized development costs) for the industrial business of about €1.8 billion-€2.0 billion per year.
- Dividend payments of about €250 million-€300 million in the next 12 months and about €550 million-€650 million in the following 12 months.

# Environmental, Social, And Governance

### ESG Credit Indicators

| E-1 | E-2 | **E-3** | E-4 | E-5 | S-1 | **S-2** | S-3 | S-4 | S-5 | G-1 | G-2 | **G-3** | G-4 | G-5 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| - Climate transition risk | | | | | - N/A | | | | | - Risk management, culture, and oversight | | | | |

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of TRATON. This primarily reflects our assessment of its parent's governance, the slower-than-anticipated integration of brands under the previous management team, and higher-than-average management turnover, which somewhat affected the speed of execution. We note that TRATON faces higher-than-average execution risks, for example regarding the integration of its brands, the creation of a common financial services framework, and increasing its market shares in the U.S. while defending its market position in Europe amid worsening market conditions.

Environmental factors are also a moderately negative consideration in our credit rating analysis of TRATON. The German truck maker is exposed to the challenges of managing the transition of its product portfolio toward zero-emission vehicles in light of more stringent global carbon dioxide emission regulation. Tightening emission regulation kicks in from 2025 in Europe where the group generated about 56% of its revenues in 2021. Battery electric vehicle technology is already available for trucks, but we expect conventional engines to largely dominate the market in 2022-2025. At this stage, higher total cost of ownership for transport companies, lack of charging infrastructure, and the limited maximum range that trucks can cover with the current battery technology will constrain the scalability of these technologies, in our view. Additionally, there is still meaningful uncertainty on the evolution of carbon dioxide regulation and the margin contribution for zero-emission vehicles against conventional combustion engines in the longer term. Moreover, the latest Euro 7 pollutant emission proposal from the EU Commission, dated Nov. 7, 2022, could challenge trucks OEMs' transition to zero-emission transport. This is because substantial engineering and financial resources will also still be needed to improve internal combustion engine trucks in addition to new investments for battery and fuel-cell electric vehicles, potentially affecting internal resource allocation, and ultimately FOCF generation.

## Group Influence

We consider TRATON a highly strategic subsidiary within VW (BBB+/Stable/A-2), reflecting its strong ties with the parent and our expectation that VW's stake in the company will not decrease below 75% for the foreseeable future. We believe that VW regards TRATON as a very important strategic asset and there are close operational links between TRATON and its parent company. In 2021, TRATON contributed about 12% of VW's consolidated top line. Moreover, TRATON has access to VW's purchasing platforms and both MAN and VWTB's financial services are offered through VW's captive operations. Furthermore, VW has granted TRATON an acquisition facility to support the financing of the Navistar acquisition and offered an uncommitted line of €4 billion. So, as long as we view TRATON as highly strategic to the VW group, we will rate it a maximum of one notch below VW, currently rated 'BBB+'. Our rating on TRATON could equal, but not exceed, the rating on VW if the SACP were at least equal to the rating on VW.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

As of Sept. 30, 2022, TRATON's consolidated financial debt totaled about €19.9 billion, excluding €1.3 billion of leasing.

### Analytical conclusions

We continue to rate TRATON's senior unsecured debt and the €12 billion euro medium-term notes program 'BBB'. The priority debt ratio is about 42% and sensitive to some swings in issuances, however we still believe the amount of priority debt will decrease over time, with new issuances at the parent level.

#### Rating Component Scores

| | |
|---|---|
| **Foreign currency issuer credit rating** | **BBB/Stable/--** |
| **Local currency issuer credit rating** | **BBB/Stable/--** |
| **Business risk** | **Satisfactory** |
| Country risk | Low |
| Industry risk | Moderately High |
| Competitive position | Satisfactory |
| **Financial risk** | **Significant** |
| Cash flow/leverage | Significant |
| **Anchor** | **bb+** |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Adequate (no impact) |
| Management and governance | Fair (no impact) |
| Comparable rating analysis | Neutral (no impact) |
| Captive finance | Neutral (no impact) |
| **Stand-alone credit profile** | **bb+** |
| **Group credit profile** | **bbb+** |
| **Entity status within group** | **Highly strategic (-1 notch from group credit profile)** |

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- Corporate Defined Benefit Pension Schemes: U.K. Liquidity Crisis Masks A Positive Global Trend Thanks To Higher Discount Rates, Nov.19, 2022
- TRATON Tear Sheet, Nov. 9, 2022
- Research Update: German Truck Manufacturer TRATON SE Affirmed At 'BBB' Despite Weaker Margin Prospects In 2022; Outlook Stable, July 22, 2022
- Industry Top Trends Update: Autos EMEA, July 14, 2022
- Scania AB (publ.), June 30, 2022
- Global Heavy Truck Sales Forecast: COVID, War, And Supply Chain Woes Are Taking Their Toll In 2022, June 24, 2022
- Bulletin: TRATON's Deleveraging Prospects Affected By The €880.5 Million Antitrust Fine Imposed On Scania, Feb. 9, 2022

### Ratings Detail (as of December 14, 2022)*

| | |
|---|---|
| **TRATON SE** | |
| Issuer Credit Rating | BBB/Stable/-- |
| **Issuer Credit Ratings History** | |
| 29-Apr-2021 | BBB/Stable/-- |
| 22-Oct-2020 | BBB/Negative/-- |
| 17-Jun-2020 | BBB/Stable/-- |
| **Related Entities** | |
| **Banco Volkswagen S.A.** | |
| Issuer Credit Rating | |
| *Brazil National Scale* | brAAA/Stable/-- |
| **Navistar Financial, S.A. de C.V. SOFOM, E.R.** | |

## Ratings Detail (as of December 14, 2022)*

| | |
|---|---|
| Issuer Credit Rating | |
| *CaVal (Mexico) National Scale* | mxAA+/Stable/mxA-1+ |
| Senior Unsecured | |
| *CaVal (Mexico) National Scale* | mxAA+ |
| Short-Term Debt | |
| *CaVal (Mexico) National Scale* | mxA-1+ |
| **Scania AB (publ.)** | |
| Issuer Credit Rating | BBB/Stable/A-2 |
| *Nordic Regional Scale* | --/--/K-2 |
| *South Africa National Scale* | zaAAA/--/zaA-1+ |
| **Volkswagen AG** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| **Volkswagen Bank GmbH** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| Senior Subordinated | BBB |
| Senior Unsecured | BBB+ |
| Short-Term Debt | A-2 |
| **Volkswagen Financial Services AG** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| **Volkswagen Finans Sverige AB** | |
| Issuer Credit Rating | |
| *Nordic Regional Scale* | --/--/K-1 |
| **Volkswagen International Belgium S.A.** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| **Volkswagen Leasing S.A. de C.V.** | |
| Senior Secured | |
| *CaVal (Mexico) National Scale* | mxAAA |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.