



Rating Action: Moody's assigns P-2 ratings to TRATON, affirms the Baa2 issuer rating, outlook stable

12 Sep 2023

Frankfurt am Main, September 12, 2023 – Moody's Investors Service (Moody's) has today assigned a Prime-2 (P-2) short-term issuer rating to TRATON SE (TRATON or "the group"). Concurrently, Moody's has affirmed TRATON's Baa2 long-term issuer rating. The outlook remains stable.

A full list affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE P-2 RATING

The P-2 rating reflects TRATON's strong ability to repay its short-term debt obligations and is consistent with TRATON's long-term issuer rating of Baa2. The strong ability to repay short-term debt obligations is supported by TRATON's €4.5 billion revolving credit facility (RCF), which contains a €1.0 billion swingline commitment.

RATIONALE FOR THE AFFIRMATION OF THE Baa2 LONG-TERM ISSUER RATING

TRATON's Baa2 rating reflects (i) the group's strong market positions in Europe and the Americas in the heavy-duty truck segment, (ii) the expectation of profitability improvements driven by a sizable synergy potential between the group brands and restructuring measures at its MAN Trucks & Bus subsidiary, (iii) the company's commitment to preserve a capital structure in line with the requirements for a solid investment grade rating, as well as (iv) the ownership of its main shareholder Volkswagen Aktiengesellschaft (VW, A3 stable), which has provided liquidity support to TRATON and which is committed to remain a major shareholder.

The rating negatively incorporates the (i) cyclical nature of truck market demand, (ii) the group's focus on medium- and heavy-duty trucks and buses with no other diversifying business operations, (iii) the group's improving but still relatively low operating profitability, and (iv) high investment needs to manage the technological transformations towards zero emission vehicles and autonomous driving.

In 2022, TRATON's company-adjusted return on sales (RoS) in the TRATON Operations business area amounted to 5.7% (before restructuring cost and antitrust provisions), corresponding to a Moody's adjusted EBITA margin of 5.2%. In the first half of 2023, TRATON increased its adjusted RoS to 9.1% (1H22: 4.5%) and confirmed its full-year 2023 outlook for adjusted RoS in the TRATON Operations business area at 7.5% - 8.5%. For 2023, TRATON also expects a unit sales growth in the range of 5% - 15% (1H23: 168.3k units, +22.6%, according to Volkswagen AG's announcement) and a net cash flow of TRATON Operations of €1.8 billion - €2.3 billion, including proceeds from asset disposals in relation to the sale of the Scania Financial Services companies in Russia, and a positive effect of approximately €500 million from the intra-group transfer of Scania Financial Services to TRATON Financial Services. In 1H23, net cash flow in the TRATON Operations business area amounted to €1.8 billion already, including the abovementioned positive effects.

LIQUIDITY

In our theoretical scenario of no access to the capital markets for its manufacturing and financial services activities, TRATON had a coverage of around four quarters of its corporate needs as of 30 June 2023. This is acceptable for the

existing rating, but we note that TRATON heavily relies on continued liquidity support from the parent company VW, which provides sizeable credit facilities to TRATON, in a framework agreement totaling €4 billion, thereof approximately €250 million short-term loans due in 2023 (as of June 2023).

As of 30 June 2023, the group's sources of cash included cash and cash equivalents of around €1.4 billion and marketable securities of €221 million. The company also has access to an undrawn €4.5 billion revolving credit facility (maturing in 2027, with another one-year extension option). Together with FFO estimated at around €5 billion over the next twelve months, total cash sources amount to around €11 billion. Our stress case does not include the unused credit lines from VW, which would provide additional liquidity coverage of more than one quarter of a year.

Large upcoming debt repayments (€5.1 billion in 2023, as of June 2023) are due to a significant degree from group's financial services segment included in our liquidity analysis (approximately €2.1 billion) and from a shareholder loan provided by VW (approximately €250 million as of June 2023). The company refinanced some short-term debt maturities since the end of June already. In calendar year 2024, TRATON has further sizeable debt maturities of around €4.9 billion (including around €2.0 billion financial services). Further cash uses relate to working cash (estimated at around €1.3 billion), capex of around €3 billion, potential working capital outflows of around €500 million as well as potential dividend payments after the AGM in 2Q 2024.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects the expectation of a continued recovery of truck markets in Europe and Americas, despite short-term headwinds especially in Europe. It also reflects the expectation that TRATON will improve its profitability due to executed restructuring measures (especially at MAN) and the successful integration of Navistar.

More specifically, the stable outlook reflects the expectation that TRATON's debt/EBITDA (Moody's adjusted) will remain within a range of 2.0x-2.5x in 2023 (LTM June 2023: 2.4x), with margins (Moody's adjusted EBITA) exceeding 7% (LTM June 2023: 6.5%), which are commensurate for the Baa2 rating category.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's would consider upgrading the rating in case of (1) EBITA margin of around 8% through the cycle; (2) positive Free Cash Flow on a sustainable basis; (3) Debt/EBITDA consistently below 2.0x; as well as (4) building a track record of conservative financial policy and a strong liquidity profile.

TRATON's ratings could be downgraded in case of (1) EBITA margin sustainably below 6%, (2) leverage (Debt/EBITDA) remaining sustainably and materially above 2.5x, (3) a weakening liquidity profile, such as in case of a failure to early refinance debt maturities, as well as (4) a negative Free Cash Flow generation.

LIST OF AFFECTED RATINGS

..Issuer: TRATON Finance Luxembourg S.A.

Affirmations:

....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

....Outlook, Remains Stable

..Issuer: TRATON SE

Affirmations:

.... LT Issuer Rating, Affirmed Baa2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

Assignments:

.... ST Issuer Rating, Assigned P-2

Outlook Actions:

....Outlook, Remains Stable

..Issuer: TRATON Treasury AB

Affirmations:

....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

Outlook Actions:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at <https://ratings.moodys.com/rmc-documents/74970>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Munich, Germany, TRATON is one of the world's largest manufacturers of medium- and heavy-duty trucks and buses sold under its strong brands Scania, MAN, Navistar and VWTB. Moreover, TRATON offers customer financing solutions through its Scania and partly through its Navistar financial services businesses while, in July, the company announced to take over the Financial Services activities of MAN and Volkswagen Truck & Bus from Volkswagen.

During the year 2022, TRATON's industrial business (excl. financial services) generated revenues of €39.0 billion and a company-adjusted operating profit of €1.8 billion. TRATON is listed on the Frankfurt and Stockholm stock exchange since its IPO in June 2019, with Volkswagen Aktiengesellschaft remaining its major shareholder with around 89.7% of TRATON's shares.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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