

**Rating Action: Moody's changes Volkswagen's outlook to stable, affirms A3 ratings**

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26 Mar 2021

Frankfurt am Main, March 26, 2021 -- Moody's Investors Service ("Moody's") has today changed the outlook on the ratings of Volkswagen Aktiengesellschaft (Volkswagen) to stable from negative. Concurrently, Moody's has affirmed all ratings of Volkswagen and its subsidiaries, including Volkswagen's long-term issuer rating of A3 and its short-term Prime-2 (P-2) commercial paper rating.

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

"The change in outlook reflects the continued recovery in global light vehicle sales, the expectation that Volkswagen will be able to further improve its credit metrics in 2021-22, and the company's ability to reduce CO2 emissions to levels very close to the stricter targets in 2021." said Matthias Heck, a Moody's Vice President -- Senior Credit Officer and Lead Analyst for Volkswagen. "The rating affirmation balances the company's strengths as one of the world's two largest automotive manufacturers, and its robust free cash flow generation, with the overall challenges in the automotive industry, especially its high cyclicality and the trend towards electrification." added Mr. Heck.

**RATINGS RATIONALE**

The outlook change to stable reflects Moody's expectation of a continued recovery in global light vehicle sales which Moody's expects to lead to an annual increase in global light vehicle sales of 7% in 2021 and 6% in 2022, despite short-term challenges in the first half of 2021, such as the delayed vaccination process in many countries and the shortage in semiconductor supply. On the back of this recovery, Volkswagen should be able to improve Moody's adjusted EBITA margins towards 7% in 2021 (6.0% in 2020), maintain debt/EBITDA (Moody's adjusted) below 2.5x (2.8x in 2020), and generate positive free cash flow (Moody's adjusted) also in 2021. The stabilization also reflects Volkswagen's considerable reduction of its fleet CO2 emissions to levels very close to stricter CO2 targets in the EU in 2020, and the expectation of full compliance also in 2021.

The rating affirmation reflects Volkswagen's (1) robust portfolio of highly recognizable brands and established market positions in Western Europe and China, where its main brand, Volkswagen Passenger Cars, generally benefits from a pricing advantage over other volume brands; (2) its generally successful and frequent model launches; (3) its geographic diversification and good product offering that help shield the group's earnings and cash flow from local or regional demand cycles, which are inherent to the automotive industry; (4) our expectation of sustainable, positive and robust free cash flow (FCF) generation (adjusted for the outflows related to the diesel issue), despite high investments, and (5) the company's sizeable liquidity position.

Volkswagen's rating further reflects our expectation that the company should be in a position to return to meaningful operating profit generation and to return to credit metrics appropriate for its rating by year-end 2021 already. During 2020, Volkswagen's Moody's adjusted EBITA margin fell to 6%, compared with 8.3% in 2019. However, Volkswagen should be able to restore its metrics to appropriate levels by 2021 considering its remarkable track record of sustainable performance against most peers over the last years. The group's global reach across a multitude of brands and model types while simultaneously using its large scale to efficiently deploy and use resources should allow it sufficient operating leverage to quickly recover profitability. We also note the group's material exposure to the Chinese market, which has been more resilient during the 2020 crisis and which has recovered quicker compared to other regions of the world.

Volkswagen's ratings are constrained by (1) the high cyclicality of the automotive industry, (2) the remainder of legal and remediation costs associated with the diesel emission issue; (3) globally increasing environmental standards, stricter emissions regulation and electrification, which require high investments into R&D and new model launches; and (4) the complexity within the group, given the global scale of Volkswagen, its multiple brands and product strategy, as well as expanded operations within the global trucks market.

Moody's expects that Volkswagen - through its focus on the currently more resilient Chinese market and its position as a leading premium car manufacturer - should continue to show strongly recovering operating profit generation. Based on Moody's expected revenue and margin recovery, Volkswagen's Moody's-adjusted

debt/EBITDA should decline to below 2.5x as of December 2021. With this, the group will return to credit metrics appropriate for its rating category in 2021 already.

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

Volkswagen's ratings could be downgraded in case of the inability to (1) restore Moody's-adjusted EBITA margin to above 7%, (2) to reduce Moody's-adjusted debt/EBITDA to below 2.5x; (3) demonstrate a return to its historically strong free cash flow generation (as adjusted by Moody's) resulting in (4) FCF/debt below the mid-single-digit range in percentage terms for a prolonged period as a result of an operational weakness or more aggressive financial policies. Also, an erosion in Volkswagen's market shares in its core markets as well as its inability to enhance Volkswagen Passenger Cars' profitability to a more competitive level on a sustained basis and a weakening of the company's liquidity profile could lead to a downgrade.

Moody's would consider upgrading the ratings in case of (1) Volkswagen's ability to, at least, protect its market share in the major markets where it operates, especially in Western Europe and China, regardless of potential changes in global macroeconomic conditions; (2) a significantly improved competitive position for the Volkswagen Passenger Cars brand and in the US market; (3) a more consistent earnings pattern across its commercial vehicle brands as a result of the successful execution of its long-term plan for the division, (4) the implementation of more stringent corporate governance structures; (5) a sustained robust cash flow generation, despite elevated capital spending, with Moody's-adjusted FCF/debt of around 10% as well as (6) a Moody's-adjusted EBITA margin sustainably above 7%.

#### LIST OF AFFECTED RATINGS:

..Issuer: Porsche Holding Gesellschaft m.b.H.

##### Affirmations:

...BACKED Commercial Paper, Affirmed P-2

##### Outlook Actions:

...No Outlook

..Issuer: Volkswagen Aktiengesellschaft

##### Affirmations:

.... LT Issuer Rating, Affirmed A3

...Senior Unsecured Bank Credit Facility, Affirmed A3

...Commercial Paper, Affirmed P-2

...Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

##### Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Volkswagen Group Canada, Inc.

##### Affirmations:

...BACKED Commercial Paper, Affirmed P-2

##### Outlook Actions:

...No Outlook

..Issuer: Volkswagen Group of America Finance, LLC

##### Affirmations:

...BACKED Commercial Paper, Affirmed P-2

...BACKED Senior Unsecured Regular Bond/Debenture, Affirmed A3

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Volkswagen Group of America, Inc.

Affirmations:

...BACKED Commercial Paper, Affirmed P-2

Outlook Actions:

...No Outlook

..Issuer: Volkswagen International Belgium S.A.

Affirmations:

...Commercial Paper, Affirmed P-2

...Other Short Term, Affirmed P-2

Outlook Actions:

...No Outlook

..Issuer: Volkswagen International Finance N.V.

Affirmations:

...BACKED Junior Subordinate Regular Bond/Debenture, Affirmed Baa2

...BACKED Commercial Paper, Affirmed P-2

...BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

...BACKED Other Short Term, Affirmed (P)P-2

...BACKED Senior Unsecured Regular Bond/Debenture, Affirmed A3

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Volkswagen International Luxembourg S.A

Affirmations:

...BACKED Commercial Paper, Affirmed P-2

Outlook Actions:

...No Outlook

..Issuer: VW Credit Canada, Inc.

Affirmations:

...BACKED Commercial Paper, Affirmed P-2

...BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

...BACKED Other Short Term, Affirmed (P)P-2

...BACKED Senior Unsecured Regular Bond/Debenture, Affirmed A3

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: VW Credit, Inc.

Affirmations:

...BACKED Commercial Paper, Affirmed P-2

...BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

...BACKED Other Short Term, Affirmed (P)P-2

Outlook Actions:

...Outlook, Changed To Stable From Negative

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automobile Manufacturer Industry published in June 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1062773](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1062773). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### COMPANY PROFILE

Volkswagen Aktiengesellschaft, headquartered in Wolfsburg, Germany, is Europe's largest car manufacturer in terms of passenger car unit sales, with a market share of 25% in 2020 in Europe (according to the European Automobile Manufacturers Association) and one of the two largest globally, marginally below Toyota Motor Corporation (A1/P-1 stable).

In 2020, Volkswagen delivered 9.3 million vehicles to its customers (11.0 million in 2019). Volkswagen generates the vast majority of its unit sales in Europe and other regions (43% in 2020) as well as Asia-Pacific (44%, largely China), followed by North America (8%) and South America (5%).

#### 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 at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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