



Date of Release: August 10, 2021

DBRS Morningstar Changes Trend on Volkswagen AG to Stable From Negative, Confirms Ratings at A (low) and R-1 (low)

Industry Group: Corporate Finance

Sub-Industry: Autos & Auto Suppliers

Region: Canada

Originator:

DBRS Limited (DBRS Morningstar) changed the trend on Volkswagen AG's (VW or the Company) Issuer Rating to Stable from Negative and confirmed its rating at A (low). DBRS Morningstar also changed the trends on the Senior Unsecured Debt and Commercial Paper ratings of VW Credit Canada, Inc. to Stable from Negative while confirming their ratings at A (low) and R-1 (low), respectively. The trend changes reflect the ongoing solid financial performance of the Company despite meaningful challenges associated with the progression of Coronavirus Disease (COVID-19) last year; VW benefitted from a strong industry recovery in the latter half of 2020. Moreover, despite prevailing headwinds in the form of the current semiconductor shortage, DBRS Morningstar believes the Company's financial risk assessment (FRA) will remain strong in the context of the currently assigned ratings, which remain supported by VW's solid business risk assessment (BRA) as a major automotive original equipment manufacturer (OEM) of substantial scale with a highly diversified brand portfolio. Notwithstanding the above, DBRS Morningstar notes that certain environmental, social, and governance (ESG) risk factors continue to constrain the ratings.

While VW's 2020 results softened considerably year over year (YOY) as a result of challenges associated with the coronavirus pandemic, automotive earnings remained materially positive with the segment's operating margin exceeding 4%. Moreover, initial liquidity concerns attributable to the pandemic were allayed by a strong industry recovery in H2 2020 (exceeding DBRS Morningstar's expectations) that enabled the Company to fully repay its EUR 10 billion revolving credit facility (drawn in H1 2020 as a precautionary measure) before year end. DBRS Morningstar notes that, going into 2021, the anticipated industry sales growth (following 2020's contraction resulting from the coronavirus) was undermined somewhat by production interruptions attributable to the semiconductor shortage. This notwithstanding, VW's deliveries in H1 2021 increased by 27% compared with H1 2020 to a level of 4.7 million units. Automotive earnings benefitted further from firmer product mix and favourable pricing (both being bolstered by low industry inventories as a result of the semiconductor shortage) with the segment's H1 2021 operating margin attaining a strong level of 8.3%. Recent operating performance of the Company's financial services business has also remained sound with credit losses being well covered by provisions amid favourable residual value performance given strong used car prices. For the 2021 full year, despite ongoing uncertainty associated with the semiconductor situation, VW is projecting consolidated revenues to be significantly higher YOY with its consolidated operating margin expected to range from 6.0% to 7.5%; DBRS Morningstar deems the Company's outlook well attainable.

Going forward, reflecting tightening emissions legislation worldwide (albeit most notably in Europe and in China), the Company is targeting a leadership position in the transition of the automotive industry away from internal combustion engines (ICEs) and toward battery electric vehicles. Additionally, VW is seeking to further transform itself into a major provider of new mobility services. While these objectives are projected to entail substantial financial outlays over the next several years in the form of requisite capital spending and anticipated merger & acquisition activity, DBRS Morningstar expects these to be sufficiently covered by ongoing free cash flow generation of the Company's legacy ICE business that remains significantly profitable; VW has benefitted further from its strong presence in the premium automotive segment

that is projected to outgrow the automotive industry as a whole while typically generating considerably stronger margins relative to mainstream brands. DBRS Morningstar also notes that the Company maintains several additional options to further bolster its liquidity position, including the sale of further equity stakes of its commercial vehicles/trucks business, Traton SE, as well as potential divestitures of noncore assets.

Consistent with the Stable trend, the ratings are expected to remain constant over the near to medium term, and DBRS Morningstar notes that VW's FRA provides some cushion against unexpected challenges at the current ratings level, rendering a downgrade rather unlikely. Conversely, an upgrade is not anticipated over the aforementioned time horizon given the cost headwinds facing the automotive industry amid substantial financial outlays projected to be incurred by the Company in pursuit of its strategic objectives.

ESG CONSIDERATIONS

DBRS Morningstar considered that VW's carbon and greenhouse gas costs, in addition to its corporate governance and product governance, represent environmental, social, or governance factors as outlined within the DBRS Morningstar Criteria "DBRS Morningstar's Approach to Environmental, Social and Governance Risk Factors in Credit Ratings." This is credit negative and affects the rating.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodologies are Rating Companies in the Automotive Manufacturing and Supplier Industries (October 22, 2020; <https://www.dbrsmorningstar.com/research/368670>), DBRS Morningstar Criteria: Guarantees and Other Forms of Support (May 31, 2021; <https://www.dbrsmorningstar.com/research/379424>), DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Nonbank Issuers (March 9, 2021; <https://www.dbrsmorningstar.com/research/3795001>), and DBRS Morningstar Criteria: Preferred Share and Hybrid Security Criteria for Corporate Issuers (November 2, 2020; <https://www.dbrsmorningstar.com/research/369167>), which can be found on [dbrsmorningstar.com](https://www.dbrsmorningstar.com) under Methodologies & Criteria. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021; <https://www.dbrsmorningstar.com/research/373262>).

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.



This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom, and by DBRS Ratings GmbH for use in the European Union, respectively. The following additional regulatory disclosures apply to endorsed ratings:

Each of the principal methodologies employed in the analysis addressed one or more particular risks or aspects of the rating and were factored into the rating decision. Specifically, “Rating Companies in the Automotive Manufacturing and Supplier Industries” (October 22, 2020) was the primary rating methodology applied in determining the rating of parent company Volkswagen AG. Subsequently, “DBRS Morningstar Criteria: Guarantees and other Forms of Support” (May 31, 2021) was applied in determining the ratings of VW Credit Canada, Inc, which benefits from a Guarantee of Volkswagen AG. The Guarantee, in combination with DBRS Morningstar’s assessment of additional implicit support considerations, including (but not limited to) business, reputational, and financial factors (that are deemed likely to motivate a parent or affiliated company to support its subsidiary issuer), results in a flow through of VW AG’s rating to VW Credit Canada, Inc. DBRS Morningstar also applied “DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers (March 9, 2021)” to ensure that the provided liquidity in support of the Commercial Paper rating of VW Credit Canada, Inc. was consistent with DBRS Morningstar criteria. Finally, DBRS Morningstar applied “DBRS Morningstar Criteria: Preferred Share and Hybrid Criteria for Corporate Issuers” (November 2, 2020) to determine the equity treatment of various hybrid notes issued by Volkswagen AG.

The last rating action took place on August 11, 2020, when DBRS Morningstar confirmed Volkswagen AG’s rating at A (low), Negative and removed the ratings from Under Review with Negative Implications.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

Lead Analyst: Robert Streda, Senior Vice President, Diversified Industries

Rating Committee Chair: Charles Halam-Andres, Managing Director, Diversified Industries & Sports Finance

Initial Rating Dates: Volkswagen AG – May 16, 2001; VW Credit Canada Inc. – April 24, 2000

DBRS Morningstar will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info@dbrsmorningstar.com.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

DBRS Limited

DBRS Tower, 181 University Avenue, Suite 700

Toronto, ON M5H 3M7 Canada

Tel. +1 416 593-5577

- Rating Companies in the Automotive Manufacturing and Supplier Industries (October 22, 2020)
<https://www.dbrsmorningstar.com/research/368670/rating-companies-in-the-automotive-manufacturing-and-supplier-industries>
- DBRS Morningstar Criteria: Guarantees and Other Forms of Support (January 31, 2021)
<https://www.dbrsmorningstar.com/research/379424/dbrs-morningstar-criteria-guarantees-and-other-forms-of-support>
- DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers (March 9, 2021)
<https://www.dbrsmorningstar.com/research/375001/dbrs-morningstar-criteria-commercial-paper-liquidity-support-for-nonbank-issuers>
- DBRS Morningstar Criteria: Preferred Share and Hybrid Criteria for Corporate Issuers (November 2, 2020)
<https://www.dbrsmorningstar.com/research/369165/dbrs-morningstar-criteria-preferred-share-and-hybrid-security-criteria-for-corporate-issuers>

Issuer	Debt	Rating Action	Rating	Trend
Volkswagen AG	Issuer Rating	Confirmed / Trend Change	A (low)	Stable
* VW Credit Canada Inc.	Senior Unsecured Debt	Confirmed / Trend Change	A (low)	Stable
* VW Credit Canada Inc.	Commercial Paper	Confirmed / Trend Change	R-1 (low)	Stable

* Guaranteed by Volkswagen AG

Robert Streda
 Senior Vice President, Diversified Industries
 Global Corporates
 +1 (416) 597-7397
 Robert.Streda@dbrsmorningstar.com

Cathy Cheng
 Assistant Vice President, Diversified Industries
 Global Corporates
 +1 (416) 597-7538
 Cathy.Cheng@dbrsmorningstar.com

Charles Halam-Andres
 Managing Director, Diversified Industries and Sports Finance
 Global Corporates
 +1 (416) 597-7449
 Charles.Halam-Andres@dbrsmorningstar.com



The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/225752/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <https://www.dbrsmorningstar.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <https://www.dbrsmorningstar.com>.