

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings changes outlook on MAHLE to stable, affirms the Ba2 CFR, downgrades senior unsecured notes to Ba3**

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17 Apr 2024

Frankfurt am Main, April 17, 2024 -- Moody's Ratings has today affirmed MAHLE GmbH's ("MAHLE" or "the company") long term corporate family rating (CFR) at Ba2 and probability of default rating (PDR) at Ba2-PD. Furthermore, Moody's Ratings downgraded the company's senior unsecured instrument rating to Ba3 from Ba2 and the senior unsecured euro medium term note programme rating to (P)Ba3 from (P)Ba2. The outlook changed to stable from negative.

"The stabilization of the outlook reflects the progress MAHLE made in 2023, resulting in profitability and leverage at levels in line with our expectations for the Ba2 rating combined with the expectation of further performance and cash flow improvements going forward," said Matthias Heck, a Moody's Ratings Vice President – Senior Credit Officer and Lead Analyst for MAHLE. "The downgrade of the senior unsecured instrument ratings is driven by their relatively weaker positioning compared to the new revolving credit facility, which benefits from guarantees of certain operating subsidiaries," added Mr. Heck.

#### RATINGS RATIONALE

In 2023, MAHLE's sales increased by 3% to €12.8 billion from €12.4 billion, while its company-reported EBIT margin improved sharply to €304 million (2.4% margin), from €60 million (0.5% margin) in 2022. The improvement was driven by higher volumes and sales prices, which over-compensated inflationary effects at personnel and energy cost. In 2022, profits were still burdened by the company's inability to immediately pass-on higher production cost to its customers. However, margins in 2023 were still burdened by high losses in the Electronics and Mechatronics division, as well as restructuring cost. Supported by positive free cash flow generation, MAHLE's net debt was reduced to €1.35 billion, from €1.7 billion at the end of 2022.

On a Moody's adjusted basis, MAHLE's EBITA margin improved to 3.4% in 2023 (1.0% in 2022), which is still low but acceptable for the Ba2 rating. The company's

gross debt/EBITA declined to 3.5x at the end of 2023, which is also commensurate for the Ba2. At the end of 2022, debt/EBITDA was still very high at 5.2x. For 2024, Moody's Ratings expects broadly stable revenues but a further improvement in margins due to continued efficiency measures and reduced losses at the Electronics and Mechatronics division. Higher profitability should also reduce the company's leverage, in addition to proceeds from the sale of MAHLE's 50% stake in BHTC joint venture, which was concluded in early April 2024.

The Ba2 CFR reflects as positives the company's (1) size & scale a large global tier 1 automotive parts supplier, with annual revenues of €12.8 billion in 2023 and a well-diversified Original Equipment Manufacturer (OEM) customer base, (2) top 3 market position in its main product categories of engine systems and coolings, filtration and engine peripherals and thermal management, (3) positive strategic alignment with a strategy to address the disruptive automotive industry trend of electrification by using cash flow generated in the internal combustion engines (ICE) business to further broaden and grow its exposure to electric vehicle platforms and products that are not dependent on the powertrain (4) conservative financial policy, as reflected in a history of relatively low financial leverage and modest shareholder distributions, and (5) good liquidity profile.

The rating reflects as negatives the company's (1) exposure to the cyclicity of automotive production, which has passed its peak in 2018 and is expected to return to previous peak levels only at around mid-decade, (2) relatively low margins, given the highly competitive sector environment, limited ability to timely and completely pass-on higher production cost, and weak free cash flow generation over the last few years, (3) high investment needs into R&D and capex to make the product portfolio more independent from ICEs, (4) challenges related to carbon transition, given the high dependency on products for internal combustion engines, at a time where automakers have accelerated their electrification targets, and (5) credit metrics, which are still at the low end of Moody's Ratings requirements for the Ba2 rating category but are expected to improve further within the next 12-18 months.

The downgrade of the senior unsecured notes that MAHLE's renewed revolving credit facility benefits from guarantees of certain operating subsidiaries of MAHLE. This puts the senior unsecured notes, which are not guaranteed, into a relatively weaker position. In addition, the senior unsecured notes have been structurally subordinated to trade claims and pension provisions at the operating subsidiaries of the group. As a result, the senior unsecured notes are now rated one notch below the CFR.

## RATING OUTLOOK

The stable outlook reflects the expectation that MAHLE will make further progress in terms of profitability and leverage within the next 12-18 months, reaching credit metrics well in line with Moody's Ratings expectations for the Ba2 CFR. More specifically, Moody's Ratings expects EBITA margins to improve within the range of 3%-5% and leverage to decline within the range of 3.0x-3.5x, which are appropriate

ranges for the Ba2. The stable outlook also reflects the expectation of stable free cash flows on a Moody's adjusted basis.

## LIQUIDITY

Moody's Ratings considers MAHLE's liquidity position to be good. The company's main sources of liquidity include (1) cash on the balance sheet of €813 million (as of December 2023) and (2) Moody's Ratings estimate of annual funds from operations of around €600 million. The company also has a new €1.2 billion revolving credit facility (RCF) maturing in February 2027, which is largely undrawn. The RCF has certain financial covenants, to which it currently has ample headroom. With this, MAHLE's liquidity sources over the next 12 months amount to approximately €2.5 billion under the stressed assumption of no access to capital markets.

These liquidity sources comfortably exceed liquidity uses of around €1.5 billion, mainly comprising of capital spending, which Moody's Ratings expects at around €500 million, and €600 million short-term debt maturities. Uses of liquidity further include Moody's working cash assumption of €400 million.

## STRUCTURAL CONSIDERATIONS

MAHLE's Ba3 senior unsecured instrument rating reflects trade claims and pension provisions at the level of operating subsidiaries which are in aggregate material in size and have higher seniority in the debt structure of MAHLE. In addition, MAHLE's new RCF is unsecured but guaranteed by certain operating subsidiaries of MAHLE, whereas the existing senior unsecured notes do not benefit from such guarantee. As a result of the relatively weaker positioning, the senior unsecured notes are rated one notch below the CFR.

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

A downgrade of the ratings could arise for MAHLE if debt/EBITDA (Moody's adjusted) failed to improve to below 3.5x, EBITA margins remained below 3% (Moody's adjusted), retained cash flow (RCF) / net debt below 15%, or liquidity weakened.

Moody's Ratings would consider an upgrade of the ratings should MAHLE achieve sustainably Debt/EBITDA (Moody's adjusted) below 3.0x, EBITA margins (Moody's adjusted) above 5%, and RCF/net debt of more than 20%.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Automotive Suppliers published in May 2021 and available at <https://ratings.moodys.com/rmc-documents/72204>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## COMPANY PROFILE

MAHLE GmbH, headquartered in Stuttgart, Germany, is one of the top 25 global automotive parts suppliers. MAHLE's three main business segments are Thermal management (36% of 2023 sales), Engine Systems and Components (21%) and Filtration and Engine Peripherals (18%). In 2023, MAHLE generated revenues of around €12.8 billion. MAHLE, which employed around 72.000 employees and produced in 148 locations worldwide in 2023, is owned by the MAHLE Foundation. The company owns a 61% stake in the MAHLE Metal Leve S.A., which is publicly listed in Brazil and had a market capitalization of around BRL4.7bn (€860m) as of 12 April 2024.

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