

Tear Sheet:

**TRATON SE**

June 16, 2023

**TRATON SE's operating performance is set to improve in 2023 as higher volumes and better pricing improve the profitability of all its brands.** Completing its restructuring program at MAN also reduced costs, with full effects expected in 2024. We forecast that S&P Global Ratings-adjusted EBITDA margin will improve sharply to 10.5%-11.0% in 2023, from 6.9% in 2022 and 6.3% in 2021. We expect sales to grow by 10%-12% in 2023 to €42 billion-€44 billion, based on the good volume and price mix. Revenue in 2024 is forecast to be relatively stable as growth in new orders has been slowing down.

**For 2023, we anticipate that cash generation at TRATON will turn positive; adjusted free operating cash flow (FOCF) could slightly exceed €1 billion, which would help the group to reduce debt.** By contrast, in 2022, adjusted FOCF was negative by about €1 billion, held back by the €0.9 billion fine at Scania and €0.4 billion settlement at Navistar. Despite this, we also expect a meaningful increase in our adjusted measure of capital expenditure (capex), which we believe could approach €2 billion in 2023, up from €1.6 billion in 2022.

**On April 1, 2023, Scania sold its financial services operations to its parent.** This represents the first step in TRATON's plan to start offering a groupwide financial services business for all its brands and a stronger integration of the treasury function across the group. For the time being, MAN utilizes VW's financial services business, while Navistar relies for the most part on third-party providers.

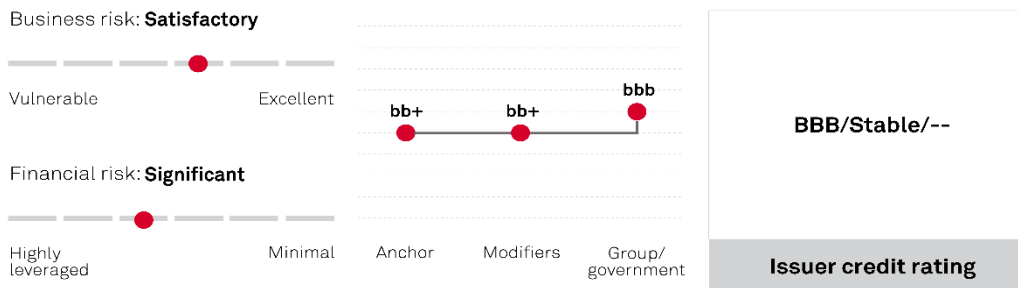
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Ratings Score Snapshot



## Recent Research

- Bulletin: German Truck Manufacturer TRATON Sees Positive Route Ahead For 2023, March 9, 2023
- Full Analysis: TRATON SE, Dec. 14, 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
- Global Heavy Truck Sales Forecast: COVID, War, And Supply Chain Woes Are Taking Their Toll In 2022, June 24, 2022

## 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 South America for heavy-duty trucks (class 8), with a market share of about 34%, and also retains the No.2 position in Europe, with a market share of 21%. The company is mainly active in Germany, the U.S., and Brazil and has an international presence in 16 countries. It operates 28 production and assembly sites. TRATON gained material exposure to the North American heavy-duty vehicle market through its July 2021 acquisition of Navistar, which gave it the No. 4 position in the U.S. heavy-duty truck market in 2022, following a sharp increase in unit sales in the region.

In 2022, TRATON recorded S&P Global Ratings-adjusted revenue of €39.0 billion (€29.7 billion in 2021) and adjusted EBITDA margin of 6.9% (6.3% in the previous year) under its industrial business. To date, the company has sold its new vehicles with support from either Scania's financial business operations (for the Scania brand) or VW's financial services (for MAN and VWTB). Navistar manages a small portion of its financial services internally, but the majority have been dealt with by third-party providers.

TRATON is controlled by VW, which has owned about 90% of its share capital since an IPO in June 2019. TRATON is listed on the Frankfurt stock exchange and the Nasdaq Stockholm. As of June 7, 2023, the company's market capitalization was about €9.3 billion.

## 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.

## Key Metrics

**TRATON SE--Forecast summary**

(Mil. €)	2019a	2020a	2021a	2022a	2023e	2024f
Revenue	26,444	22,156	29,656	39,041	42,000-44,000	41,000-45,000
EBITDA	2,379	899	1,865	2,694	4,000-4,500	4,000-4,500
Free operating cash flow (FOCF)	643	669	716	-963	>1,000	1,200-1,700
Debt	854	2,087	9,111	9,809	7,500-8,500	7,000-8,000
<b>Adjusted ratios</b>						
Debt/EBITDA (x)	0.4	2.3	4.9	3.6	1.8-2.3	1.8-2.3
Funds from operations/debt (%)	214.6	19.4	12.3	16.8	35-40	35-40
FOCF/debt (%)	75.3	32.1	7.9	(9.8)	10-15	15-20

## Financial Summary

**TRATON SE--Financial Summary**

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR
Revenues	24,963	26,444	22,156	29,656	39,041
EBITDA	1,958	2,379	899	1,865	2,694
Funds from operations (FFO)	1,415	1,833	405	1,124	1,649
Interest expense	277	256	226	347	358
Cash interest paid	139	132	101	233	426
Operating cash flow (OCF)	1,251	1,668	1,698	1,844	344
Capital expenditure	931	1,025	1,029	1,128	1,307
Free operating cash flow (FOCF)	320	643	669	716	(963)
Discretionary cash flow (DCF)	320	(3,716)	168	581	(1,213)
Cash and short-term investments	3,095	5,091	3,819	2,228	1,512
Gross available cash	2,950	5,031	3,746	2,082	1,057
Debt	5,418	854	2,087	9,111	9,809
Common equity	16,219	13,164	12,208	11,623	12,199
<b>Adjusted ratios</b>					
EBITDA margin (%)	7.8	9.0	4.1	6.3	6.9
Return on capital (%)	8.2	10.2	0.9	5.8	7.1
EBITDA interest coverage (x)	7.1	9.3	4.0	5.4	7.5
FFO cash interest coverage (x)	11.2	14.9	5.0	5.8	4.9
Debt/EBITDA (x)	2.8	0.4	2.3	4.9	3.6
FFO/debt (%)	26.1	214.6	19.4	12.3	16.8
OCF/debt (%)	23.1	195.3	81.4	20.2	3.5
FOCF/debt (%)	5.9	75.3	32.1	7.9	(9.8)
DCF/debt (%)	5.9	(435.0)	8.0	6.4	(12.4)

## Peer Comparison

### TRATON SE--Peer Comparisons

	TRATON SE	Scania AB (publ.)	AB Volvo	PACCAR Inc.	Daimler Truck Holding Ag
Foreign currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	A/Stable/A-1	A+/Stable/A-1	BBB+/Positive/A-2
Local currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	A/Stable/A-1	A+/Stable/A-1	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	39,041	14,655	41,264	25,557	49,186
EBITDA	2,694	1,552	4,801	3,232	4,467
Funds from operations (FFO)	1,649	1,052	3,825	2,404	3,207
Interest	358	50	124	1	245
Cash interest paid	426	56	77	(44)	207
Operating cash flow (OCF)	344	226	3,991	2,863	2,653
Capital expenditure	1,307	530	1,065	491	935
Free operating cash flow (FOCF)	(963)	(304)	2,926	2,372	1,718
Discretionary cash flow (DCF)	(1,213)	(626)	552	1,430	1,666
Cash and short-term investments	1,512	1,885	7,538	5,763	6,966
Gross available cash	1,057	1,762	5,602	5,763	6,560
Debt	9,809	33	0	0	0
Equity	12,199	5,525	13,235	8,337	18,388
EBITDA margin (%)	6.9	10.6	11.6	12.6	9.1
Return on capital (%)	7.1	20.0	31.4	37.4	19.1
EBITDA interest coverage (x)	7.5	31.0	38.8	5466.0	18.2
FFO cash interest coverage (x)	4.9	19.6	50.8	(54.2)	16.5
Debt/EBITDA (x)	3.6	0.0	0.0	0.0	0.0
FFO/debt (%)	16.8	3210.4	NM	NM	NM
OCF/debt (%)	3.5	690.9	NM	NM	NM
FOCF/debt (%)	(9.8)	(927.5)	NM	NM	NM
DCF/debt (%)	(12.4)	(1910.0)	NM	NM	NM

## Environmental, Social, And Governance

### ESG Credit Indicators

E-1	E-2	<b>E-3</b>	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	G-2	<b>G-3</b>	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.

### Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BBB/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bb+</b>
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)
<b>Stand-alone credit profile</b>	<b>bb+</b>

### 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

## TRATON SE

- 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

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