Mercedes-Benz Group AG
Germany, Automotive and Commercial Vehicles

SCOPE A+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	>30x	>30x	Net interest income	Net interest income
Scope-adjusted debt/EBITDA	Net cash	Net cash	Net cash	Net cash
Scope-adjusted funds from operations/debt	Net cash	Net cash	Net cash	Net cash
Scope-adjusted free operating cash flow/debt	Net cash	Net cash	Net cash	Net cash

Rating rationale

Scope Ratings has upgraded its issuer rating on Mercedes-Benz Group AG to A+/Stable from A/Positive. Senior unsecured debt issued by Mercedes-Benz Group AG and related issuing entities has been upgraded to A+ from A. Scope has also upgraded Mercedes-Benz Group AG's short-term debt rating to S-1+ from S-1.

The upgrade is driven by Mercedes-Benz's improved business risk profile on the back of structurally higher operating profitability, stemming from the strategic shift to the luxury space coupled with a continuous streamlining of the fixed cost base. In addition, Mercedes-Benz Group's issuer rating continues to be strongly supported by its financial risk profile, which has further improved in terms of debt protection and net cash position. Market position as well as product and geographical diversification remain supportive.

Outlook and rating-change drivers

The Outlook is Stable and reflects our expectation that Mercedes-Benz Group's operating profitability will structurally improve and show strong resilience amid continued inflationary pressures, a challenging demand environment and intensified competition in the electric vehicle (EV) space. We anticipate that Mercedes-Benz Group's profitability will be supported by further efficiency gains, enhanced pricing power, and a richer mix driven by the portfolio reshaping toward the top-end of the premium segment. Our base case assumes a Scope-adjusted EBITDA margin of around 15% in 2023-2025, above industry average and well above historical levels. The stable Outlook also reflects our expectation that the company will maintain a strong financial risk profile and solid credit metrics, even in a less supportive environment in the next 12-18 months. The company is expected to remain in a net cash position over the forecast period.

A positive rating action is remote but could occur if Mercedes-Benz Group successfully shifted its portfolio toward higher-margin products, leading to Scope-adjusted EBITDA margins substantially above 16% on a sustained basis while displaying strong margin and cash flow resilience in adverse market conditions.

A negative rating action could be considered if Mercedes-Benz Group's Scope-adjusted EBITDA margin fell to around 12% on a sustained basis, as this would trigger a lower business risk assessment. This could be driven by more challenging industry business conditions or poor execution of the group's premium and electrification strategy. A negative rating action could also be warranted if free cash flow generated in the group's industrial business turned negative, triggered by a sustained decrease in operating profitability and/or a significant rise in investment spending.

Rating history

Date	Rating action	Issuer rating & Outlook
22 Dec 2023	Upgrade	A+/Stable
23 Dec 2022	Outlook change	A/Positive
27 Jan 2022	Affirmation	A/Stable
03 Feb 2021	Affirmation	A/Stable

Ratings & Outlook

Issuer	A+/Stable
Short-term debt	S-1+
Senior unsecured debt	A+

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

European Automotive and Commercial Vehicle Manufacturers Rating Methodology; December 2023

European auto industry: fast-tracked EV transition raises challenges and uncertainties

European carmakers race to gain competitiveness as opportunity in China turns to threat

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Mercedes-Benz is a leading premium car maker, with one of the strongest brands in the global premium space • Premiumisation strategy and associated technological push will strengthen brand positioning and help to structurally improve operating profitability • Broad geographic outreach in its key divisions, Mercedes-Benz Cars & Mercedes-Benz Vans • Broad regional distribution of sales across both mature and emerging market regions • Diversification benefits from captive finance operations, adding a source of operating profits to the industrial business	• Strong risks of negative cyclical volume changes that may result from worsening consumer sentiment or a less favourable economic environment • Substantial investments required to develop hybrid and EVs and to meet increasingly stringent emission standards (ESG factor) • Technological changes in the automotive industry that may change the competitive landscape

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted EBITDA margins sustainably above 16%, coupled with continued strong free operating cash flow in the industrial business	• Scope-adjusted EBITDA margins consistently below 12% • Negative free operating cash flow in the industrial business, triggered by a sustained decrease in operating profitability (EBITDA) and/or a significant rise in investment spending

Corporate profile

Mercedes-Benz Group AG was founded in 1886 and was formerly known as Daimler AG (until the change of name effective since February 2022). It is headquartered in Stuttgart, Germany. The group is one of the leading global manufacturers of premium and luxury cars and vans.

Mercedes-Benz Cars develops, manufactures and sells premium and luxury passenger cars under the Mercedes-Benz brand, including AMG, G-Class, Maybach and EQ brands as well as small entry-level cars under the smart brand.

Mercedes-Benz Vans develops, manufactures and sells private vans and commercial vans with a differentiated approach (follows Mercedes-Benz' luxury strategy for private vans and pursues a premium strategy for commercial vans).

Through Mercedes-Benz Mobility and its various brands (Mercedes-Benz Financial Services, Mercedes-Benz Bank, Athlon), the group provides financing and leasing packages for end-customers and dealers; it offers car subscription, car rental, fleet management, automotive insurance brokerage, digital services for charging and payment as well as innovative mobility services.

The group has a significant presence in all relevant automotive markets in terms of demand for premium vehicles. It also benefits from an international manufacturing footprint with production facilities in Europe, North and Latin America, Asia (China in particular) and Africa.

In 2022, Mercedes-Benz Group sold 2.5m vehicles (of which 2.04m passenger cars and 0.42m vans) across the globe, generated a revenue of EUR 150bn and consolidated EBIT of EUR 20.5bn. Net liquidity in the industrial business amounted to EUR 26.6bn at end-2022. As at 31 December 2022, the group had a workforce of 165,000 employees.

As at 30 September 2023, core shareholders include the Chinese partner BAIC Group (about 10%), the Chinese investor Li Shufu, founder and chairman of Geely Auto, via Tenaciou3 Prospect Investment Limited (9.7%) and the Kuwait Investment Authority (5.6%).

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	64.6x	69.5x	Net int. income	Net int. income	Net int. income
Scope-adjusted debt/EBITDA	Net cash	Net cash	Net cash	Net cash	Net cash
Scope-adjusted funds from operations/debt	Net cash	Net cash	Net cash	Net cash	Net cash
Scope-adjusted free operating cash flow/debt	Net cash	Net cash	Net cash	Net cash	Net cash
Scope-adjusted EBITDA in EUR m					
EBITDA (industrial business)	17,703	22,355	22,405	22,690	23,767
add: dividends from associates	1,625	1,605	1,780	1,645	1,520
less: capitalised development costs	-2,333	-2,904	-2,930	-3,200	-3,450
Scope-adjusted EBITDA	**16,995**	**21,056**	**21,255**	**21,135**	**21,837**
Funds from operations in EUR m					
Scope-adjusted EBITDA	16,995	21,056	21,255	21,135	21,837
less: (net) cash interest paid	-213	-255	360	400	360
less: cash tax paid per cash flow statement	-3,812	-5,009	-5,027	-5,033	-5,249
less: pension interest	-50	-48	-10	20	10
Funds from operations	**12,920**	**15,744**	**16,578**	**16,522**	**16,957**
Free operating cash flow in EUR m					
Scope-adjusted funds from operations	12,920	15,744	16,578	16,522	16,957
Working capital changes	-867	-3,082	-1,813	-447	-754
Non-operating cash flow	1,220	293	-670	-395	-380
less: capital expenditure (net)	-7,810	-5,941	-7,255	-8,633	-9,169
add back: capitalised development costs	2,333	2,904	2,930	3,200	3,450
less: lease amortisation	-868	-625	-551	-440	-350
Free operating cash flow (FOCF)	**6,928**	**9,293**	**9,220**	**9,807**	**9,754**
Net cash interest paid in EUR m					
Net cash interest per cash flow statement	213	255	-360	-400	-360
add: pension interest	50	48	10	-20	-10
Net cash interest paid	**263**	**303**	**-350**	**-420**	**-370**
Scope-adjusted debt in EUR m					
Reported gross financial debt (industrial)[1]	3,620	-6,460	-6,460	-6,460	-6,460
less: cash and cash equivalents	-30,699	-24,739	-28,566	-32,269	-38,184
add: non-accessible cash	1,000	1,000	1,000	1,000	1,000
add: pension adjustment	2,950	1,523	642	642	642
add: fair value hedges	566	-1,225	-1,225	-1,225	-1,225
Scope-adjusted debt	**-22,564**	**-29,902**	**-34,609**	**-38,313**	**-44,228**

[1] Net of internal refinancing of the financial services business

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Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Tighter regulations shaping auto industry

Like all car makers, Mercedes-Benz Group faces increasing pressure from tightening environmental regulations (including potential fines for non-compliance) and the race to carbon neutrality (ESG factor). These regulatory requirements will shape the future of the auto industry globally, as evidenced by the EU's recent decision to ban internal combustion engine (ICE) vehicle sales from 2035.

Investment in innovation and workforce required

Addressing these challenges will require substantial investment in new technologies, innovative products, battery production capacities and software capabilities. It also entails a deep transformation in manufacturing processes and workforce competence (notably via training, reskilling and upskilling the existing personnel while hiring new talents with more specific profiles).

Ambition 2039: a clear roadmap to carbon neutrality

Mercedes-Benz Group has committed to the Paris Climate Agreement. With its 'Ambition 2039' plan, the group has a clear roadmap for reaching carbon neutrality along the whole value chain (in products, production and upstream activities, service life, recycling). Several key milestones have been set accordingly. An important milestone was reached in 2022 with CO_2-neutral production at all Mercedes-Benz Cars and Mercedes-Benz Vans plants worldwide thanks to electricity sourced from renewable sources combined with carbon offsets for unavoidable emissions. The decarbonisation roadmap includes an ambitious electrification plan (up to 50% plug-in hybrid vehicle/battery-powered electric vehicle (BEV) share in 2025, and a 100% BEV share in 2030 'where market conditions allow'), a 100% reduction in vehicles' carbon footprint throughout their lifecycle and the accelerated use of renewable energies, green materials (e.g. green steel) and circular economy (recycled and secondary materials).

2 These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: A-

Our overall assessment of Mercedes-Benz Group's business risk profile is raised to A- from BBB+, primarily reflecting the marked improvement in operating profitability, which we view as sustainable.

Our analysis of the business risk profile of automotive manufacturers comprises the assessment of the industry risk profile and of the issuer's competitive position. Our analysis of the business risk profile focuses on industrial activities, except for the diversification benefit provided by the financial services business.

Industry risk profile: BB

We assess industry risk for automotive and commercial vehicle manufacturers at **BB**, based on its high cyclicality, high entry barriers and medium substitution risk.

Automotive and commercial vehicle manufacturer industry		Entry barriers		
		Low	Medium	High
Cyclicality	High	CCC/B	B/BB	**BB** BBB
	Medium	B/BB	BB/BBB	BBB/A
	Low	BB/BBB	BBB/A	A/AA

Source: Scope.

Sharp recovery in profitability despite significant headwinds

Since the Covid-19 pandemic, Mercedes-Benz Group has demonstrated its ability to withstand numerous external shocks, including the Russia-Ukraine war, repeated lockdowns in China, as well as persistent semiconductor and component shortages, supply chain bottlenecks and logistical constraints. Thanks to a gradual recovery in volumes, positive net pricing (combining sizeable price increases and lower discounts), a favourable product mix (courtesy of low vehicle availability allowing the prioritisation of more expensive, higher-margin vehicles) and strict cost discipline, the Scope-adjusted EBITDA margin has sharply recovered from 9% in 2020 to 15.8% in 2022.

Strong results in the industrial business in 2022

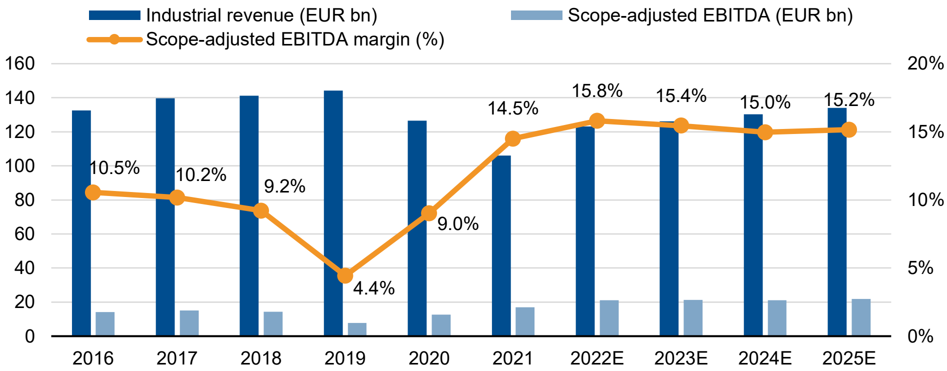
In 2022, the group delivered strong results, as evidenced by divisional performances. The adjusted EBIT margin reached 14.6% at Mercedes-Benz Cars, at the upper end of the revised guidance (13%-15% versus 11.5%-13% initially) while Mercedes-Benz Vans' EBIT margin came in at 11.2%, exceeding the revised guidance of 9% to 11% (versus 8%-10% initially).

Solid performance in 2023 despite supply issues and inflation-related supplier compensation

Following a very solid performance in H1 2023, Mercedes-Benz Group raised its full-year outlook and confirmed its guidance in October despite some challenges in Q3 2023, including supply constraints, disproportionate inflation-related supplier compensation costs, weak market conditions in China and intensified competition in the EV segment. For the full year 2023, Scope forecasts divisional margins in line with the latest guidance, with an adjusted EBIT margin of 12.4% for Mercedes-Benz Cars (at the lower end of the 12%-14% range) and 14.4% for Mercedes-Benz Vans (at the upper end of the 13%-15% range). The Scope-adjusted EBITDA margin is expected at 15.4%, slightly below 2022.

The 2024 outlook is challenging due to macroeconomic uncertainties, high interest rates and continued inflationary pressures, mainly related to labour costs and supplier compensation costs, while raw material prices are decreasing. We expect Mercedes-Benz Group to mitigate these headwinds with an improved product mix, further cost reduction and a continued prioritisation of margins over volumes. We expect the Scope-adjusted EBITDA margin to decline slightly to 15% in 2024 before rising to above 15% in 2025.

Figure 1: Revenue and EBITDA margin (%)



Sources: Mercedes-Benz, Scope estimates

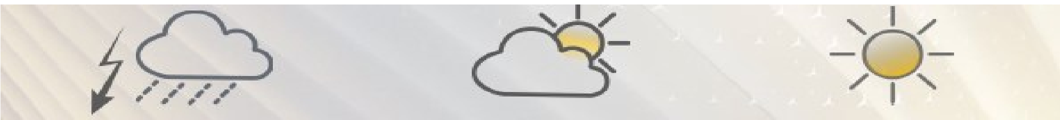
Strong results in the industrial business in 2022

As the group pursues its electrification strategy, management is aware of the uncertainties surrounding the pace of EV adoption across the globe and the difficulties in reaching cost parity between ICEs and EVs. This is all the more challenging as the EV space has become much more competitive than expected, making EV models less profitable than originally forecast. Several levers will be activated to significantly reduce BEV costs, especially battery costs per kWh. Mercedes-Benz Group intends to keep sufficient flexibility between EVs and ICEs in the production network to adjust to changes in the market environment and powertrain mix trends. Meanwhile, the group continues to realign its structural production capacities, while retaining operational flexibility via shift adjustment and a flexible use of temporary workforce.

The upscaling strategy should drive structurally higher margins

All in all, while Mercedes-Benz Group is not immune to macroeconomic fluctuations, we expect the company to remain resilient thanks to its premium/luxury strategy, which will help to reduce its cyclicality and drive structurally higher margins compared to historical levels. The car division's mid-term financial targets (14% EBIT margin under favourable market conditions) point in that direction, underpinned by a greater focus on pricing power as opposed to a volume strategy; an accelerated shift to direct sales allowing a firmer grip on pricing; continued optimisation of the product portfolio; and a strict control of investment and production capacity.

Figure 2: Mercedes-Benz Cars' mid-term financial targets

Market environment*			
Mix & Pricing		Higher mix and strong pricing power	
Fixed costs	> -20% vs. 2019	> -20% vs. 2019	> -20% vs. 2019
Capex and R&D	> -20% vs. 2019	> -20% vs. 2019	> -20% vs. 2019
Adjusted Return on Sales	approx. 8% to 10%	approx. 12%	approx. 14%
Cash conversion		0.7 - 0.9 x	

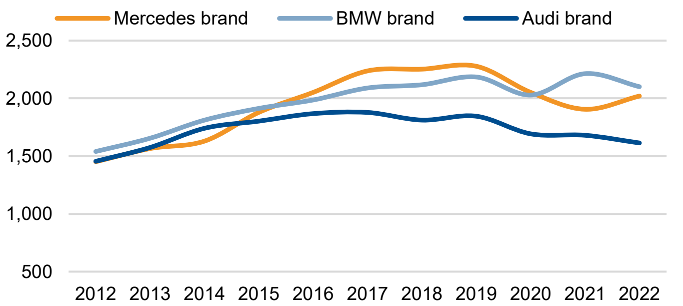
* *market environment comprises market level, competitive actions, commodity and raw material markets, excluding extreme scenarios (e.g. Covid 19 pandemic).*

Source: Mercedes-Benz

Competitive positioning unchanged despite some market share erosion

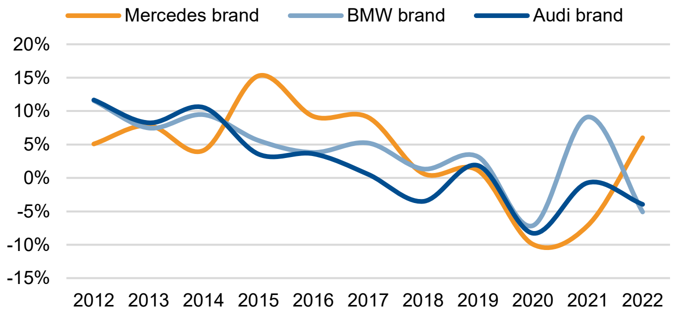
Mercedes-Benz Group has maintained its overall competitive position despite its reduced size and diversification following the spin-off of Daimler Trucks in December 2021. In the past three years, the group's market positioning has been challenged due to some market share erosion at Mercedes-Benz Cars and, to a lesser extent, at Mercedes-Benz Vans. We note, however, that in 2022, in a more competitive premium space, Mercedes-Benz Cars' global deliveries recovered, in stark contrast with its German peers.

Figure 3: German premium original equipment manufacturers – global sales ('000 units)



Sources: Mercedes-Benz, Audi, BMW, Scope

Figure 4: German premium original equipment manufacturers – YoY change in unit sales



Sources: Mercedes Benz, Audi, BMW, Scope

Beside product cycle effects, the lost momentum of recent years can be partly explained by fiercer competition in the premium space and disruptions caused by semiconductor and component shortages. Another important factor is the recently implemented 'value over volume' strategy and the shift toward the upper-end of the premium segment.

Successful premiumisation should boost brand positioning

This premiumisation strategy and the associated technological push should strengthen Mercedes-Benz Cars and Vans' brand perception and positioning, with further support from the execution of the ambitious electrification strategy.

In terms of product cycle, key milestones were reached in 2022 with the introduction of battery-electric vehicles in all the segments in which the Mercedes-Benz brand is represented. 2023 has been active with numerous facelifts, the renewal of the E-Class family (core luxury) and the introduction of the EQE SUV. However, the ramp-up of the E-Class and the GLC dynamics has been held back by a shortage of 48-volt mild hybrid systems supplied by a German Tier1 supplier. We expect the impact of the recent model changeovers to be more visible in 2024 as supply chain constraints gradually normalise.

In accordance with the group's electrification strategy, the product pipeline will be dominated by EVs, with less emphasis on ICE model renewals, especially at the lower end of the spectrum. Mercedes-Benz confirmed its plan to streamline its ICE range ahead of the very stringent Euro 7 emission standards (potentially postponed beyond 2026). The last ICE platform that the brand will develop will be that of the E-Class launched in 2023.

Figure 5: Mercedes-Benz Cars – product cycle and pipeline

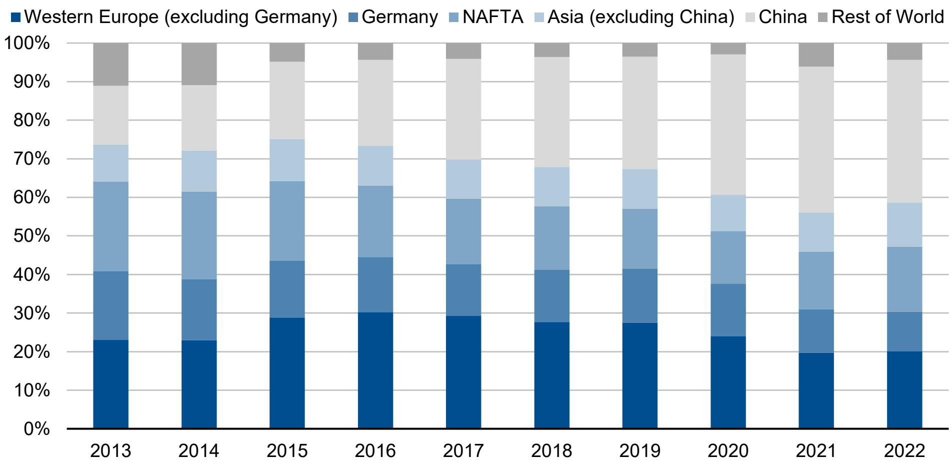
		2021	2022	2023	2024E	2025E
Top-end Luxury	ICE	SL Roadster AMG Coupe FL	SL Cabrio G Class FL		AMG GT (gen2)	S Class FL
	EV	EQS	EQS SUV	Maybach EQS SUV	All electric G-Class	
Core Luxury	ICE	C Class (estate/limo) CLS Coupe FL	GLC	E Class family GLE coupe FL, CLE coupe GLE and GLS facelifts		
	EV	EQE		EQE SUV		
Entry Luxury	ICE		A Class FL B Class FL	GLA, GLB facelifts CLA/CLA shooting brake FL		CLA
	EV	EQA EQB		EQA and EQB facelifts		CLA derivatives

FL: facelift
Sources: Mercedes-Benz, motoring press, Scope

Supportive product and geographical diversification

The group's product and geographical diversification continues to support the business risk profile. The group has a significant presence in all relevant key automotive markets, notably in China, the world's largest market. The group thus benefits from a global geographical outreach in terms of sales and manufacturing footprint.

Figure 6: Passenger car deliveries by region



Sources: Mercedes-Benz, Scope

The group's product line-up focuses on premium customers and is well diversified across all vehicle categories, ranging from small, compact vehicles to luxury and ultra-luxury vehicles. After a sizeable expansion of the product range over the past few years, Mercedes-Benz Cars is now streamlining its portfolio in order to reduce complexity and refocus on the biggest profit pools. The new strategy, announced in May 2022, aims to reshape and elevate its product portfolio, with an even stronger focus on luxury.

EV portfolio expansion improves product depth

Mercedes-Benz's electrification offensive is improving product depth. At Mercedes-Benz Cars, the share of electrified drive systems (16% in 2022 versus 7% in 2020) is expected to increase steadily to up to 50% by 2026, mainly driven by all-electric vehicles. By 2025, the objective is to allow customers to choose an all-electric alternative for every model produced by the company. The van division is also accelerating its portfolio electrification even though this process will take more time due to the low starting point (4% BEV share in 2022, target of 20% in 2026 and 50% by 2030).

This comprehensive electric offensive hinges on the development of appropriate vehicle architectures, both flexible (multi-fuelled like the MMA platform due in 2024) and purpose-built (all-electric MB.EA, AMG.EA and VAN.EA platforms from 2025). It also entails partnerships or equity investments in key relevant areas (battery cells with ACC, Farasis, CATL and Envision AESC; electric motors with Yasa; solid state battery technology with Factorial; cell development with Sila and ProLogium). Together with partners, the group is currently setting up eight battery cell factories with a capacity of over 200 GWh.

Electrification supports compliance with CO_2 regulations

Portfolio electrification is a key lever for compliance with increasingly stringent environmental regulations, especially in Europe. Mercedes-Benz Cars overachieved its European CO_2 targets in 2020 and met even tougher requirements in 2021 thanks to the accelerated penetration of its electrified vehicles. In 2022, despite a slower-than-expected ramp-up of EVs caused by supply chain constraints, Mercedes-Benz Cars managed to stabilise its European fleet average at 115gCO_2/km, thus exceeding the regulatory target of around 127g/km. For 2023, the division expects that its European fleet average will continue to fall significantly below the level reached in 2022 thanks to the further expansion of its EV fleet. Thus, European regulatory targets should be met once again.

Financial services contribute to business line diversification

Lastly, Mercedes-Benz Group's well-diversified business is reflected in its captive finance activities (Mercedes-Benz Mobility), which encompass a wide range of products and services, in particular the fast-growing mobility services.

Financial risk profile: AA+

Financial risk profile assessment upgraded to AA+

Mercedes-Benz Group's issuer rating continues to be supported by its strong financial risk profile, upgraded to AA+ from AA. The group's financial risk profile has further improved in terms of debt protection and net cash position in the industrial business. At the end of September 2023, the net cash position (using the company's definition of net industrial liquidity) stood at EUR 28.5bn, compared to EUR 26.6bn at end-2022 and EUR 21bn at end-2021.

Sizeable and sustained adjusted net cash position

The vast majority of the group's reported gross financial debt pertains to the financial services business and stems from the matched funding of captive finance assets, which are primarily customer-finance receivables. Given the limited external financial debt in the industrial business and high cash balances and marketable securities, Scope-adjusted debt has been negative over the past decade. As a net lender to the captive finance operations, the industrial business no longer bears any financial debt (since 2022). Similarly, excluding deferred tax positions, the pension deficit has turned into a surplus since 2022, thanks to the 5% stake in Daimler Trucks contributed to the German pension fund in 2022 combined with the continued increase in discount rates. Including cash held by the financial services arm (in accordance with our Automotive and Commercial Vehicle Manufacturers Rating Methodology), we expect Mercedes-Benz Group's industrial business to preserve a substantial Scope-adjusted net cash position, in the range of EUR 34bn-44bn in 2023-2025.

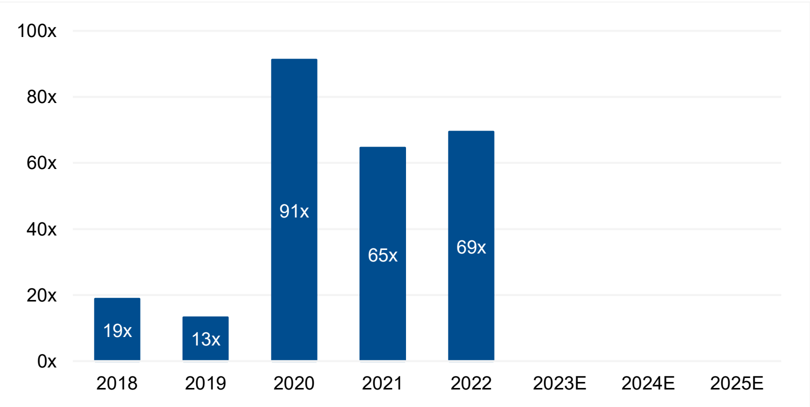
Net cash status leading to strong credit metrics

This strong net cash position makes conventional credit metrics meaningless, with Scope-adjusted debt/EBITDA and Scope-adjusted funds from operations/debt both negative. We project a continued net cash status in the next few years, thus providing Mercedes-Benz Group with a significant financial cushion.

Net interest income expected in 2023-2025

With the elimination of gross financial debt in the industrial business and rising interest income on gross liquidity, we forecast a net interest income in 2023 and over the forecast period.

Figure 7: EBITDA interest coverage*



* *No coverage metric in 2023-2025 as we expect net interest to be positive over this period*

Sources: Mercedes-Benz, Scope estimates

The solid industrial FOCF supports the financial risk profile

FOCF has been relatively volatile over the past decade but has stabilised and improved since 2019 thanks to drastic cash preservation measures, greater capex discipline and tight working capital management. Management has recently put in place group-wide initiatives aimed at driving a cultural shift to a cash-flow-oriented company, including a quarterly cash call dialogue with employees, cash flow training and incentivisation through cash flow-related KPIs. In line with the company's guidance, we anticipate a relatively stable FOCF in 2023. We expect higher investments (capex plant and equipment, capitalised development costs) in 2024 while working capital should improve after a significant cash absorption in 2023. It is worth noting that the rollout of the agency model (direct sales) implies a transfer of inventories from the dealer network to the company's own balance sheet. However, this should be digestible as Mercedes-Benz Group has planned and started implementing mitigating measures.

We expect industrial FOCF to fully cover annual dividend payments in the next few years. Dividend payments (including those accruing to non-controlling interests) are forecast at EUR 5.9bn per year in 2023-2025, assuming an unchanged dividend pay-out ratio of 40%, in line with the group's target. We also incorporate the announced share buyback programme of up to EUR 4bn over two years, roughly evenly spread between 2023 and 2024.

Adequate liquidity

Our view on Mercedes-Benz Group's financial risk profile is also supported by the group's adequate liquidity in the absence of gross financial debt in the industrial business. In addition to sizeable unrestricted cash and cash equivalents, Mercedes-Benz Group benefits from an undrawn EUR 11bn revolving credit facility (maturing in July 2025) granted by an international banking consortium and converted into a sustainability-linked loan in October 2022.

Figure 8: Liquidity analysis

Balance in EUR m	2022	2023E	2024E
Unrestricted cash (t-1)	29,699	23,739	27,566
Open committed credit lines (t-1)	11,000	11,000	11,000
Free operating cash flow	9,293	9,220	9,807
Short-term debt (t-1)	3,620	-6,460	-6,460
Coverage	**>200%**	**No ST debt**	**No ST debt**

Source: Scope estimates

Supplementary rating drivers: +/- 0 notch

The conservative financial policy is reflected in the group's strong credit metrics. Despite a shareholder-friendly approach in terms of dividend distribution (pay-out ratio target of 40% of earnings attributable to shareholders), Mercedes-Benz Group' financial policy remains fairly prudent. Dividends should be covered by industrial free cash flow. For now, we do not perceive the share-buyback programme of up to EUR 4bn over two years (2023-2024) as a permanent tool for remunerating shareholders. Governance is credit-neutral as no specific issues have been identified. We also assess the risk profile of the captive finance activities (Mercedes-Benz Mobility) as adequate, with no incremental risk to Mercedes-Benz Group's creditworthiness.

Long-term and short-term debt ratings

Senior unsecured debt rating: A+

Long-term senior unsecured debt has been upgraded to A+, the same level as the issuer rating. Notes issued by Mercedes-Benz Australia/Pacific Pty Ltd., Mercedes-Benz International Finance B.V., Mercedes-Benz Canada Finance Inc., Mercedes-Benz Finance North America LLC and Mercedes-Benz Finance Co. Ltd. benefit from an unconditional and irrevocable guarantee given by Mercedes-Benz Group AG.

Short-term debt rating: S-1+

We have upgraded Mercedes-Benz Group's short-term debt rating to S-1+, based on the upgraded A+/Stable issuer rating, supported by better-than-adequate liquidity, strong access to capital markets and well-established banking relationships. Mercedes-Benz Group should be able to address any short-term financing and refinancing requirements.

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