



Rating Action: Moody's upgrades Siemens to Aa3 from A1 and affirms its P-1 ratings; stable outlook

19 Jun 2023

Frankfurt am Main, June 19, 2023 -- Moody's Investors Service (Moody's) has today upgraded the long-term issuer rating of Siemens Aktiengesellschaft (Siemens) to Aa3 from A1 and affirmed its Prime-1 (P-1) short-term issuer rating. The outlook remains stable.

"Today's rating action primarily recognises the ongoing improvement in Siemens' business profile, which supports our assumption that the company will be able to sustainably maintain its credit metrics commensurate with a higher rating across economic cycles", says Martin Fuererik, Moody's lead analyst for Siemens.

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

RATINGS RATIONALE

Today's upgrade primarily reflects Moody's assessment that over the past several years Siemens' business profile has become more robust to cope with economic cycles. Through ongoing portfolio optimization efforts, Siemens has shifted its focus to businesses with strong underlying growth prospects and increased the share of more stable and recurring revenue in its business mix.

These efforts, together with a reduction of central costs, have also supported an improvement in its profitability. Even in the current challenging macroeconomic environment with lower GDP growth and high inflation, Siemens has managed to post strong earnings growth, increasing its Moody's-adjusted EBITA margin to 12.8% in fiscal year ending September 2022 (FY2022) from 12.4% in FY2021; and further to 13.6% for 12 months that ended March 2023. The improvement in the company's business profile and margins, which Moody's expects Siemens to sustain, increases the capacity for financial leverage going forward.

The upgrade also assumes that the company will maintain its financial discipline and will continue to manage its growth adhering to its publicly communicated financial policies, which include a maximum net industrial leverage of 1.5x (1.0x for 12 months that ended March 2023). Debt-funded M&A remains a risk factor, but Moody's recognizes the company's strong leverage reduction capabilities owing to its good free cash flow (FCF) generation, further supported by its stakes in listed assets, such as Siemens Healthineers (75%) and Siemens Energy AG (around 32%), that can be relatively readily monetized.

Although Siemens now follows a progressive dividend policy, the rating agency assumes that it will opt for dividend payouts not materially reducing its underlying FCF generation. Moody's also believes that the company will continue to use share buybacks as a flexible instrument, suspending them in case of operational underperformance or after larger debt-funded acquisitions.

Siemens' liquidity is excellent, which is a prerequisite for its Aa3 rating. The company consistently carries sizable cash and cash equivalents (around €9.2 billion at the end of March 2023), which Moody's views as a prudent approach considering the existence of the large captive finance operations and a significant amount of performance guarantees. Because of excess cash, the rating agency accepts a somewhat higher leverage on a gross debt basis.

The stable outlook reflects Moody's expectation that even in a lower growth environment Siemens will be able to maintain the strong operational momentum with margins broadly around the current levels and robust Moody's-

adjusted EBITDA growth at around mid-teens percentages in FY2023 and around mid-single digit percentages in FY2024, supported by its pricing power and record order backlog.

ESG CONSIDERATIONS

Siemens' CIS-1 score indicates that ESG considerations have a positive impact on its rating. Although as a manufacturer Siemens has exposures to various environmental and social risks, these exposures are offset by its product portfolio with good underlying growth prospects addressing important megatrends, including decarbonisation of society, and its strong governance characteristics underpinned by conservative financial policies with a commitment to a low leverage.

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

Moody's could upgrade Siemens' Aa3 long-term issuer rating further if the company continued to strengthen its business profile, with more evidence of a greater resilience to economic cycles, while maintaining conservative financial policies. This strengthening could be illustrated by: (1) a continued expansion of Moody's-adjusted EBITA margin sustainably into mid-teens percentages; (2) Moody's-adjusted gross debt/EBITDA declining sustainably below 1.5x; and (3) Moody's-adjusted RCF/net debt exceeding 50% on a sustained basis.

Conversely, the rating agency could downgrade Siemens' Aa3 long-term issuer rating with a sustained erosion in the company's competitive strength, profitability and cash flow generation or an application of more aggressive financial policies for a prolonged period. Quantitatively, (1) Moody's-adjusted gross debt/EBITDA above 2.0x; (2) Moody's-adjusted RCF/net debt below 40%; and (3) Moody's-adjusted EBITA margin declining towards low-teens percentages, all on a sustained basis, could indicate a weakening of Siemens' credit quality.

LIST OF AFFECTED RATINGS

..Issuer: Siemens Aktiengesellschaft

Affirmations:

.... ST Issuer Rating, Affirmed P-1

....Commercial Paper, Affirmed P-1

....Other Short Term, Affirmed (P)P-1

Upgrades:

.... LT Issuer Rating, Upgraded to Aa3 from A1

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Aa3 from A1

Outlook Actions:

....Outlook, Remains Stable

..Issuer: Siemens Capital Company, LLC

Affirmations:

....BACKED Commercial Paper, Affirmed P-1

Upgrades:

....BACKED Senior Unsecured Regular Bond/Debenture, Upgraded to Aa3 from A1

....BACKED Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

Outlook Actions:

....Outlook, Remains Stable

..Issuer: Siemens Financieringsmaatschappij N.V.

Affirmations:

....BACKED Commercial Paper, Affirmed P-1

....BACKED Other Short Term, Affirmed (P)P-1

Upgrades:

....BACKED Senior Unsecured Medium-Term Note Program, Upgraded to (P)Aa3 from (P)A1

....BACKED Senior Unsecured Regular Bond/Debenture, Upgraded to Aa3 from A1

Outlook Actions:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at <https://ratings.moodys.com/rmc-documents/74970>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Siemens is one of the world's largest manufacturing and technology companies, with revenue of around €72 billion in FY2022. Its broad portfolio includes offering related to automation, electrification, mobility and medical devices.

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 on <https://ratings.moodys.com/rating-definitions>.

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