

Auto & Related
Germany
Update

Daimler AG

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Senior Unsecured	A-

Outlook

Long-Term Foreign-Currency IDR Stable

Financial Data

Daimler AG	31 Dec 10	31 Dec 09
Revenue (EURm)	97,761	78,924
Total adjusted debt (EURm) ^a	2,570	9,620
Net adjusted debt (EURm) ^a	-8,223	-3,181
Equity capital and reserves (EURm) ^a	33,088	27,157
Operating EBITDAR ^a /revenue ^a (%)	12.0	5.2
Cash flow from operations ^a (CFO)/revenue ^a (%)	11.8	9.8
Total adjusted debt ^a /operating EBITDAR ^a (x)	0.3	2.7
Net adjusted debt ^a /operating EBITDAR ^a (x)	-0.8	-0.6
CFO ^a /total adjusted debt ^a (x)	392.0	68.0
Funds from operations fixed charge coverage ^a (x)	10.4	1.9

^a From industrial operations

Analysts

Emmanuel Bulle
+ 34 933 238 411
emmanuel.bulle@fitchratings.com

Eric Vogeler
+49 69 768076243
eric.vogeler@fitchratings.com

Related Research

Applicable Criteria

- [Corporate Rating Methodology \(August 2010\)](#)
- [Rating Automotive Manufacturers: Sector Credit Factors \(July 2010\)](#)

Other Research

- [2011 Outlook: Global Automotive Industry \(January 2011\)](#)
- [Rating Impact of Iron Ore and Metals Price Inflation \(May 2011\)](#)

Rating Rationale

Large and Diversified Group, with Leading Market Positions: Daimler AG (Daimler) enjoys wide geographical and business diversification. It has leading positions in the premium passenger-car segment with its Mercedes Benz and smart brands (MBC division). Daimler Trucks (DT) is the world's largest heavy-truck manufacturer: it is number-one in Europe (23% market share), number-two in NAFTA (31% market share) and number-two or -three in several other countries/regions, including Brazil and Japan. The group also holds leading positions in global van and bus markets.

Continuous Outperformance of Premium Auto Brands: Sales of premium brands have been less distorted by scrapping incentives and have recovered strongly since 2010. In addition, underlying demand for premium vehicles is extremely high, in both developed and emerging markets. MBC is on track to achieve a record year in 2011, despite a few models being close to changeover.

Solid Rebound of Truck Sales: Global truck sales are being boosted by a recovering market in Europe and the US (15% and 25% growth, respectively, expected by Fitch Ratings in 2011) and continuous strong demand in other markets. DT will also benefit from its most comprehensive product launch ever in 2011-2013.

Improving Profitability: Daimler's main divisions posted record earnings in 2010 and Q111 (MBC: 8.7% and 9.3%, respectively; DT: 5.5% and 6.6%, respectively). MBC and DT expect to reach their respective 10% and 8% operating margin targets by 2013, which Fitch believes is possible.

Strong Credit Metrics: Daimler's net cash position led to gross adjusted leverage of 0.1x at end-Q111 and negative net industrial leverage of 0.8x. Positive free cash flow (FCF) expected in 2011 should lead to a further improvement in leverage at end-2011 and end-2012. Cash flow and interest coverage are also very robust.

What Could Trigger a Rating Action

Profitability Development: Operating margins declining below 2% (industrial) and 3% (group) would be negative for the ratings, whereas Daimler's ability to meet operating margin targets at both MBC and DT would bring about positive rating pressure.

Weak Cash Generation: Material and sustained negative FCF, coming from poor underlying performance, or shareholder-friendly actions could lead to a downgrade.

Lower Cyclicity: Evidence that cyclicity of the truck division has diminished could be positive for the ratings. This should be evidenced by a group EBIT margin that is more stable and above 3% through the cycle.

Liquidity and Debt Structure

The group has reported a strong net cash position for years. Although it dropped to EUR3.1bn at end-2008 (before adjustments for operating leases) from EUR12.8bn at end-2007, total net cash remained comfortable throughout the crisis. Total net liquidity from industrial operations improved further at end-2010 and end-Q111, to EUR11.9bn and EUR12.4bn, respectively. Adjusted for operating leases, net industrial cash was EUR8.4bn at end-Q111, including EUR3.1bn of negative financial debt (EUR3.5bn of long-term debt to finance industrial operations but EUR6.6bn of short-term debt borrowed by industrial operations and immediately on-lent to the financial services division).

Peer Group

Issuer	Country
A+	
Toyota Motor Corporation	Japan
A	
Honda Motor Co., Ltd	Japan
A-	
Daimler AG	Germany
Volkswagen Group	Germany
BBB	
Hyundai Motor Company	Korea (south), Republic Of
Kia Motors Corporation	Korea (south), Republic Of

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
10 Jun 11	A-	Stable
19 Jul 10	BBB+	Positive
25 Mar 09	BBB+	Negative
29 Jan 09	BBB+	Stable
20 Nov 08	A-	Stable
13 Jun 08	A-	Positive
6 Aug 07	A-	Stable
14 May 07	BBB+	RWP
15 Sep 06	BBB+	Stable
21 Aug 06	BBB+	Stable
24 Feb 06	BBB+	Stable
19 Jul 05	BBB+	Stable
4 Apr 05	BBB+	Positive
24 Jun 04	BBB+	Positive
23 Oct 03	BBB+	Stable
9 Jul 03	BBB+	Stable

"RW" denotes Rating Watch

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status ^a	Trend
Operations	Strong	Neutral
Market Position	Strong	Neutral
Finances	Strong	Neutral
Governance	Average	Neutral
Geography	Strong	Neutral

^a Relative to auto manufacturer peers

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

The industry’s operational risk is high. Demand is volatile and cyclical, as cars are “big ticket” consumer discretionary items, highly exposed to economic trends. The sector is politically and socially critical to the overall economy, and subject to potential government interference. Overcapacity remains a pivotal issue, difficult to address. Geographical and product diversification is important to mitigate the effect of cyclical, although the latest downturn was unusually simultaneous across regions. Another industry challenge includes the need to adapt to new business models driven by evolving powertrains and emissions legislation.

Financial Risks

The auto industry is characterised by its capital-intensiveness and high operating leverage (high amount of fixed costs), leading manufacturers to look for economies of scale. Profit margins are usually cyclical and low in view of permanent price pressure and sharp competition. Working-capital swings can also be material as was the case in 2008 and 2009. Solid and steady liquidity is critical to finance capex and R&D, as well as the refinancing needs of captive finance subsidiaries.

Peer Group (at end-2010, except Toyota and Honda at end-March 2011)

	Toyota A+/Stable	Honda A+/Stable	Volkswagen A-/Stable	Daimler A-/Stable
EBITDAR margin (%)	6.0	9.4	9.7	12.0
Total Adj. Debt/EBITDAR (x)	1.7	0.7	1.0	0.3
CFO/ Total Adj. Debt (%)	80	120	128	390
FFO/Gross Interest Expense (x)	192	156	14	20

Source: Fitch, Companies

Key Credit Characteristics

With relatively high operational and financial risks, auto manufacturers’ ratings are clustered in the ‘BB’ and ‘BBB’ categories, although strong credit characteristics can lift ratings to the ‘A’ category. Leverage is usually low, and most groups report a net cash position through the cycle. However, this is mitigated by weak and cyclical profitability and cash generation, as well as superior refinancing risk – notably to meet the high and ongoing financing needs of finance subsidiaries.

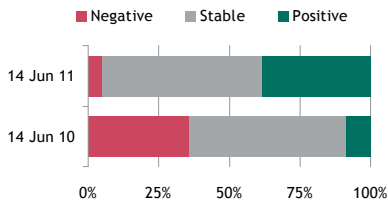
Overview of Companies

- **Toyota Motor Corporation** (Toyota, ‘A’/Stable/‘F1’) – Ratings are supported by Toyota’s continued status as the world’s largest automaker, despite its recent recalls and quality issues. It benefits from high economies of scale, a wide product range, together with considerable resources for investment. However, the strengthening of the Japanese yen since mid-2010 continues to be a risk for Toyota due to its high proportion of Japanese-made exports to the US.
- **Honda Motor Co., Ltd** (Honda, ‘A’/Stable/‘F1’) – Honda is the second-largest Japanese automaker. The ratings are supported by its strong business and financial profile, reflecting its competitive product line-up, diversified business portfolio, and competitiveness in hybrid vehicles.
- **Volkswagen Group** (‘A-’/Stable/‘F2’) – Ratings are supported by a strong and above-average business and financial profile. The group benefits from an unparalleled product portfolio, high geographical diversification and a healthy net cash position. However, it remains acquisitive and could participate in a possible consolidation of the heavy-truck market.

Daimler AG — Auto & Related Median — A- Median — Source: Company data; Fitch.

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



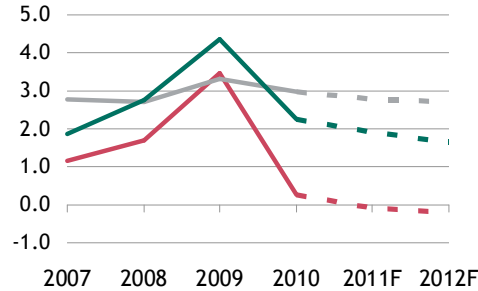
Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- mid-single-digit revenue growth in 2011 to 2013 as emerging markets demand remains solid and key developed end-markets continue to recover (trucks and premium cars);
- operating margin normalise to roughly 2010 levels in 2011-2013, as MBC's margins reach 8%-9% and DT's margins 6%-7%;
- normalising working capital patterns, increasing capex, and about stable dividend payments after they have resumed in 2011.

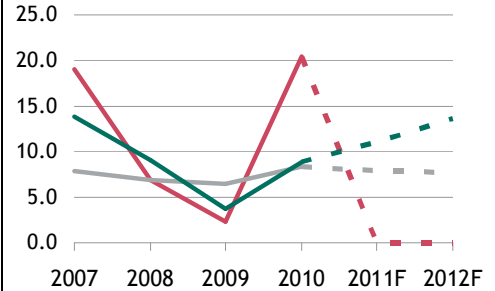
Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

Leverage including Fitch expectations



Interest Cover including Fitch expectations

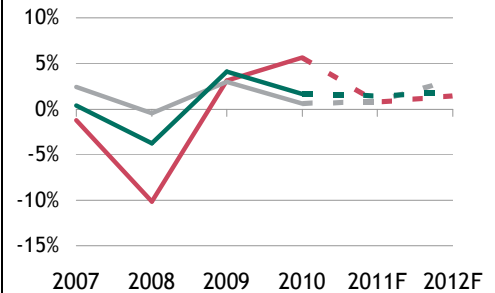


Debt Maturities and Liquidity at end-2010

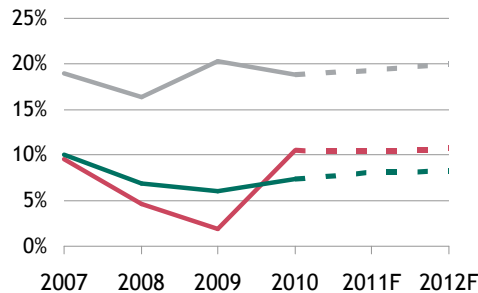
Debt maturities (EURbn)	
2011	25.7
2012	11.0
2013	7.2
2014	5.2
After 2014	4.7
Cash and equivalents	13.0
Undrawn Committed Facilities	9.4

Including EUR7bn syndicated credit facility due 2016

FCF/Revenues including Fitch expectations



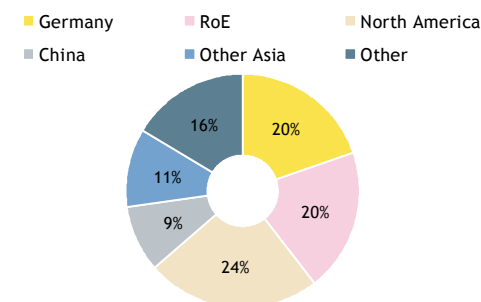
FFO Profitability including Fitch expectations



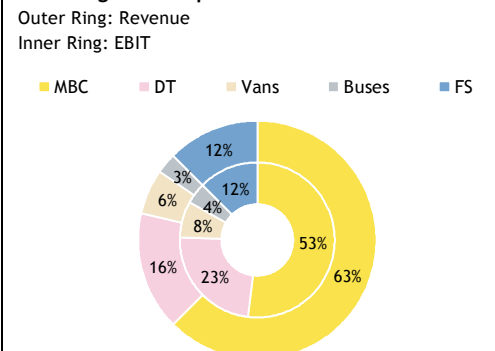
Capex/CFO including Fitch expectations



FY10 Geographic Split



FY10 Segmental Split



Daimler AG

Financial Summary

	31 Dec 2010 EURm Original	31 Dec 2009 EURm Original	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
INCOME STATEMENT					
Revenues	97,761	78,924	95,873	99,399	151,589
Revenue Growth	24	(20)	(6)	(35)	1
EBIT	7,274	(1,513)	2,730	8,710	3,777
Interest Expense Net of Interest Income	257	506	(48)	(302)	250
Net Income	4,498	(2,640)	1,638	4,849	3,227
BALANCE SHEET					
Cash and Equivalents	12,233	14,918	7,623	16,692	13,121
Total Assets	135,830	128,821	132,219	135,094	190,022
Short-term Debt	25,821	25,036	27,428	23,100	34,615
Senior Long-Term Debt	27,861	33,258	31,209	31,867	43,903
Subordinated Debt	0	0	0	0	0
Total Debt	53,682	58,294	58,637	54,967	78,518
Common Equity	36,373	30,261	31,216	36,718	34,155
Off-Balance Sheet Debt	3,928	4,104	4,504	6,536	7,680
Total Adjusted Capitalisation	95,563	94,225	95,865	99,733	121,016
Total Adjusted Debt	57,610	62,398	63,141	61,503	86,198
Preferred Stock + Minority Interests	1,580	1,566	1,508	1,512	663
CASH FLOW					
Operating EBITDAR (Op. EBITDAR)	11,589	4,397	11,648	16,618	17,547
Cash Interest Paid, Net of Interest Received	431	423	(114)	564	4,193
Cash Tax Paid	1,189	358	898	1,020	1,494
Associate Dividends	38	109	67	69	0
Other Changes before Funds From Operations**	(1,901)	(3,702)	(1,992)	(901)	2,478
FUNDS FROM OPERATIONS	8,106	23	8,939	14,202	14,338
Working Capital	438	10,938	(7,387)	(143)	3,033
CASH FLOW FROM OPERATIONS	8,544	10,961	1,552	14,059	17,371
Non-Operational Cash Flow*	4,325	0	0	0	0
Capital Expenditure	5,208	3,845	10,492	16,832	30,761
Dividends Paid	93	657	2,020	1,579	1,553
FREE CASH FLOW	7,568	6,459	(10,960)	(4,352)	(14,943)
Receipts from Asset Disposals	329	280	4,553	5,615	13,653
Business Acquisitions	163	141	982	159	473
Business Divestments	365	67	515	26,393	1,158
Exceptional & Other Cash Flow Items	39	64	(951)	(38)	(153)
NET CASH IN/OUTFLOW	8,138	6,729	(7,825)	27,459	(758)
Equity Issuance/(Buyback)	224	1,953	(4,123)	(1,827)	310
FX movement	423	(180)	(206)	(1,199)	(467)
Other Items Affecting Cash Flow**	(6,858)	(864)	(2,346)	26,312	3,803
NET CASH FLOW AVAILABLE FOR FINANCING	1,927	7,638	(14,500)	50,745	2,888
CLOSING NET DEBT	41,449	43,376	51,014	36,514	65,397
PROFITABILITY					
Op. EBITDAR/Revenues (%)	11.85	5.57	12.15	16.72	11.58
EBIT/Revenues (%)	7.44	(1.92)	2.85	8.76	2.49
FFO Return on Adjusted Capital (%)	9.48	1.60	10.62	15.54	13.40
CREDIT RATIOS					
Funds From Operations/Gross Interest Expense (x)	18.62	1.02	14.13	30.59	16.70
FFO Fixed Charge Cover (x)	9.52	1.02	8.19	11.95	8.66
Op. EBITDAR/Net Fixed Charges (x)	15.49	4.32	22.62	32.27	14.50
Adjusted Leverage/FFO (x)	6.36	41.41	6.20	3.97	5.32
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	3.92	10.80	4.77	2.70	4.16
Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%)	60.28	66.22	65.86	61.67	71.23

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.

* Includes Analyst Estimate

** Balancing Item

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2011 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating 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. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.