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# Morningstar DBRS Downgrades Volkswagen AG's Issuer Rating to BBB (high) From A (low); Changes Trend to Stable

AUTOS & AUTO SUPPLIERS

DBRS Ratings GmbH (Morningstar DBRS) downgraded the Issuer Rating on Volkswagen AG (VW or the Company) and on Volkswagen International Finance N.V. to BBB (high) from A (low) and changed the trends to Stable from Negative. In addition, Morningstar DBRS changed VW Credit Canada, Inc.'s Senior Unsecured Debt credit rating to BBB (high) from A (low) and its Commercial Paper credit rating to R-2 (high) from R-1 (low) and changed both trends to Stable from Negative.

## KEY CREDIT RATING CONSIDERATIONS

The trend change for VW reflects Morningstar DBRS' expectation that the Company will be able to gradually reduce its cost base and improve operating margins in 2026, building on the cost and capacity reductions already achieved since last year. Morningstar DBRS therefore does not expect VW's operational and financial performance to deteriorate further. Morningstar DBRS also acknowledges that the Company's cash generation has remained neutral to positive despite the challenging environment and expects significant improvement from 2027 onwards.

The credit rating downgrade reflects several significant industry challenges confronting the Company, including profitability levels, that, cumulatively, have negatively affected its comprehensive business risk assessment (CBRA). VW, like many other legacy automotive original equipment manufacturers (OEMs), is facing substantial difficulties in China, where domestic manufacturers are competing aggressively on price in a market that has significantly contracted in 2026. We expect these conditions to continue to undermine the Company's margin recovery prospects. Additionally, VW, like several of its peers, is materially adversely affected by the Trump administration's trade policies, which have resulted in higher tariffs across multiple markets.

Positively, on June 24, 2026, VW announced an agreement to sell a 51% stake in Everllence to Bain Capital while retaining 49%. The transaction is expected to generate about EUR 7.4 billion in cash proceeds, strengthening VW's financial position, improving liquidity, and supporting the Company's transformation strategy. Morningstar DBRS views VW's strong balance sheet and financial flexibility as a material credit strength in the current operating environment, providing significant financial ratio and credit rating headroom. Morningstar DBRS expects the Company's financial services division to continue its solid performance and positively contribute to group's overall financial position.

## CREDIT RATING DRIVERS

Positive credit ratings pressure could materialise through sustained improvement in revenue growth and profitability as a result of successful restructuring and new model launch execution. Furthermore, a sustained improvement in the Company's free cash flow (FCF) could lead to a credit rating upgrade. More specifically, Morningstar DBRS could consider a positive credit rating action if VW were to achieve its transformation programme targets and gradually improve its profitability towards its stated 8%-10% operating margin target by 2030, while increasing automotive FCF towards EUR 5 billion annually over the next two years and demonstrating a credible path towards historical performance levels.

The principal credit rating risks include a deeper-than-expected deterioration in China, prolonged tariff disruptions, weaker global demand, or failure to achieve announced cost reductions allowing improved core automotive business profitability. However, because of VW's strong balance sheet and financial flexibility, Morningstar DBRS believes the Company has significant credit ratings headroom and is well placed to execute its transformation programme. Negative credit rating pressure could nevertheless arise should the current challenges remain unresolved resulting again in declining topline, profitability, and FCF of the group turning negative.

EARNINGS OUTLOOK
Morningstar DBRS expects VW's industrial revenue and operating earnings to come under pressure in 2026 before recovering gradually over the next two years. Industrial revenue is forecast to decline 2.0% to EUR 254.6 billion in F2026 from EUR 259.8 billion in F2025, reflecting weak global automotive demand, continued deterioration in China, and tariff-related headwinds. Revenue is then expected to recover modestly to EUR 257.1 billion in F2027 (+1.0%) and EUR 262.3 billion in F2028 (+2.0%). At the operating level, EBIT is projected to increase from EUR 12.3 billion in F2025 to EUR 12.7 billion in F2026 (+3.8%), supported by ongoing cost-reduction measures despite a challenging operating environment. Morningstar DBRS further expects EBIT to improve modestly to EUR 12.9 billion in F2027 (+1.0%) before accelerating to EUR 15.7 billion in F2028 (+22.4%) as the benefits of workforce reductions, overhead savings, manufacturing footprint optimisation, and capacity rationalisation are more reflected in earnings. Morningstar DBRS views VW's restructuring initiatives positively and expects them to support a gradual recovery in profitability, although continued weakness in China, tariff exposure, and competitive pressures are likely to constrain the pace of improvement through 2027. The Company is targeting EUR 11 billion of annual overhead savings by 2030. While early benefits are already visible through lower overhead costs and stronger cash flow generation during H1 2026, Morningstar DBRS expects the turnaround to take several years and believes additional restructuring actions beyond those already announced may be required before the profitability targets are achieved.

FINANCIAL OUTLOOK
Consistent with the earnings outlook outlined above, Morningstar DBRS expects VW's cash flow from operations in 2026 to remain at the same level as 2025 as a moderate decline in sales is offset by anticipated margin improvement. Capital expenditures (capex) are estimated to remain substantial, however automotive investment ratio in H1 2026 declined to 10.5% compared to 11.5% during the same period last year. Morningstar DBRS expects dividend payments to continue to follow VW's stated payout ratio objective of 30% of net income. Morningstar DBRS also expects VW's 2026 gross FCF (i.e., before working capital items, after capex and dividend) to improve year over year compared with 2025 to around neutral from negative. Working capital is not expected to represent a major use or source of cash on an annual basis in 2026. Cash flow from operations is projected to significantly improve in 2028 and 2029 as the Company continues to execute its restructuring programme with expected positive impact on profitability and cash generation. Capex will persist at substantial levels; however, it's anticipated to moderate over the medium term with VW's current investment cycle having peaked. Notwithstanding ongoing substantial capex outlays and dividend payments in line with VW's financial policy, Morningstar DBRS anticipates the Company's FCF to remain at positive levels over the medium term with an improving trajectory, with VW's strong financial profile, together with

group's ability to generate cash proceeds through management of its non-core investment portfolio, estimated to sufficiently absorb mergers and acquisitions activities in connection with its ongoing business initiatives.

CREDIT RATING RATIONALE

Comprehensive Business Risk Assessment (CBRA): bbb

VW's CBRA reflects its position as one of the world's largest automotive OEMs (ranking second globally according to 2025 sales volume data) with a leading position in its core European market. While VW remains a material player in China, its recent results in the region have weakened considerably amid stronger local competition and very challenging pricing, which has an impact on its profitability. The Company also has a presence in the U.S., although its share in that country is markedly lower vis-à-vis its other major markets. VW has one of the widest of brand portfolios in the industry, ranging from value and mainstream brands, such as Skoda and VW, to several premium and luxury bands, notably including Audi, Porsche, Lamborghini, and Bentley. Morningstar DBRS notes, however, that the 2026 results thus far of key brands Porsche and Audi have been affected by soft luxury market and the tariffs. Nonetheless, the Company's geographic and product diversity, in addition to its strong presence in the premium vehicle segments, contributes significantly to its earnings stability. Morningstar DBRS notes that VW's CBRA is subject to a downward adjustment of one notch, recognising operating uncertainty resulting from the China market and the ongoing restructuring of operations over the next three to four years.

Comprehensive Financial Risk Assessment (CFRA): a (high)

Reflecting historical positive cash flow generation, VW's financial profile is strong, thereby providing the Company with meaningful cushion in the context of the currently assigned credit ratings. VW's financial policy is conservative, with the Company prioritising a strong balance sheet. As of 30 June 2026, the industrial operations retained a substantial net cash position, with the Company's net liquidity position (as defined by VW) amounting to EUR 34.2 billion. This is supplemented by a EUR 12.5 billion syndicated credit facility (of a five-year term with two one-year extension options) that remains undrawn for the group's industrial business, with total group syndicated credit lines amounting to EUR 28 billion. In line with the above, Morningstar DBRS notes that VW's financial profile is sufficiently robust to fund the substantial investment requirements over the foreseeable future for its ongoing electrification and digitalisation efforts. Morningstar DBRS notes that VW's CFRA is subject to a downward adjustment of two notches, given the uncertainty surrounding the financial impact and ultimate execution of the Company's extensive restructuring initiatives over a relatively long time horizon.

Intrinsic Assessment (IA): BBB (high)

The IA is based on the aforementioned CFRA and CBRA.

Additional Considerations: None

The Issuer Ratings include no further negative or positive adjustments because of additional considerations.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Environmental (E) Factors

The following Environmental factor(s) had a relevant effect on the credit analysis: Morningstar DBRS considers costs relating to carbon and greenhouse gas emissions to be a relevant Environmental factor as

VW, consistent with its automotive peers, is facing a fundamental transformation process driven by increasingly stringent emissions and fuel-efficiency regulations across most global jurisdictions. Accordingly, the Company is undergoing substantial investments associated with the electrification of its model portfolio, including the further development of modular toolkits for its volume, premium, and sports brands. Similarly, VW is investing in the gradual conversion of its locations for the production of electric vehicles and in the creation of battery manufacturing capacity with the aim of establishing a battery supply chain under its own control.

Governance (G) Factors
The following Governance factor(s) had a relevant effect on the credit analysis: Morningstar DBRS considers corporate/transaction governance, specifically with respect to VW's shareholder structure and distribution of voting rights, to be a modest negative Governance factor. As of YE2025, Porsche Automobil Holding SE, Stuttgart held 53.3% of voting rights. The State of Lower Saxony (the second-largest shareholder) held 20.0% of the voting rights, with Qatar Holding LLC holding 17.0% of voting rights. Accordingly, external shareholders have very few voting rights; these amounted to 9.7% as of YE2025. Similarly, VW's supervisory board is composed primarily of shareholders and worker representatives, with only a nominal proportion of independent members; this potentially limits the board's ability to oversee risks.

There were no Social factors that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (20 July 2026) https://dbrs.morningstar.com/research/485522

Further details on the Issuer's Intrinsic Assessment can be found at https://dbrs.morningstar.com/research/486506.

Notes:
All figures are in euros unless otherwise noted.

Morningstar DBRS applied the following principal methodology: Global Methodology for Rating Companies in Diversified Industries (2 February 2026), Automotive Manufacturing Industry Supplement, https://dbrs.morningstar.com/research/473093

Morningstar DBRS credit ratings may use one or more sections of the Morningstar DBRS Global Corporate Criteria (19 December 2025) https://dbrs.morningstar.com/research/470156, which covers, for example, topics such as holding companies and parent/subsidiary relationships, guarantees, recovery, and common adjustments to financial ratios.

The following methodologies have also been applied:
-- Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (20 July 2026), https://dbrs.morningstar.com/research/485522
-- Morningstar DBRS Global Corporate Criteria (19 December 2025), https://dbrs.morningstar.com/research/470156

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

A description of how Morningstar DBRS analyses corporate finance transactions and how the methodologies are collectively applied can be found at: https://dbrs.morningstar.com/research/431153.

The primary sources of information used for these credit ratings include 1. Annual and quarterly financial reports, 2. Company capital markets publications, 3. Management discussions. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be satisfactory quality.

The following additional regulatory disclosures apply to Volkswagen International Finance N.V.:

Regarding Volkswagen International Finance N.V., with respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third-Party Participation: YES
With Access to Internal Documents: YES
With Access to Management: YES

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://dbrs.morningstar.com/research/486504.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Tuomas Ekholm, Senior Vice President, Sector Lead,
Rating Committee Chair: Anke Rindermann, Managing Director ,
Initial Rating Date: Volkswagen International Finance N.V. -- 27 December 2023; Volkswagen AG -- 16 May 2001; VW Credit Canada, Inc. -- 24 April 2000
Last Rating Date: 31 July 2025

Information regarding Morningstar DBRS ratings, including definitions, policies, and methodologies, is available on https://dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

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## Ratings

VW Credit Canada, Inc.

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|---|---|---|---|---|---|
| 30-Jul-26 | Commercial Paper (unconditionally guar. by Volkswagen AG) | Trend Change | R-1 (low) | Stb | EU U |
| 30-Jul-26 | Commercial Paper (unconditionally guar. by Volkswagen AG) | Downgraded | R-2 (high) | Stb | EU U |
| 30-Jul-26 | Senior Unsecured Debt (unconditionally guar. by Volkswagen AG) | Trend Change | A (low) | Stb | EU U |
| 30-Jul-26 | Senior Unsecured Debt (unconditionally guar. by Volkswagen AG) | Downgraded | BBB (high) | Stb | EU U |

Volkswagen AG

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|---|---|---|---|---|---|
| 30-Jul-26 | Issuer Rating | Trend Change | A (low) | Stb | EU U |
| 30-Jul-26 | Issuer Rating | Downgraded | BBB (high) | Stb | EU U |

Volkswagen International Finance N.V.

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|---|---|---|---|---|---|
| 30-Jul-26 | Issuer Rating | Trend Change | A (low) | Stb | EU U |
| 30-Jul-26 | Issuer Rating | Downgraded | BBB (high) | Stb | EU U |



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