Creditreform Corporate Issuer / Issue Rating

BMW AG

Creditreform Rating

12 December 2024 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has affirmed the unsolicited corporate issuer rating of BMW AG at A and adjusted the outlook from stable to negative.

Creditreform Rating (CRA) has affirmed the unsolicited, public corporate issuer ratings of BMW AG and BMW Finance N.V. at A and adjusted the outlook from stable to negative. The unsolicited short term rating for BMW AG and BMW Finance N.V. has been affirmed at L2 (high level of liquidity). Due to business reasons CRA has withdrawn (n.r.) the unsolicited corporate issue rating of the long-term local currency senior unsecured notes issued by BMW Finance N.V..

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Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

+ Revenue and operating profit growth in 2023, largely due to higher deliveries and an improved product mix
+ Increasing share of fully electric vehicles, in line with corporate strategy and climate targets, as well as with European CO_2 fleet targets

- Revenue and earnings development in 2024 noticeably burdened by weak demand in China, as well as by delivery stops and recalls of new vehicles due to a potentially faulty braking system
- Marked downward revision of guidance for the full year 2024 with significantly reduced earnings and margins
- Weak free cash flow due to the decline in earnings, increased inventories, and high capital expenditure (especially in research and development)
- Continued high expenses and capital expenditures in connection with the digitalization and electrification of the vehicle fleet
- Marked increase in financial debt at group level as of September 30, 2024
- Persistently weak economic situation – especially in Germany and China – in connection with growing uncertainty related to increasing geopolitical conflict
- Potential risks and challenges resulting from increasing protectionism, particularly in the US, China and the EU

ESG-criteria:

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or outlook.

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of BMW AG we have not identified any ESG factors with significant influence.

Nevertheless, sustainability issues are key elements of the BMW Group's strategic and operational development in the short term, but especially in the medium and long term. The goals pursued by BMW focus in particular on reducing CO_2 emissions, increasing resource efficiency, and significantly improving social and ecological standards. The Company is committed to the Paris Climate Agreement, and joined the SBTi's "Business Ambition for 1.5°C Initiative" as early as 2021. Specifically, this means that BMW has committed to reducing scope 1 and 2 emissions (per vehicle produced at its own plants and locations) by an average of 80%, scope 3 emissions by an average of more than 20% in the supply chain (upstream), and in the use phase (downstream) by an average of more than 50% by 2030 (base year 2019). In the overall view of the life cycle of a vehicle, the individual targets should result in an average CO_2 reduction of more than 40% by 2030. These targets are to be achieved primarily through strong growth in sales of electrified vehicles, efficiency improvements in all drive technologies, reduction of energy requirements and increased use of renewable energies, as well as further measures to reduce CO_2 in the supply chain. Examples here are the use of green electricity as a criterion when awarding contracts to suppliers, a continuously increasing secondary raw materials quota, as well as innovations in the production of primary raw materials. With the help of these interim targets, the BMW Group aims to achieve CO_2 neutrality across its entire value chain by 2050.

Although we fundamentally derive financial risks for the BMW Group from this area, e.g., from CO_2 emissions and in relation to regulatory-compliant fleet consumption, we see the Company as being on a satisfactory path overall. A key success factor in this context is the consistent electrification of the BMW Group's model portfolio. The share of deliveries accounted for by electrified vehicles totaled 22.2% in 2023, a marked increase on the previous year (2022: 18.1%). The share of all-electric vehicles in deliveries increased to 14.7% in 2023 (FY 2022: 9.0%), while the share of PHEV vehicles (Plug-In-Hybrid Electric Vehicle) declined to 7.4% from 9.1% in 2022. Nonetheless, the goal is to increase the share of electrified vehicles to over 30% by 2025 and the share of all-electric vehicles (BEV, Battery Electric Vehicle) to over 50% by 2030, for which the BMW Group has already created a good starting point by investing heavily in the electrification of vehicles. For the seven-year period of 2023-2029, BMW plans capital expenditure and operating expenditure of approximately EUR 93.3 billion (FY 2022: EUR 72.5 billion) in order to expand taxonomy-aligned economic activities, primarily in connection with the electrification of the vehicle portfolio in its Automotive and Motorcycles segments.

Despite the progress described above, there remains a risk of possible future fines due to the further tightening of CO_2 limits if the regulatory requirements cannot be met in the future. It should be mentioned here that the BMW Group did meet the regulatory fleet limits in 2023; however, positive credits — obtained from exceeding the limits in previous years — had to be used for this purpose in China and the USA. Unlike in 2022, the BWM Group did not purchase any external credits from other manufacturers.

Overall, in our opinion, various aspects of ESG factors still need to be monitored; however, there is currently no significant factor influencing the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the achievement of the Company's self-imposed targets and on regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating result

With an unsolicited corporate issuer rating of A, BMW AG continues to have a high credit rating and a low risk of default. Our assessment is based on the Company's strong brand portfolio and the leading market position in the premium automotive market, which have so far enabled the BMW Group to report solid business performance and strong earnings and internal financing power, despite the difficult market conditions and challenges posed by the ongoing transformation of the automotive industry and the BMW Group. However, the downward trend in revenues and earnings in the current financial year 2024 — which is mainly due to weak demand in China, the delivery stop and recall related to a faulty braking system, as well as the related increase in financial liabilities — have had a dampening effect on the Group's current financial position and performance. Nevertheless, in our view, the special charges in connection with the faulty braking system are not sustainable, so that we derive a negative effect from them, but no adjustment of the rating for the time being. The result of our financial ratio analysis for the 2023 financial year, combined with the Group's continued solid liquidity and financial position and proven ability to access the capital market over many years, supports our rating assessment. Still, the increasing intensity of competition, particularly in the field of e-mobility, investment requirements in the course of the ongoing transformation process for the BMW Group — especially against the background of growing (geo-)political conflict, increasing trade barriers, and restrained economic conditions in the important markets of China and Germany — continue to represent observable factors of uncertainty.

Outlook

The one-year outlook for the rating is negative and reflects, on the one hand, the current strain on the BMW Group's net assets, financial position, and results of operations as a result of weak demand in China and the effects of a faulty braking system and, on the other hand, the potential increase in risks and challenges due to increasing protectionism in BMW's key markets of China, the US, and the EU, which noticeably cloud the prospects for a recovery in the market and for the BMW Group. Even if the faulty braking system should prove to be a temporary problem, we see an increased risk that profitability and internal financing power will remain at a lower level for prolonged period, and that the already elevated financial debt could continue to rise, given the increasing pressure on margins due to growing competition, continuing high investment requirements in the course of the transformation process, and increasing trade barriers in the Company's main markets.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A

In our best-case scenario for one year, we assume a stable rating of A. This is based on the assumptions that the economic situation in the Group's main markets will recover or improve, that no relevant import tariffs will be imposed in the USA for the time being, and that the BMW Group will succeed in delivering the vehicles which have accumulated in its warehouses. The Company's earnings and internal financing power should improve again, with a decrease in financial debt. We assume that the results of our financial ratio analysis will stabilize or improve.

Worst-case scenario: A-

In our worst-case scenario, we assume a negative rating adjustment over a one-year period. This is based on the assumption that the economic situation will not recover, or will deteriorate further, partly due to the imposition of tariffs in the USA. Competition would additionally depress sales and margins and lead to a lasting impairment of earnings and internal financing power. Persistently high investment and capital requirements in the course of the transformation process could, if cash flow generation is insufficient, result in a further increase in financial debt and a deterioration in the results of our financial ratio analysis, which would contribute to an adjustment of the rating.

Business development and outlook

Table 1: Financials of BMW AG (Group) I Source: BMW Group Annual Report 2023, standardized by CRA

BMW AG Selected key figures from the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, Group)	CRA standardized figures[1]	
	2022	2023
Sales (EUR billion)	142.61	155.50
EBITDA (EUR billion)	28.46	33.05
EBIT (EUR billion)	14.0	18.48
EAT (EUR billion)	18.58	12.17
EAT w/o non-controlling interests (EUR billion)	17.94	11.29
Total assets (EUR billion)	231.01	234.62
Equity ratio (%)	33.82	33.86
Capital lock-up period (days)	36.14	36.49
Short-term capital lock-up (%)	44.17	40.01
Net total debt / EBITDA adj. (Factor)	4.76	4.15
Ratio of interest expenses to total debt (%)	0.15	0,12
Return on investment (%)	7.25	5.68

In the past financial year, the BMW Group achieved robust business performance with significant sales and revenue growth. Noticeable growth was recorded in both all-electric vehicles and vehicles with efficient combustion engines. The number of deliveries increased in all regions and markets. Accordingly, revenues grew by 9.0% to EUR 155.5 billion (FY 2022: EUR 142.6 billion). It should be noted that BMW Brilliance has only been included since February 11, 2022 and was therefore only partially included in 2022. The favorable price and product mix effects, which have been evident for years, also had a positive impact. Compared to 2019, revenues increased by 49.2%, while the number of cars and motorcycles delivered increased by only 1.9%. Even though some of this is attributable to inflation, it also reflects, to a certain extent, the strength of the BMW Group's product and brand portfolio.

Manufacturing costs increased at a lower rate than revenue, offsetting a disproportionate increase in research and development costs and general administrative costs, so that EBIT recorded a noticeable increase of 32.0% to EUR 18.5 billion (FY 2022: EUR 14.0 billion). Accordingly, the EBIT margin increased to 11.9% (FY 2022: 9.8%). The financial result deteriorated significantly compared to the previous year, largely due to positive effects realized in the previous year from the merger with BMW Brilliance and the revaluation of the shares previously held in this company. In addition, higher interest expenses and the net interest effects on other non-current provisions had a negative impact on the financial result.

Consequently, although the EBT of EUR 17.1 billion (FY 2022: EUR 23.5 billion) was noticeably lower than in the previous year, it was in line with expectations, so that business performance in 2023 can be considered as solid overall.

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[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Table 2: Segment information of BMW AG (Group) I Source: Annual Report 2023, own presentation

Segment information (EUR billion)	Revenue		EBIT		EBT	
	2022	2023	2022	2023	2022	2023
Automotive	123.6	132.3	10.6	13.0	18.9	12.6
Motorcycles	3.2	3.2	0.3	0.3	0.3	0.3
Financial Services	35.1	36.2	3.2	3.1	3.2	3.0
Other Entities	0.0	0.0	-0.2	0.0	1.0	-0.1
Eliminations	-19.3	-16.2	0.1	2.2	0.1	1.3
Group	***142.6***	***155.5***	***14.0***	***18.5***	***23.5***	***17.1***

In the first nine months of the current fiscal year, sales decreased by 5.8% to EUR106.0 billion (9M 2023: EUR112.5 billion). By contrast, the cost of sales was only slightly below the prior-year level, while selling and general and administrative expenses increased slightly overall, causing EBIT to fall by 31.6% year-on-year to EUR 9.6 billion (9M 2023: EUR 14.1 billion). EBT fell by 33.9% to EUR 8.9 billion (9M 2023: EUR 13.4 billion) and was additionally burdened by a slightly weaker financial result. The weak business performance was mainly due to delivery blocks in connection with a faulty braking system in the third quarter, which had a negative impact on vehicle sales and revenues as well as on the BMW Group's earnings situation. In addition, challenging market conditions and subdued demand in China weighed on the BMW Group's business performance. As a consequence, the BMW Group made a significant downward adjustment to its annual forecast for 2024 in September, and now expects a marked decline in group EBT, a slight decline in deliveries in the automotive segment, and a decline in the EBIT margins in the automotive and motorcycle segments to 6-7% from the original 8-10%, which has a dampening effect on our rating.

Table 3: Segment information of BMW AG (Group) I Source: Quarterly Statement to 30.09.2024, own presentation

Segment information (EUR billion)	Revenue		EBIT		EBT	
	9M 2023	9M 2024	9M 2023	9M 2024	9M 2023	9M 2024
Automotive	95.0	90.9	9.8	6.0	9.6	5.8
Motorcycles	2.6	2.6	0.3	0.2	0.3	0.2
Financial Services	26.7	28.6	2.4	2.2	2.5	2.1
Other Entities	0.0	0.0	-0.2	0.0	0.1	0.4
Eliminations	-11.8	-16.1	1.5	1.2	0.9	0.3
Group	***112.5***	***106.0***	***14.1***	***9.6***	***13.4***	***8.9***

The lower earnings level also had a negative impact on the BMW Group's cash flow generation. In addition, the delivery freezes and sales volume decreases led to an increase in capital tied up in inventory. In conjunction with continued high investment activity, free cash flow in the automotive segment amounted to EUR -2.5 billion in the third quarter (Q3 2023: EUR +2.6 billion), totaling EUR -0.2 billion for the first nine months of 2024 (Q3 2023: EUR 5.8 billion). The liquidity requirements arising from this, among other things, were compensated for by borrowing, so that the total financial liabilities at the group level as of September 30, 2024 had increased noticeably by €11.8 billion to €106.8 billion (FY 2023: €95.0 billion) as compared to the 2023 balance sheet date.

Overall, we see a considerable deterioration in the BMW Group's financial position and performance in the current fiscal year, but this was caused for the most part by an extraordinary charge related to a faulty braking system and should therefore not have a lasting effect in our view. However, numerous risks and increasing challenges cloud the prospects for a rapid recovery. In addition to the ongoing transformation of the automotive industry towards electrification and digitalization, increasing competition, and continuously tightening regulatory conditions, the weak economic conditions in the important markets of Germany and China, and escalating geopolitical conflict are particularly worth noting. Moreover, increasing trade barriers in the Group's main markets pose a real threat to economic recovery in general and to the future business development of the BMW Group in particular.

It remains to be seen to what extent the EU's import tariffs on electric vehicles produced in China, which have been in force since the end of October 2024, will affect the BMW Group, which has its E-Mini produced in China. The same applies to the additional tariffs on imported vehicles that are expected to be levied in the USA after Donald Trump takes office, although the existing BMW production facility in the USA allows for a certain degree of relativization. However, the imposition of import duties in the US would very likely lead to a potential loss of margins and sales, which could imply an adjustment to the rating.

Further ratings

In addition to the rating of BMW AG, the following Issuer has been rated:

- BMW Finance N.V.

Due to the corporate, strategic, liability, financial, economic and performance-related interdependencies of the aforementioned subsidiary (100% subsidiary of BMW AG and consolidated in the Group's annual accounts) we derive the unsolicited issuer rating of this subsidiary from the unsolicited issuer rating of BMW AG, and set it equal to its rating of A / negative.

Based on the long-term issuer rating, and taking into account our liquidity analysis, the short-term rating of BMW AG and the abovementioned subsidiary has been set at L2 (standard mapping), which corresponds to a high level of liquidity assessment for one year.

Due to business reasons CRA has withdrawn (n.r.) the unsolicited corporate issue rating of the long-term local currency senior unsecured notes issued by BMW Finance N.V..

Table 4: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
BMW AG	12.12.2024	A / negative / L2
BMW Finance N.V.	12.12.2024	A / negative / L2
Long-term Local Currency (LC) Senior Unsecured Issues issued by BMW Finance N.V.	12.12.2024	n.r.
Other	--	n.r.

Appendix

Rating history

The rating history is available under the following link.

Table 5: Corporate Issuer Rating of BMW AG

Event	Rating created	Publication date	Result
Initial rating	07.06.2017	14.06.2017	A+ / stable

Table 6: Corporate Issuer Rating of BMW Finance N.V.

Event	Rating created	Publication date	Result
Initial rating	02.11.2018	09.11.2018	A+ / stable

Table 7: LT LC Senior Unsecured Issues issued by BMW Finance N.V.

Event	Rating created	Publication date	Result
Initial rating	02.11.2018	09.11.2018	A+ / stable

Table 8: Short-term Issuer Ratings of BMW AG and BMW Finance N.V.

Event	Rating created	Publication date	Result
Initial rating	26.09.2023	29.09.2023	L2

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Non-financial Corporate Issue Ratings	2.0	March 2024
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Artur Kapica	Lead-analyst	A.Kapica@creditreform-rating.de
Luca Olmes	Analyst	L.Olmes@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 12 December 2024, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 12 December 2024. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG guarantees that the provision of ancillary services does not cause a conflict of interest with its rating activities and discloses in the final rating report which ancillary services were provided for the rating object or for third parties associated with it. The following ancillary services were provided for this rating object or for related third parties:

Credit Service ancillary services for the relevant rating object.

The final list of rating-related and credit services can be viewed on the Creditreform Rating AG's website.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

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