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Summary:
MAN AG

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(Editor's Note: The original version of this article, published on Aug. 5, 2008, misstated the company's operating margins in the second and third sentences of the third paragraph. A corrected version follows.)

Credit Rating: A-/Stable/A-2

Rationale

The ratings on Germany-based diversified industrial company MAN AG reflect the company's modest financial risk profile and strong business risk profile. They are underpinned by the group's leading European market positions in heavy trucks, strong market positions in diesel engines and turbo machinery, good free operating cash flow generation, and solid geographic diversification.

The ratings are tempered, however, by the capital intensity and pronounced cyclicity of MAN's end markets, notably commercial vehicles, and the continuously challenging market conditions for its bus segment.

MAN's performance has improved along with the positive economic environment in recent years. In the first six months of 2008, the company's industrial operations achieved an operating margin before depreciation (excluding investment income) of 11.6%. This figure was 11.5% for full-year 2007, 8.2% in 2006, and 5.4% in 2005. The positive margin development was supported by high capacity utilization, productivity improvements, and a solid pricing environment. In line with the data reported by peers, order intake in the truck division declined considerably in the first half of 2008. However, this is more a reflection of the very strong orders booked for the same period of 2007, which then reverted to more normal levels in 2008. Standard & Poor's Ratings Services expects orders in the European truck industry to moderate in the coming quarters, eventually leading to a low single-digit market decline in 2009. Order intake and order backlog in MAN's turbo and diesel division remain solid and ensure visibility in production for about the next two years.

MAN generated about €500 million of free operating cash flow in the first half of 2008. As a result, the company will likely further improve its strong financial profile until the end of the year. We consider MAN's financial risk to be modest, supported by its considerably improved reported free operating cash flows (before acquisition payouts). Including our adjustments for debt, the company had a fully-adjusted net cash position in 2007, compared with its industrial unit's debt-to-EBITDA ratio of 0.9x in 2006 and 2.3x in 2005.

We have not factored closer cooperation with Sweden-based truck manufacturer Scania (publ.) AB (A-/Stable/A-2) into the ratings. While we still consider a truck alliance involving Scania and MAN to be possible, we have no information that indicates the heightened risk of such a transaction taking place over the short term. The rating implications of closer cooperation would depend on the funding structure of the relevant transaction.

Liquidity

MAN's liquidity is strong, underpinned by cash and marketable securities of about €0.9 billion on June 30, 2008. The group has availability under an unused €2.0 billion variable-rate revolving credit facility (RCF), which was granted by a consortium of 25 banks and expires in December 2011. This facility was unused on Dec. 31, 2007, and on June 30, 2008. In addition, the group has about €1.8 billion in committed and bilateral credit lines with different

banks. MAN's capacity to serve its outstanding debt is strongly supported by considerable free operating cash flow generation. Bank lines are not subject to financial covenants, rating triggers, or material adverse change clauses. The RCF has a change-of-control clause. On June 30, 2008, short-term maturities for the group were €1,077 million and MAN's funding sources considerably exceed upcoming debt maturities in the medium term.

Outlook

The stable outlook reflects our expectation that MAN will sustain a relatively stable operating performance over the industry cycle and that the company will maintain a modest financial risk profile. We expect expansionary investments to be covered largely by internally generated cash flows. To maintain the ratings, we expect the industrial business to generate funds from operations of at least 40%-45% of industrial debt and industrial debt to EBITDA to be no higher than 1.8x. The ratings could be lowered if the company increased its industrial debt leverage beyond these thresholds, owing to larger debt-financed acquisitions or an unforeseen weakening of industry conditions.

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