

## **PCR Verum assigns Navistar Financial's ratings on "Positive Outlook"**

**Monterrey, Mexico (November 24, 2020):** Today, PCR Verum affirmed the long-term and short-term, counterparty risk ratings of Navistar Financial, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, E.R., (NF), which are 'BBB+/M' and '2/M', respectively, and assigned them "Positive Outlook". Additionally, PCR Verum affirmed the '2/M' rating with 'Positive Outlook' on the Short-Term Bond Program, which amounts up to Ps\$3 billion or its equivalent in Mexico's Investment Units (UDIs). This is a revolving program with maturity date in February 2022.

The assignation to all NF ratings with "Positive Outlook" is due to the recent final purchase agreement relative to the acquisition of the Navistar's total shares by TRATON Group (Volkswagen AG). PCR Verum believes that the credit quality of the acquiring company is sounder than the credit quality of Navistar International Corporation (NIC: NF holding company, ultimately), and a potential significant rating upgrade will occur once the local regulatory authorities approve the acquisition, which is expected to be completed in the first semester of 2021. Currently, TRATON holds 16.8% of NIC's shares.

As for NF, it has showed consistent profitability indicators and a good asset base, which has been recently strengthened; moreover, it reflects quality metrics adequate for the industry the company serves to and a wide funding base with a diversified type of financial Institutions. Regarding the company's portfolio concentrations, they remain increased; additionally, the sector is vulnerable to changes in the macroeconomic environment that might negatively affect the loan placements or the client's payment capacity. In our view, the asset quality might be pressured, and the profitability ratio might decrease, due to a lower loan operation and the need for higher allowances because of the coronavirus outbreak (COVID-19).

The ratings are assigned with "Positive Overlook". In the event the acquisition transaction is effectively carried out by TRATON, there would be a high possibility of a significant positive variation in NF's ratings. If the acquisition transaction is carried out, we will revise the Outlook to "Stable".

PCR Verum believes that NF has maintained a reasonable and stable financial performance through the business cycles, reflected in an adequate profitability indicators, which are consistent with the company's business model. The moderate increase in the expenses due to the allowances and write-offs (9M20: 30.4% of the operating income before allowances; 2019: 17.7%) affected the company's profitability during the first nine months of 2020. The net profit as of September 2020 was Ps\$285 million, resulting in asset profitability indicators and average equity of 2.5% and 8.6%, respectively; which, in the PCR Verum's opinion, are adequate levels, consistent with the company's historical average.

Because of the high specialization of NF in one single credit sector —i.e. funding to purchase transport equipment (retail trade, wholesale trade, and lease),— its performance has showed more sensitivity to the economic cycle, in comparison to other financial institutions with higher diversification and less vulnerability to the current economic environment. PCR Verum expects that the NF performance will be affected at short- and medium-term by an unfavorable economic and operating environment, due to the COVID-19 pandemic; particularly, because of the need of higher allowances and a lower dynamism in its income base. Nevertheless, NF entered into this period with an outstanding liquidity and a wide access to lines of credits.

The historical performance of the NF portfolio has been satisfactory, and it has been maintained at reasonable levels considering the segment this SOFOM company serves to, this was 3.5% as of September 2020 and, during the last four years, it has been maintained at similar levels, with a 3.2% average. However, during the first semester of this year, a significant write-off occurred (~Ps\$84 million) in connection with a specific loan, which placed the company's adjusted non-performing portfolio indicator (Non-Performing Portfolio + Write-Offs/ Average Total Loans) at 4.7% as of the same period. Regarding the hedge for non-performing portfolio by means of allowances, it continues at good levels and with a growth tendency, representing 1.2x respect of non-performing portfolio. We expect the company continues to set aside an allowance of at least 100% for its

non-performing portfolio, based on the implementation of a conservative preventive policy in its loan allowances, as the company has been doing since its beginnings.

PC Verum considers that the economic conditions at this point may affect the payment capacity of some of the company's clients due to the partial closure or reduction of activities among the small-sized and medium-sized business (SMC), to which the company serves. This may require a significant quantity of restructurings, affecting the company's asset/liability liquidity gap (September 2020: 55% of the company's total portfolio has received payment deferral benefits).

The NF's asset levels have been maintained healthy during the time, as a result of a recurring internal yield of earnings and a recent moderate reduction in its credit operations. Hence, its equity/total assets ratio has gradually increased, reaching up to 30.0% as of 3Q20 (2019: 27.8%; 2018: 23.7%), which, in PCR Verum's opinion, is a good ratio. We believe that, despite the decrease in the company's profit and the potential future effects on the loan portfolio, NF will be able to maintain its asset position at an adequate level.

NF funds its operation by means of short-term and long-term loans with development banks and commercial banks, which jointly represent the total of the company's cost-bearing liabilities. We consider that the company has an outstanding diversification in its funding sources, maintaining lines of credit with 13 financial institutions, 8 of which are national institutions (including 2 lines of credits with development banks) and 5 are global entities. As of 3Q20, these lines of credits jointly amount Ps\$9.062 billion, approximately, which is equivalent to around 51.2% of the company's authorized debt amount. Furthermore, it is important to note that NIC provides NF with a committed line of credit, fully available, in the amount of US\$100 million (with maturity in May 2023), which provides an important backup to comply with the company's financial obligations. So far, there has been no need to use such line of credit. Respect of the liquidity position, it is at high levels, representing 7.9% of the company's assets and 13.3% of the company's bank loans and stock loans.

Navistar Financial was incorporated in 1997 as a SOFOL (regulated entity); it changed its business denomination to SOFOM in 2007. NF is subordinated to Navistar International Corporation (NIC), which helps NF to maintain a sound participation in the funding of the sales of the brand International in Mexico. The company's main business activity is the granting of funding to both distributors (wholesale loans) and individuals or entities (retail loans and financial lease, mainly) for the acquisition of trucks, tractor-trucks, buses and spare parts of the brand International, by means of the company's distributors and sale points, which are located in every state of the Mexican Republic.

The following methodology has been employed to determine the ratings:

- Methodology for rating Banks and Other Financial Institutions (April 2020, approved in October 2020).

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**Regulatory Information:**

The last revision of Navistar Financial was carried out on September 30, 2019. The financial information used to analyze and determine the corresponding ratings cover a period from January 1, 2015 to September 30, 2020.

The meaning of the ratings, the explanation about the manner in which the ratings are determined; the periodicity of the ratings follow-up; the ratings specificities, characteristics and limitations; the rating methodologies: committee's voting structure and process to determine the rating; and criteria to withdraw or suspend a rating can be consulted on our web site <http://www.pcrverum.mx>

According to the rating methodology aforementioned and under the provisions in Article 7, fraction III, of the *General provisions applicable to securities issuers and other participants in the stock market*, it is worth to mention that the corresponding rating may be subject to update from time to time. The ratings awarded are an opinion respect of the financial solvency, financial strength or asset management capacity, or respect of the duties performed in order to comply with the issuer's business purpose; all this in connection with the relevant issuer or issue. Consequently, the ratings do not constitute recommendations to buy, sale or maintain any instruments, or to carry out any business, transaction or investment.

The ratings stated above are based on the information provided by the issuer and/or obtained from sources deemed accurate and reliable, including audited financial statements, operational information, corporate presentations, sector analyses, and regulatory analyses. Such information was reviewed by Verum, Calificadora de Valores, S.A.P.I. de C.V. to the necessary extent exclusively and only in connection with the awarding of the relevant ratings, according to the methodology mentioned above. Under no circumstances, it will be understood that Verum, Calificadora de Valores, S.A.P.I. de C.V. has authenticated, guaranteed or certified the accuracy, correctness or completeness of such information; therefore, Verum, Calificadora de Valores, S.A.P.I. de C.V. undertakes no liability for any error or omission or for the results obtained from the analysis of such information.

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