MOODY'S

Rating Action: **Moody's assigns A2 first-time issuer rating to DWS; outlook stable**

30 Jun 2023

London, June 30, 2023 -- Moody's Investors Service ("Moody's") has today assigned a first-time A2 issuer rating to DWS Group GmbH & Co. KGaA ("DWS"). The outlook is stable.

RATINGS RATIONALE

DWS's A2 issuer rating reflects its leading position in its domestic market, its global geographic footprint, along with robust financial flexibility, which is supported by very low leverage and strong liquidity. The company's breadth of products and capabilities also reinforces its credit profile by adding diversification. DWS also benefits from a long-standing relationship with its majority shareholder, Deutsche Bank AG (DB) (senior unsecured A1 stable, BCA baa2), which remains a key distribution partner, albeit not on an exclusive basis.

These strengths are partly mitigated by lower pre-tax income and EBITDA margins compared to other A-rated global peers. Moody's also notes that there are uncertainties around the outcome of ongoing ESG investigations associated with greenwashing allegations, which could lead to financial or reputational damage, should they result in material findings.

DWS's business diversification is a key credit strength underpinning the company's credit profile. The company's product mix along with its geographic and client diversification support revenue stability, even at times of market volatility. During 2022, DWS recorded negative net flows of EUR20 billion and its assets under management (AUM) dropped by 11% to EUR 821 billion. Nevertheless, the company reported net revenues of EUR2.6 billion, flat on a year-on-year basis, which compares favorably with peers. Despite market volatility adversely impacting management and performance fees derived from its traditional asset classes, the overall impact on its top line in 2022 was muted thanks to the expansion of its alternatives business.

The company is looking to enhance its competitive position and pursue growth in alternative and passive segments, by reinforcing its distribution network, strengthening its collaboration with DB, and launching innovative products to serve clients' evolving needs. DWS targets to achieve EUR100 million of cost efficiencies, which expects to partly reinvest (EUR70 million) into initiatives to support growth. In the absence of any sizable inorganic opportunity, Moody's expects that growth initiatives will be largely self-funded. The group's medium-term targets include cost/income ratio of sustainably below 59% from 2025. In 2022, cost/income ratio (adjusted for one-offs and transformational charges) was at 60.6%. Although cost/income ratio is set to increase in 2023, as DWS reaches the peak of its multi-year transformation program, Moody's expects cost/income ratio to then gradually decline to levels closer to its stated target.

DWS's financial flexibility is strong, supported by very low debt/EBITDA at 0.2x as of year-end 2022 (comprising of small amounts of lease liabilities and short-term debt) and a strong balance sheet, benefitting from a significant base of tangible equity. Moody's expects that as its alternatives business grows, DWS will increase the use of its balance sheet, albeit in a disciplined and gradual manner. Moody's assessment of financial flexibility also considers risks associated with its guaranteed products, which can result in capital and P&L volatility. This risk is mitigated by active management and interest rate hedging.

The assignment of the new ratings on DWS takes into account its governance as part of Moody's environmental, social and governance considerations. The A2 long-term issuer rating takes into consideration the independent nature of DWS and the progress made by the asset manager, since its IPO, to disentangle from DB. While DWS's corporate structure entails influence from its majority shareholder- for instance, in appointing DWS's management and in approving key strategic decisions, Moody's expects DWS's financial policies to support profitable growth initiatives and a robust financial profile, as a standalone entity. Should DB's influence lead to a deterioration in DWS's credit fundamentals – for instance, by pursuing large dividend payouts – Moody's may reassess the gap between DWS's rating and DB's standalone profile.

--OUTLOOK—

The stable outlook reflects Moody's expectation that DWS will maintain its strong market position in its selected segments and will pursue opportunities to grow in selective areas, while managing its expense base in a disciplined manner. The stable outlook also reflects Moody's expectation that leverage appetite will remain low and liquidity position will continue to be strong. Nevertheless, Moody's notes that shall the conclusion of the ongoing investigations in the US and Germany lead to penalties that are materially above our expectations and/or result in reputational damage, negative rating pressure may arise.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Factors that could lead to a rating upgrade include: (i) significant increase in scale, as measured by revenues net of distribution expenses, while maintaining good business and geographic diversification; (ii) pre-tax income margin sustainably above 30%, coupled with good revenue stability; (iii) improved AUM resilience metrics and consistent positive organic growth.

Factors that could lead to a rating downgrade include: (i) a material financial or reputational impact from the outcome of the ongoing investigations; (ii) significant deterioration of investment performance, leading to outflows and negative organic growth; (iii) loss of key distribution partners, leading to loss of new business and deterioration in AUM resilience metrics; (iv) material increase in leverage, with debt/adjusted EBITDA consistently over 1.5x.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Asset Managers Methodology published in November 2019 and available at https://ratings.moodys.com/rmc-documents/65403. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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