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CREDIT OPINION
8 August 2023

New Issue

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DWS Group GmbH & Co. KGaA

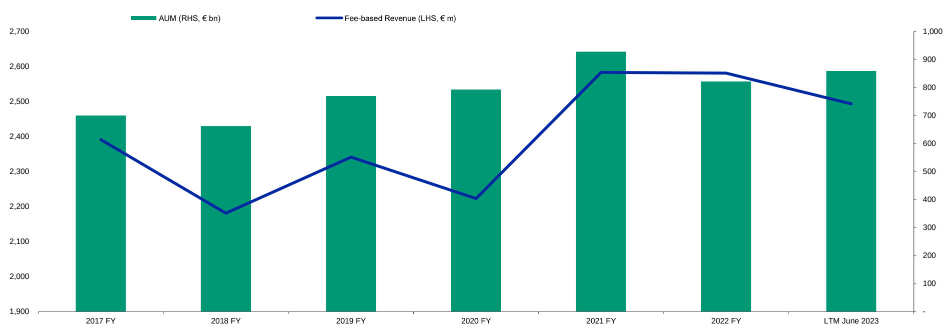
First time rating assignment to DWS

Summary

On 30 June 2023, Moody's assigned a first-time A2 long-term issuer rating to DWS Group GmbH & Co. KGaA ("DWS" or "Group"), a leading European asset management firm, domiciled in Germany. 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.

These strengths are partly mitigated by lower pre-tax income and EBITDA margins compared to other A-rated global peers. We also note 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.

Exhibit 1
DWS revenues remained resilient despite market driven decline in AUM in 2022



Note: Fee based revenue is the sum of net management fees and performance fees
Source: Company reports, Moody's Investors Service

Credit strengths

- » Leading position, among asset managers globally, in managing insurance assets
- » Broad set of investment capabilities, including alternative investment products
- » Strong geographic diversification outside its core market
- » Low leverage appetite and strong liquidity

RATINGS

DWS Group GmbH & Co. KGaA

Domicile	Frankfurt am Main, Germany
Long Term CRR	Not Assigned
Long Term Issuer Rating	A2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit challenges

- Lack of captive distribution, albeit partly offset by a global distribution network including well-established distribution partnerships
- Achieving its medium-term targets of cost income ratio of sustainably below 60% against a backdrop of challenging operating environment for asset managers
- Ongoing investigation associated with greenwashing allegations
- Increased regulatory scrutiny of European asset managers

Rating outlook

The stable outlook reflects our 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. It also reflects our expectation that leverage appetite will remain low and liquidity position will continue to be strong.

Factors that could lead to an upgrade

- Significant increase in scale, as measured by revenues net of distribution expenses, while maintaining good business and geographic diversification
- Pre-tax income margin sustainably above 30%, coupled with good revenue stability
- Improved AUM resilience metrics and consistent positive organic growth

Factors that could lead to a downgrade

- A material financial or reputational impact from the outcome of the ongoing investigations
- Significant deterioration of investment performance, leading to outflows and negative organic growth
- Loss of key distribution partners, leading to loss of new business, resulting in deterioration in AUM resilience metrics
- Material increase in leverage, with debt/Adjusted EBITDA consistently over 1.5x

Key indicators

Exhibit 2

DWS Group GmbH & Co. KGaA [1]	2022 FY	2021 FY	2020 FY	2019 FY	2018 FY
Assets Under Management (AUM) (EUR b) [2]	821	928	793	767	662
Net Flows (EUR mm)	-20	48	30	26	-22
Revenues (EUR mm) [3]	3,853	3,819	3,309	3,402	3,240
AUM Retention Rate (%)	79%	80%	75%	75%	74%
AUM Replacement Rate (%)	93%	127%	105%	117%	89%
EBITDA (EUR mm)	1,043	1,042	802	597	490
EBITDA Margin (%)	27%	27%	24%	18%	15%
Total Debt (EUR mm)	160	211	--	--	--
Total Debt/EBITDA (x)	0.2x	0.2x	--	--	--
Total Shareholder's Equity / Self Managed Investments (x)	6.0x	2.7x	2.7x	--	--
Pre-Tax Income (EUR mm)	934	1,086	762	732	583
Pre-Tax Income Margin (%)	24%	28%	23%	22%	18%
Stability of Revenue Growth (%) (20 qtr) [4]	18%	20%	--	--	--

[1] Fiscal year end 31 December
[2] AUM as of 31 December
[3] Revenue is operating revenue (the sum of gross management fees and performance fees) as reported by the company
[4] Stability of revenue growth = the average of quarter over quarter revenue growth rates divided by the standard deviation of revenue growth rates, (using the past 20 quarters of growth rates).
Source: Moody's Investors Service, Company data

Profile

DWS is a global publicly traded investment management firm with €859 billion of assets under management ("AUM") as of 30 June 2023. The company, previously 100% owned by Deutsche Bank AG, was listed on the Frankfurt Stock Exchange on 23 March 2018. Since the IPO, Deutsche Bank AG – via its subsidiary, DB Beteiligungs-Holding GmbH – remains a majority stakeholder, holding a stake of 79.49%. The company has approximately 4,400 employees[1] and offices worldwide, serving clients in countries across the globe. DWS provides a broad range of investment products and solutions, including active, passive, and alternatives to institutional and retail clients worldwide, through a global distribution network, including Deutsche Bank.

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, we expect 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 – we may reassess the gap between DWS's rating and DB's standalone profile.

Detailed credit considerations

Figures as of 31 December 2022, unless otherwise indicated.

Market Position: Global reach and leading position in managing insurance assets

DWS is one of the leading European asset managers, with a very strong presence in Germany and a global footprint. The Group is also one of the leading investment firms in managing assets on behalf of insurance companies globally. Ongoing uncertainties around the outcome of ESG investigations associated with greenwashing allegations could lead to reputational damage, weighing on the group's market position, should they result in material findings. However, the investigations, to date, have not led to any notable adverse impact in terms of new business.

DWS's diversified revenue base is a key credit strength. 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 €20 billion and its assets under management (AUM) dropped by 11% to €821 billion. Nevertheless, the company reported net revenues[2] of €2.6 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. In H1 2023, DWS's AUM increased to €859 billion, supported by market improvements and positive net flows of €15 billion. Overall, AUM resilience -as measured by retention and replacement rates- has been historically somewhat weak for the rating level but we expect to gradually improve, in the absence of another wider market sell off.

Over the past few years, the group has been able to grow organically, albeit at a relatively slow pace. Going forward, the Group's strategy involves maintaining and further reinforcing its position in areas of strength, such as active equity, multi-asset, and fixed income. Additionally, the Group will pursue selective growth in segments where it already has an established position and can benefit from tailwinds. In particular, 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. Digital is expected to be another enabler; DWS recently entered into a strategic alliance with a financial services and investment management company specializing in digital assets and blockchain, Galaxy Digital, to develop digital asset exchange traded products and further explore other digital asset solutions.

Business Diversification: Broad product and geographic diversity key strengths underpinning the credit profile

DWS' AUM mix consists of active equity (12% of AUM as of Q2 2023), multi-asset (9%), systematic and quantitative investments (8%), fixed income (23%), alternatives (13%), passive (26%), and liquidity (9%.) Similarly, geographic diversification is robust, with over half of its AUM being sourced outside Germany, the Group's main market. Furthermore, DWS is one of the leading asset managers in managing assets on behalf of insurance companies. The relationships with these clients are typically long-term in nature, supporting stickiness of assets, albeit lower margin compared to wholesale. As part of its distribution model, the Group sources a significant amount of assets through partnerships via a small number of selective important partners. DWS also benefits from a good balance between institutional (55% of AUM as of Q2 2023) and wholesale clients (45%).

The business and geographic diversification, along with a broad client base, provide revenue protection. As the Group pursues potential inorganic growth, we anticipate an expansion in its product and geographic diversification. Furthermore, we expect it to maintain a balance between retail and institutional business, a credit positive.

Strong financial flexibility with no long-term debt; limited appetite for leverage

DWS' financial flexibility is strong, with very low leverage (small amounts of debt like liabilities and short-term debt) and a strong balance sheet, supported by a significant base of tangible equity. As of year-end 2022, DWS had €160 million of Moody's adjusted debt, mostly consisting of operating lease commitments. Moody's adjusted EBITDA (including standard adjustments) was €1.0 billion as of 31 December 2022 and adjusted debt-to-EBITDA was 0.2x. Given its unlevered balance sheet, the Group has some flexibility to issue long-term debt to support organic or inorganic growth initiatives, without adversely impacting its credit profile. However, given its low appetite for leverage and ample liquidity, we do not expect the Group to materially increase debt. In addition, in the absence of any sizable inorganic opportunity, we expect that growth initiatives will be largely self-funded. We think that even if DWS were to gradually increase its debt levels, leverage would remain relatively low, with debt/adjusted EBITDA hovering below 1.5x.

An additional measure of financial flexibility is the equity coverage of potential losses from self-managed investments. Our view is that DWS's balance sheet risk associated with co-investments and seed investments is contained. This ratio is high at 6.0x at year-end 2022. In the calculation of the ratio, Moody's includes DWS's liquidity management invested assets, excluding cash. A mitigant to the risk of these assets is that they are mostly short-term in nature and of high credit quality.

DWS also manages guaranteed retirement accounts ("Riester Products") and guaranteed funds, which have a full or partial guarantee at maturity. An added risk here is that if the net asset value of the underlying funds at the respective guarantee date is less than the guaranteed amount, DWS is liable for making up the difference. Although these products are a large contributor to the financial risk, they are hedged, actively monitored, and stress tested. Additionally, this portfolio is in run off as DWS is no longer actively marketing these products.

Disciplined cost management; business diversification supports profitability

DWS's profitability, as measured by pre-tax income and EBITDA margins, is somewhat weaker than other A-rated global peers. In 2022, its five-year average annual pre-tax income margin was around 23% (24% on a one-year basis, taking into consideration a one-off goodwill impairment in 2022). However, the Group has made significant progress in becoming more efficient and this is reflected in its cost/income ratio, which has dropped to 60.6% in 2022 (adjusted for one-offs and transformational charges) from around 72% at the time of the IPO. Although cost/income ratio is set to increase in 2023 (HY 2023: 63.5%), as DWS reaches the peak of its multi-year transformation program, we expect cost/income ratio to then gradually decline to levels closer to its stated target of below 59% from 2025. This targeted cost/ income ratio compares favorably with that of other asset managers in Europe. DWS targets to achieve €100 million in cost efficiencies and expects to partly reinvest these savings (€70 million) into initiatives to support growth.

We think that the asset managers are currently facing numerous challenges affecting their profitability, including weak organic growth, structural margin erosion, and increasing regulatory costs. Although DWS will not be immune to the industry challenges, the Group is well placed to navigate this operating environment as it benefits from a diversified business profile, which can help offset pressures in certain asset classes. Another profitability strength is the quality of revenues, which is good given the limited reliance on performance/ transaction fees, which are more volatile in nature.

Liquidity analysis

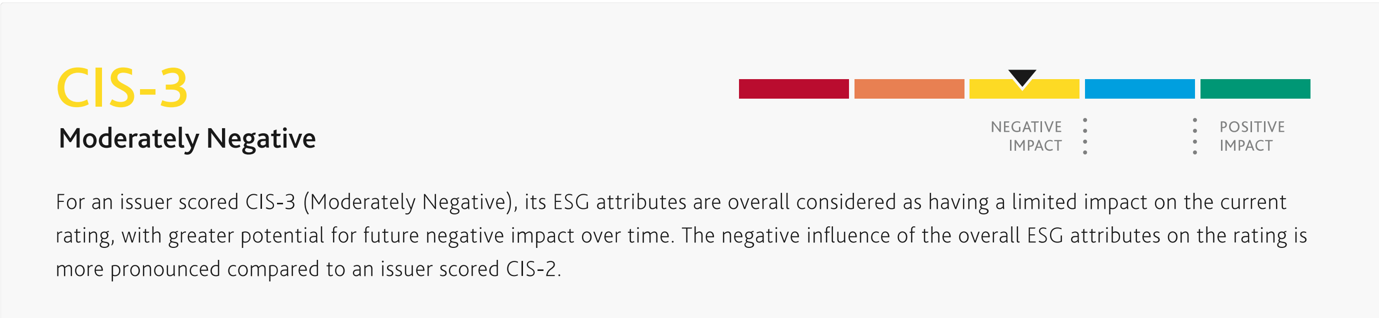
The group's strong liquidity profile is supported by €1.7 billion of cash and bank balances as of June 2023 (YE 2022: €2.0 billion) and an additional €1.7 billion (YE 2022: €1.6 billion) in other liquid assets. DWS also maintains a €500 million revolving credit facility (currently undrawn) which provides further financial flexibility. If needed, DWS has the authorization to issue additional equity shares totaling approximately €2.5 billion.

DWS plans to pay an extraordinary dividend of up to €1.0 billion in 2024, which is subject to the pipeline for capital committed. Even though the excess capital and surplus liquidity will be reduced through this dividend payment, Moody's believes the group will continue to operate under comfortable levels. From 2025 onward, DWS is expecting a dividend payout ratio of ~65%.

ESG considerations

DWS Group GmbH & Co. KGaA's ESG Credit Impact Score is Moderately Negative CIS-3

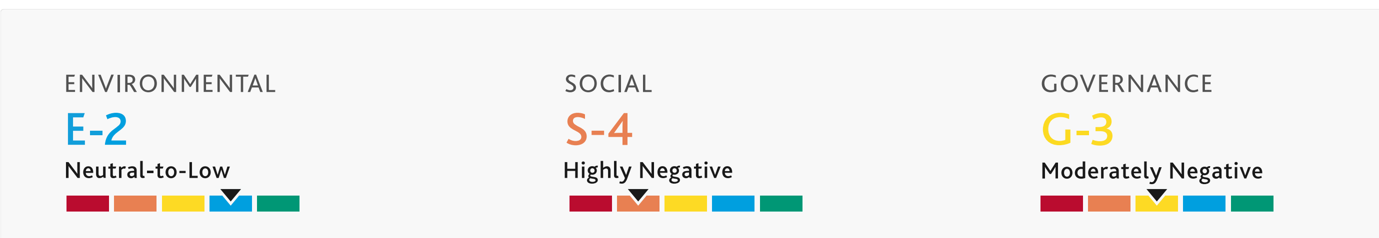
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

DWS's **CIS-3** indicates moderate impact of ESG considerations on the current rating, reflecting high social and moderate governance risks. The risks mainly stem from the ongoing ESG investigations associated with greenwashing allegations - which could have financial or reputational implications - should they result in material findings. There are also risks associated with the numerous management changes recently. The company's diversified product and geographic mix as well as its strong balance sheet and liquidity help partly mitigate its exposure to these risks. In addition, to date, the ongoing ESG investigations have not been translated into any notable new business and /or reputational damage.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

DWS's exposure to environmental risks is low, consistent with our general assessment for asset managers. DWS has low direct corporate exposure to environmental risks, and its fund exposures are well diversified.

Social

DWS has high exposure to social risks, in particular industry wide customer relations risks, related to the marketing and distribution of financial products. Ongoing ESG investigations could result in financial or reputational damage. This risk is somewhat mitigated by DWS's product and geographic diversification. DWS has exhibited awareness of societal trends , such as the shift to passive products.

Governance

DWS faces moderate governance risks. The group has experienced numerous management changes, notably following the ESG allegations. Notwithstanding the potential strategic risks associated with the number of changes in key management positions, the group has communicated a clear strategy and operates with strong corporate governance practices. It also maintains a strong balance sheet and robust liquidity management policies.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Exhibit 5

DWS Group GmbH & Co. KGaA

Asset Managers Scorecard (weights)[1]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								**A**	**A**
Factor 1: Market Position (25%)								**A**	**A**
Scale and Franchise Strength			X						
AUM Resilience				X					
Factor 2: Business Diversification (25%)								**Aa**	**Aa**
Geographic and Product Diversification		X							
Distribution			X						
Financial Profile								**A**	**A**
Factor 3: Financial Flexibility (30%)								**A**	**A**
Debt / Adjusted EBITDA	0.2x								
Total Shareholder's Equity / Self-managed Investments						6.0x			
Factor 4: Profitability & Revenue Stability (20%)								**Baa**	**Baa**
Pre Tax Income Margin (5 yr ave)				23.0%					
Stability of Revenue Growth (20 qtr, YoY)				18.1%					
Operating Environment								**Aa**	**Aa**
Stand-alone Credit Profile Before Qualitative Notching Factors								**A2**	**A2**
Indicated Instrument-level Outcome									**A2**

[1] The scorecard in this rating methodology is a relatively simple tool focused on indicators for relative credit strength. As described in the methodology, there are various reasons why scorecard-indicated outcomes may not map closely to actual ratings.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
DWS GROUP GMBH & CO. KGAA	
Outlook	Stable
Issuer Rating -Dom Curr	A2

Source: Moody's Investors Service

Endnotes

1 as of June 2023

2 sum of management and performance fees, net of distribution expenses

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