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Research Update:

Mahle GmbH Outlook Revised To Positive On Improving Profitability And Deleveraging

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Rating Action Overview

- We anticipate Mahle GmbH's restructuring actions will translate into additional profitability improvements in 2026 and 2027 despite declining auto production and higher cost inflation in its key end markets. We estimate the group's S&P Global Ratings-adjusted EBITDA margin will increase to 8.5%-9.0% in 2027, from 8.1% in 2026 and 8.0% in 2025, supporting a gradual improvement in leverage metrics.
- Controlled capital expenditure (capex) and lower tax expense following the group's recent reorganization should also support robust free operating cash flow (FOCF) of at least €200 million by 2027, after elevated cash restructuring outlays in 2026.
- We therefore revised our outlook on Mahle to positive from stable and affirmed our 'BB-' long-term issuer credit rating on the group and issue ratings on its unsecured debt.
- The positive outlook indicates that we could raise our rating on Mahle over the next 12 months if we anticipate adjusted funds from operations (FFO) to debt and FOCF to debt will increase above 25% and 5%, respectively, in 2027 supported by adjusted EBITDA margins staying sustainably above 8%.

Rating Action Rationale

Mahle's restructuring measures support improving profitability despite still challenging market conditions. The group cut its production facilities to 127 at the end of 2025 from 148 in 2023, while total employees declined to 64,242 from 72,373. We think this results in a more resilient cost base amid still-subdued auto production, particularly in Europe where the bulk of measures were taken. We anticipate Mahle's S&P Global Ratings-adjusted EBITDA margin will continue to increase to 8.1% in 2026 and 8.7% in 2027 after the sizable improvement to 8.0% in 2025 from 6.5% in 2024. This is despite our forecast 2% decline in global auto production in 2026 and expected flat volumes for 2027. A gradual reduction in annual restructuring costs to €70 million-€80 million from €184 million in 2025 will also support profitability. For first-quarter 2026, we estimate the group's S&P Global Ratings-adjusted EBITDA margin rose to 8.3% from about 6.9% in first-quarter 2025, despite a 4% revenue drop. While raw material inflation will rise in upcoming quarters, we think this will largely be offset by further productivity gains and a gradual pass-through to auto original equipment manufacturers.

Stronger earnings and Mahle's conservative financial policy should translate into further deleveraging. We estimate the group's FFO to debt could increase to about 28% in 2027 from 25% in 2026 and 18.9% in 2025. We expect its nonprofit shareholders--Mahle Stiftung and Mahle Beteiligungen GmbH (MABEG)--will continue supporting a prudent dividend policy and limited bolt-on acquisitions, if any. Our base-case scenario assumes total cash dividends of up to €50 million per year, mostly for minority interests, and no acquisition spending. Management targets a reported net debt-to-EBITDA ratio below 2.0x; it was 1.3x as of Dec. 31, 2025. In our base-case scenario, we expect a gradual improvement in S&P Global Ratings-adjusted debt to EBITDA of 2.5x-3.0x in 2026-2027, from 2.9x in 2025 and 3.7x in 2024. The difference between Mahle's reported leverage and our S&P Global Ratings-adjusted debt to EBITDA mainly stems from our adjustments related to operating leases, pension obligations, receivable financing outstanding, and the reclassification of income from asset disposals as exceptional items. We also exclude some cash balances that we consider not immediately available for debt repayment.

Mahle's cash generation is set to improve thanks to gradually declining restructuring cash costs and lower tax expense. We expect the group will generate healthy FOCF of close to €80 million in 2026 despite elevated restructuring outlays of about €200 million, compared with about €100 million in 2025. With cash restructuring costs gradually declining below €100 million in 2027, we anticipate higher FOCF of close to €220 million. We also anticipate the group will restore cash tax payments more in line with normal statutory tax rates after the full absorption of the Mahle Behr entities (75% owned previously) and its ongoing legal reorganization. We estimate cash taxes will decline to €90 million-€100 million per year, after significant payments of €187 million and €254 million in 2024 and 2025. Our base-case assumes that capex will increase slightly to €390 million-€410 million in 2026-2027 from €336 million in 2025, but stays at overall healthy levels of about 3.7% of sales. In addition, we do not assume any working capital contributions to FOCF, after the €132 million and €39 million inflows recorded in 2024 and 2025 (adjusted for changes in factoring).

Outlook

The positive outlook indicates that we could raise our rating on Mahle over the next 12 months if we anticipate adjusted FFO to debt and FOCF to debt will increase above 25% and 5% in 2027 supported by adjusted EBITDA margins staying sustainably above 8%.

Downside scenario

We could revise our outlook on Mahle to stable if we anticipate FFO to debt and FOCF to debt will remain below 25% and 5%, respectively, in 2027 and beyond. This could stem from slower than anticipated profitability improvements due to setbacks in the group's operating initiatives, a material downturn in auto production or failure to pass-on a large portion of the ongoing cost inflation to customers.

Upside scenario

We could raise our rating on Mahle if the group increases FFO to debt to above 25% and FOCF to debt to above 5% sustainably. This could stem from a continued execution of operating efficiency initiatives such that EBITDA margin stays sustainably above 8% and capex remains controlled.

Company Description

Mahle is a global auto parts manufacturer for light and commercial vehicles, and aftermarket. It reported sales of about €11.3 billion (including joint ventures) in 2025. It has operated under three business units since the January 2025 reorganization when it reduced its units to three from five:

- Powertrain and Charging (34% of total sales): Merging its former electronics and mechatronics division with the engine systems and components division.
- Thermal and Fluid Systems (54%): Merging its former thermal management division and filtration and engine peripherals division.
- Lifecycle and Mobility (11%): Renamed from the aftermarket division.

Mahle is headquartered in Germany and operates 127 production plants across Europe, North America, Asia-Pacific (East Asia, China, and India), South America, and Africa. Nonprofit foundation Mahle Stiftung, based in Stuttgart, Germany, owns 99.9% of shares while the other nonprofit entity, MABEG owns all the voting rights.

Our Base-Case Scenario

Assumptions

- Real GDP growth at 3.2% in 2026 and 3.3% 2027, compared with 3.2% in 2025. This incorporates a slowdown in eurozone growth to 1.0% in 2026 and 1.2% in 2027 from 1.5% in 2025, U.S. GDP growth of 2.2% and 2.0% in 2026 and 2027, and China GDP growth of 4.4% and 4.3%.
- Global light vehicle production declining by about 2% in 2026 and staying flat in 2027 after 3.9% growth in 2025 that primarily came from China.
- Revenue decline of 2%-3% in 2026 due to subdued auto production, gradually decreasing engine components and filtration systems sales in Europe and China, and negative foreign exchange effects. We expect flat revenue in 2027, in line with the global auto production evolution.
- EBITDA margin gradually improving to 8.1% in 2026 and 8.7% in 2027 from 8.0% in 2025, thanks to cost savings and productivity gains as well as lower restructuring expense in 2027.
- Broadly neutral working capital changes in 2026 and 2027.
- Capex to sales moderately increasing to 3.5%-4.0% in 2026 and 2027, from 3.1% in 2025.
- Modest total dividends of €40 million-€50 annually. This includes €5 million-€10 million to be paid to nonprofit shareholders and about €40 million to minority interests in Mahle's operating subsidiaries.
- No material acquisitions or asset disposals in 2026 and 2027.

Key metrics

Mahle GmbH--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2022a	2023a	2024a	2025a	2026f	2027f

Mahle GmbH--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
Revenue (excluding JVs)	11,830	12,205	11,324	10,999	10,721	10,723
Capital expenditure (capex)	443	455	378	336	392	402
Free operating cash flow (FOCF)	(440)	220	96	103	80	219
Adjusted ratios						
Debt/EBITDA (x)	4.7	3.5	3.7	2.9	3.0	2.7
FFO/debt (%)	12.4	18.6	14.7	18.9	25.0	27.7
FOCF/debt (%)	Negative	7.5	3.5	4.1	3.1	8.8
Annual revenue growth (%)	13.9	3.2	(7.2)	(2.9)	(2.5)	0.0
EBITDA margin (%)	5.9	6.8	6.5	8.0	8.1	8.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. EUR--euro. a--Actual. f--Forecast.

Liquidity

We assess Mahle's liquidity as strong, reflecting that sources will exceed uses by more than 1.5x over the next 12 months and more than 1.0x in the subsequent 12 months. We also consider the group's solid relationships with banks and its well-spread debt maturities.

Principal liquidity sources	Principal liquidity uses
For the 24 months from Jan. 1, 2026, principal liquidity sources include: • Cash and cash equivalents of about €873 million, excluding about €60 million of cash held at JVs and inaccessible cash; • About €1.2 billion in available committed credit facilities maturing in 2029; and • Annual reported FFO of €350 million-€400 million.	For the same period, principal liquidity sources include: • About €264 million in debt maturities in the first 12 months and about €168 million in maturities in the subsequent 12 months; • Up to €300 million of annual intra-year working capital needs; • Capex of €380 million-€420 million per year; and • Dividends including distributions to minority interests, of about €50 million per year.

Covenants

The documentation for Mahle's revolving credit facility (RCF) includes two financial maintenance covenants: A debt-to-EBITDA ratio of 3.5x and an interest coverage ratio of 3.0x.

We expect headroom of close to 50% under both covenants over the next two years.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Mahle because the group relies on light vehicle’s conventional internal combustion engines for about 40% of its sales. Mahle faces substitution risks from electrification, and its ability to offset potential declines in its combustion engine-related businesses largely depends on higher content per vehicle in its electronics and mechatronics business.

A faster-than-expected transition to battery electric vehicles, coupled with slow adoption of Mahle's technology, represents a meaningful risk, despite the group's efforts to expand and improve the profitability of its electric vehicle-related product portfolio. However, Mahle has the technological capability to support the increased electrification of vehicle powertrains at a competitive cost. We expect research and development costs of 5.0%-5.5% of sales over the next two-to-three years, which is broadly in line with the European auto supplier average.

Management and governance factors are neutral consideration in our credit rating analysis.

Issue Ratings--Recovery Analysis

Key analytical factors

- We rate Mahle's €300 million senior unsecured notes due 2032 and €500 million senior unsecured notes due 2031 'BB-' (the same level as our issuer credit rating).
- The recovery rating of '3' on these notes indicates that we anticipate meaningful recovery (50%-70%; rounded estimate: 55%) in the event of a default.
- The notes, along with the European Investment Bank loan (not rated), are unsecured and benefit from guarantees from certain subsidiaries accounting for about 46% of the group's total EBITDA. The unsecured notes due 2028 (€449 million outstanding) and about €162 million promissory notes do not benefit from the same guarantees.
- In our hypothetical default scenario, we envisage a cyclical downturn in the auto sector, intensified competition, and the group's inability to adjust its cost structure or pass through cost inflation for labor, energy, and other items, leading to a material deterioration in EBITDA and cash flow.
- We value Mahle as a going concern, given its leading market positions in its key segments and experience in systems integration.

Simulated default assumptions

- Year of default: 2030
- Jurisdiction: Germany
- Emergence EBITDA: €489 million
- Multiple: 5.0x

Simplified waterfall

- Recovery enterprise value: €2.44 billion
- Net recovery value after 5% administrative expense and accounting for pension claims: €1.93 billion
- Priority claims (factoring lines and debt at subsidiary level): €415.8 million
- Net value available to all unsecured debt after priority claims: €1.51 million (of which €1.26 billion is available to guaranteed unsecured debt)
- Guaranteed senior unsecured debt claims: €2.14 billion
- --Recovery expectations: 50%-70% (rounded estimate: 55%)

Note: All debt amounts include six months of prepetition interest and the RCF is assumed 85% drawn at default.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Positive/--
Local currency issuer credit rating	BB-/Positive/--
Business risk	Fair
Country risk	Low risk
Industry risk	Moderately high risk
Competitive position	Fair
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Recovery Rating Criteria For Corporate Issuers, March 31, 2026
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Double Whammy Hits Global Auto Volumes, May 19, 2026
- Global Economic Outlook Q2 2026: Middle East War Dents The Forecast, March 31, 2026
- Mahle GmbH, March 27, 2026
- Heavy-Duty Trucks Are On A Slow Road To Recovery, Dec. 18, 2025

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Mahle GmbH		
Issuer Credit Rating	BB-/Positive/--	BB-/Stable/--
Ratings Affirmed; Recovery Ratings Unchanged		
Mahle GmbH		
Senior Unsecured	BB-	
Recovery Rating	3(55%)	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.