



## Rating Action: Moody's changes outlook on Lanxess ratings to negative; affirms Baa2 LT issuer rating

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23 Jun 2023

Frankfurt am Main, June 22, 2023 – Moody's Investors Service (Moody's) has today changed Lanxess AG's (Lanxess or the company) outlook to negative from stable. All existing ratings have been affirmed: (1) long-term issuer rating at Baa2, (2) senior unsecured ratings at Baa2 and (3) senior unsecured programme rating at (P)Baa2.

A full list of affected ratings can be found at the end of this press release.

### RATINGS RATIONALE

The negative outlook on Lanxess' ratings reflects the risk that Lanxess will not be able to return to credit metrics commensurate with a Baa2 rating over the next 12-18 months. In an ad-hoc release on 19 June 2023 the company significantly revised its 2023 guidance downwards, citing broad based demand weakness, customers' destocking and no signs of a swift recovery. The company now expects that its EBITDA pre will be in the range of €600-€650 million, should trading not pick up, while Lanxess previously guided to an EBITDA pre in the range of €850-€950 million. The revised guidance would translate into Moody's adjusted gross leverage of around 6x, which materially exceeds our expectations for the Baa2 rating after Lanxess has operated with a high leverage for the rating category for a prolonged period of time. Failure to achieve its revised guidance for 2023, a lack of significant earnings recovery in 2024 or the absence of other tangible measures to significantly reduce leverage already by year-end 2024 would exert further negative pressure on the current rating. The company reiterated its focus on cash generation and Moody's forecasts that FCF/debt will be in the mid-single digits during 2023 and be supported by a meaningful release of working capital. Beyond the expected FCF generation and a potential earnings recovery the company will have limited flexibility to reduce leverage on a sustainable basis over the next 12-18 month.

Moody's also takes into account that the company over the last couple of years through a series of disposals and more recently the acquisitions of Emerald Kalma (2021) and the IFF microbial control business (2022) has to some degree reduced its exposure to cyclical end-markets. With the formation of a polymers joint venture (dba as Envalior aka SCUR-Alpha 1503 GmbH, B2 stable) with Advent International, Lanxess has reduced its exposure to the cyclical Automotive & Electronic industries. The company has previously indicated that it aims for an EBITDA pre margin in the range of 14%-18%, compared to a 2022 level of around 11.6%. However, Lanxess has yet to establish a track record of achieving the targeted margin levels. During its June 2023 investor update call the company has indicated that, against the backdrop of the weak demand environment, it is reexamining its investment plans and is willing to initiate measures to change its cost structure going forward. However, further details like initial cash outflows, associated cost savings and hence the sustainable impact on Lanxess' leverage have not been disclosed yet.

At the same time the company remains committed to preserving an investment grade rating and in the past has delivered tangible actions to defend its rating. In March 2023 the company has announced that it would allocate the majority of net proceeds from the formation of Envalior to debt reduction. Previously the company indicated that a portion of the proceeds would be allocated to share buybacks. Lanxess still holds 40% in Envalior, which Moody's expects to be disposed over time, an event Moody's does not anticipate to materialize in the next 12-18 months.

### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Lanxess' rating is currently not envisaged given its elevated leverage and weak credit metrics but could occur if the company demonstrates the resilience of its operating profitability and cash flow. Moody's would further

expect a reduction of financial leverage, with total adjusted debt/EBITDA below 2x and retained cash flow/net debt to increase to the high 30s (%) on a sustained basis.

Moody's could downgrade the ratings if there is limited visibility that the company does not reduce leverage towards 3 and does not restore retained cash flow/net debt to the low 20s (%) on a sustained basis. Any financial policy actions not aimed or not sufficient to preserve the current rating could also be negative for the rating.

## LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Lanxess AG

....LT Issuer Rating, Affirmed Baa2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Action:

..Issuer: Lanxess AG

....Outlook, Changed To Negative From Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Chemicals published in June 2022 and available at <https://ratings.moodys.com/rmc-documents/389870>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## PROFILE

Headquartered in Cologne, Germany, Lanxess AG (Lanxess) is a leading European chemical company, with reported sales of around €8 billion from continuing operations and company-reported EBITDA (pre-exceptionals) of around €930 million in 2022. As of 21 July 2022, Lanxess had a market capitalisation of around €2.3 billion.

## 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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