

Bulletin:

LANXESS' Acquisition Of IFF Assets Will Strengthen Its Consumer Protection Business But Exhaust Rating Headroom

August 25, 2021

This report does not constitute a rating action.

MILAN (S&P Global Ratings) Aug. 25, 2021--S&P Global Ratings today said that German specialty chemicals company LANXESS AG's (BBB/Stable/A-2) acquisition of microbial control business from U.S.-based International Flavors & Fragrances Inc. (IFF) will more than double the earnings of its consumer protection business. However, the deal will lead to minimal headroom in LANXESS' credit metrics for the ratings. LANXESS signed the agreement to acquire this business on Aug. 23, 2021, for a total enterprise value of \$1.3 billion (about €1.1 billion), or around 9.6x EBITDA after synergies. The transaction will be fully funded by debt. The acquired business still needs to be carved out from the IFF group and the transaction is subject to approval by various antitrust authorities. LANXESS expects the transaction to be completed in the second quarter of 2022.

IFF's microbial control unit is a leading player in industrial biocides, and LANXESS estimates that it generates normalized sales of around \$450 million and EBITDA of about \$100 million annually. LANXESS anticipates annual synergies of approximately \$35 million (€30 million) by 2025, especially from insourcing formulation activities and streamlining the salesforce and supply chain.

In our view, the acquisition is a good strategic fit for LANXESS, enabling the company to shift toward more lucrative specialty chemicals products. It will reinforce LANXESS' position in the high-margin consumer protection end markets, such as disinfection, personal care, and material protection, where growth potential over the next few years exceeds that for GDP. LANXESS will also gain a leading position in the microbial control market with a global footprint. Furthermore, with EBITDA margins higher than 20% and an asset-light model, the acquired business should improve the group's profitability and cash conversion; LANXESS' adjusted EBITDA margin averaged 13%-14% in 2018-2020. We do not expect the transaction to result in significant integration risk, given IFF's complementary portfolio and LANXESS' track record of effectively integrating previous acquisitions.

LANXESS has secured bridge financing to pay for the acquisition, which it will replace with bond issuance in the coming months. As a result of a €1.1 billion higher debt burden, we expect its funds from operations to debt to decline to 27%-29% in 2022 from the 30%-32% we forecast for

PRIMARY CREDIT ANALYST

Renato Panichi
Milan
+ 39 0272111215
renato.panichi
@spglobal.com

SECONDARY CONTACT

Wen Li
Frankfurt
+ 49 69 33999 101
wen.li
@spglobal.com

2021, and recover to more than 30% in 2023. Although this is still commensurate with the 'BBB' rating, it provides a minimal buffer against potential deterioration of credit metrics, for example due to a weaker business environment or further debt-financed transactions in the near term.

However, we regard management's strong commitment to a solid investment-grade rating as positive. LANXESS has decided to terminate its share buyback program. In addition, we understand the company will focus on deleveraging in the next 12-18 months, and various measures--including asset disposals and equity-linked instruments--are available to support the current rating, if needed. Nevertheless, we expect the company will continue to pursue opportunities to upgrade and realign its business portfolio.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.