

Rating Action: Moody's affirms LafargeHolcim's LT issuer rating at Baa2, outlook changed to stable

18 Mar 2019

Frankfurt am Main, March 18, 2019 -- Moody's Investors Service ("Moody's") has today affirmed LafargeHolcim Ltd's (LafargeHolcim) long term and short term issuer rating at Baa2 and P-2 respectively. The agency has also affirmed the senior unsecured, the subordinate and other short term ratings of LafargeHolcim Ltd's and its subsidiaries at Baa2, Ba1 and P-2 respectively. The outlook has been changed to stable from negative.

RATINGS RATIONALE

Today's rating action was prompted by a solid operating performance of LafargeHolcim in 2018 against a difficult market environment and the announcement of financial policy measures that will support the improvement of the group's credit profile in 2019 by temporarily reversing aggressive shareholder payouts in the past.

LafargeHolcim posted a 5.1% increase in like-for-like revenues in 2018 and a 3.6% increase in recurring EBITDA with an acceleration in H2 2018 and a solid finish to the year, which bodes well for a good start into calendar year 2019. LafargeHolcim's operating performance was achieved against difficult market conditions with material cost energy inflation and harsh weather conditions in North America and Europe in early 2018. However, the credit profile of LafargeHolcim improved only slightly in 2018, held back by still high restructuring charges of CHF300 million charged to the P&L, negative currency effects and the group's high dividend payout. Leverage as measured by Moody's adjusted Debt/EBITDA dropped to 3.7x in 2018 from 4.0x in 2017. Moody's adjusted Retained Cash Flow / net debt improved to 19.1% in 2018 from 17.4% in 2017.

LafargeHolcim's credit profile should further improve in 2019 supported by a still positive market backdrop (easy comparison basis in H1 and lower energy / currency headwinds at current spot rates) and the scrip dividend announced at the full year 2018 results presentation. On a 2018 proforma basis, assuming a take up of around 50% in shares on the offered scrip dividend, LafargeHolcim's RCF/net debt ratio would improve by approximately 400bps to approximately 23%-24%, and it will improve LafargeHolcim's free cash flow generation (Moody's definition) by roughly CHF 600 million. FCF has been weak in the past, to a large extent driven by the high dividend payout and high capex. Coupled with the closing of the sale of the group's Indonesian operations for an EV/EBITDA of around 14x, we estimate a pro-forma 2018 RCF/net debt of around 25% and a Moody's adjusted Debt/EBITDA ratio of 3.4x (assuming the application of cash proceeds to gross debt reduction).

Looking at 2019, Moody's expects LafargeHolcim's leverage as measured by Moody's adjusted Debt/EBITDA to trend slightly above 3.0x supported by a recurring EBITDA growth of 3% to 5% and a normalization of restructuring charges. RCF / net debt should improve from 19.1% towards 25% flat against the pro-forma 2018 ratio of 25% calculated above.

Year-end 2019 expected ratios should offer LafargeHolcim a sufficient buffer against a potentially more challenging market environment in 2020 hence the stabilization of the outlook. However we remain wary that some of the cushion built into the credit metrics is directly related to the scrip dividend that is not a permanent reduction in the company's dividend. Given current growth perspective, the company's payout ratio may remain significantly above that of its peer group for several years, assuming the dividend of CHF 2 per share remains unchanged. For memory the dividend payout ratio for 2019 will be around 75% of 2018 net income attributable to common shareholders and around 38% taking into account a 50% scrip take up. As such the maintenance of a sufficient buffer for the current rating might be predicated on maintaining the scrip dividend beyond 2019.

LIQUIDITY

Moody's regards LafargeHolcim's liquidity profile as strong. At 31 December 2018, the group's liquidity position consisted of CHF2.5 billion available cash & cash equivalents and approximately CHF6.2 billion availability under committed credit lines with no financial covenants.

Moody's notes, however, that a portion of the group's cash balance is not immediately available as it is constrained in fully consolidated but not fully owned subsidiaries or in countries with limitations on the transfer of foreign currency (e.g. China or Egypt). Even excluding that effect, LafargeHolcim's cash sources together with its funds from operations and the expected cash inflows resulting from the asset disposals and considering the balanced maturity profile should be more than sufficient to cover cash outflows such as debt repayments, capex, working capital changes and dividends during the next 12 months.

WHAT COULD CHANGE THE RATING UP / DOWN

The rating could be upgraded if retained cash flow/net debt were to reach at least 25% and debt/EBITDA were to drop to below 3.0x on a sustainable basis.

The current rating would come under pressure if LafargeHolcim failed to maintain retained cash flow/net debt of at least 20% on a sustainable basis and to maintain leverage below 3.5x.

LIST OF AFFECTED RATINGS:

..Issuer: Holcim Capital Corporation Ltd.

Affirmation:

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: Holcim Finance (Australia) Pty Ltd

Affirmations:

...BACKED Other Short Term, Affirmed (P)P-2

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

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: Holcim Finance (Belgium) S.A.

Affirmation:

...BACKED Commercial Paper, Affirmed P-2

..Issuer: Holcim Finance (Luxembourg) S.A.

Affirmations:

...BACKED Subordinate Regular Bond/Debenture, Affirmed Ba1

...BACKED Other Short Term, Affirmed (P)P-2

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

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: Holcim Overseas Finance Ltd.

Affirmation:

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: Holcim US Finance S.a r.l. & Cie S.C.S.

Affirmations:

...BACKED Commercial Paper, Affirmed P-2

...BACKED Other Short Term, Affirmed (P)P-2

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

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: Lafarge SA

Affirmation:

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: LafargeHolcim Finance US LLC

Affirmations:

...BACKED Commercial Paper, Affirmed P-2

...BACKED Other Short Term, Affirmed (P)P-2

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

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: LafargeHolcim Ltd

Affirmations:

... LT Issuer Rating, Affirmed Baa2

... ST Issuer Rating, Affirmed P-2

...Other Short Term, Affirmed (P)P-2

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

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

Outlook Action:

...Outlook, Changed To Stable From Negative

..Issuer: LafargeHolcim Sterling Finance (Netherlands)

Affirmations:

...BACKED Other Short Term, Affirmed (P)P-2

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

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

The principal methodology used in these ratings was Building Materials Industry published in January 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody.com for additional regulatory disclosures for each credit rating.

Stanislas Duquesnoy
VP - Senior Credit Officer
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Matthias Hellstern
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322

Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.