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#### Analyst Contacts

Oliver Giani +49.69.70730.722  
VP-Senior Analyst  
oliver.giani@moody's.com

Vasileios Lagoutis +49.69.70730.958  
Associate Analyst  
vasileios.lagoutis@moody's.com

Tobias Wagner, CFA +44.20.7772.5308  
VP-Senior Analyst  
tobias.wagner@moody's.com

Christian Hendker, +49.69.70730.735  
CFA  
Associate Managing Director  
christian.hendker@moody's.com

#### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

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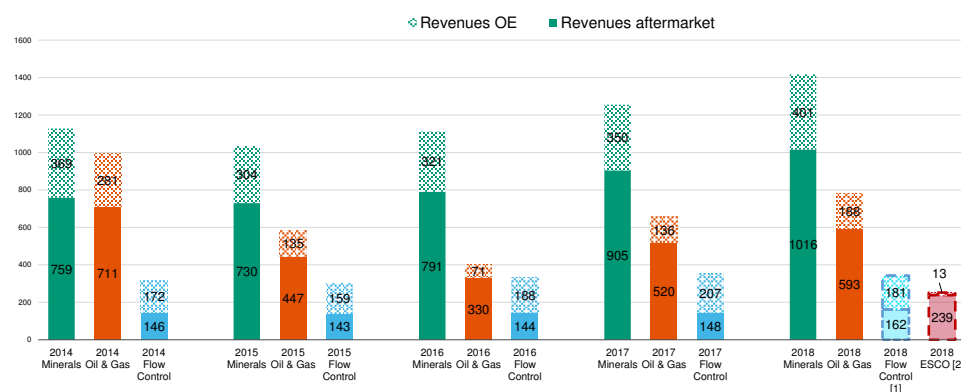
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## Weir Group Plc (The)

### Results commensurate with Baa3 level

On Wednesday, 27 February 2019, [The Weir Group plc](#) (Baa3, Stable) announced its full year results for the year ended 31 December 2018. 2018 was a year of portfolio transformation with the acquisition of ESCO and the disposal process of Flow Control. Order intake and revenue increased substantially by more than 25% (at constant currency) with the contribution from ESCO being among the key drivers for this upward movement. Operating margin as reported declined slightly from 14.9%<sup>1</sup> to 14.2% y-o-y. The substantial Free Cash Flow generation (GBP109.2 million as reported by the company) was a positive development which also signifies a record-high after 2014, which was fueled by the significant increase in cash flow from operating activities that almost doubled. Another positive remark is the continuous improvement of net leverage (2.3x net debt / EBITDA as per covenant definition pro forma for full year of ESCO vs. a maximum of 3.5x allowed) which provides ample headroom and flexibility which will be further supplemented by the proceeds from the disposal of Flow Control upon closing of the transaction. As a result Weir's credit quality has strengthened during 2018. With Moody's adjusted leverage pro forma for full year contribution of ESCO estimated at around 3.7x Debt/EBITDA,<sup>2</sup> and considering the improvement in free cash flow generation Weir is on track to further improve its position within the Baa3 rating level.

Exhibit 1  
**Weir's revenue development by segment**  
(In GBP million)



[1] Flow Control Division reported under Discontinued Operations for 2018

[2] ESCO consolidated since 12 July 2018

Source: Weir presentations

Weir's Oil & Gas segment was the main driver that led to the strong increase in consolidated revenues along with order intake. The segment increased its revenues essentially by 19% with original equipment growing by 39 % and aftermarket by 14 % y-o-y. Weir Minerals delivered solid revenue growth of 13% mainly driven by good sequential growth in aftermarket where Q4/2018 was an all time record quarter. The group's revenue growth was also enhanced by ESCO that contributed GBP252 million in revenue since mid July 2018 with 95% thereof coming from aftermarket activities. Flow Control, reported under discontinued operations, recorded a 4% decline in revenue y-o-y.

The continuous stabilization of the Oil & Gas segment supplemented by the robust contribution from Minerals and ESCO led to a 18% increase in operating profit reported for 2018 which rose to GBP348 million compared to GBP296 million in 2017. However, Oil & Gas margins in 2018 were significantly impacted in H2 by a slowdown in North America along with under-recoveries and tariffs which subsequently led to a slight deterioration of reported operating margin<sup>2</sup> on group level to 14.2% (down from 14.9% in 2017).

Another strong turnaround for 2018 was the return to meaningful Free Cash Flow generation which was predominantly supported by strong operating cash flow that fully offset the increase in dividend payout to GBP80 million (vs. GBP74 million in 2017) and capital spending of GBP85 million (vs GBP81 million in 2017). We also note that working capital outflow in 2018 was materially lower than in 2017 mainly due to the decrease in trade receivables.

According to our forward view, we expect the company to further strengthen its key credit metrics during 2019 taking comfort from the successful ongoing integration of ESCO, an increasing order book and the GBP275 million proceeds from the Flow Control disposal to First Reserve that will assist to fund growth investments and reduce net debt.

## Endnotes

<sup>1</sup> 2017 Operating margin was restated to include IFRS 15 adjustments

<sup>2</sup> Preliminary calculation using 2017 adjustments and subject to changes upon review of the full annual report 2018

<sup>3</sup> Adjusted to exclude exceptional items and intangibles amortisation

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