

CREDIT OPINION

22 July 2024

Update



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RATINGS

Weir Group Plc (The)

Domicile	United Kingdom
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Weir Group Plc (The)

Update to credit analysis

Summary

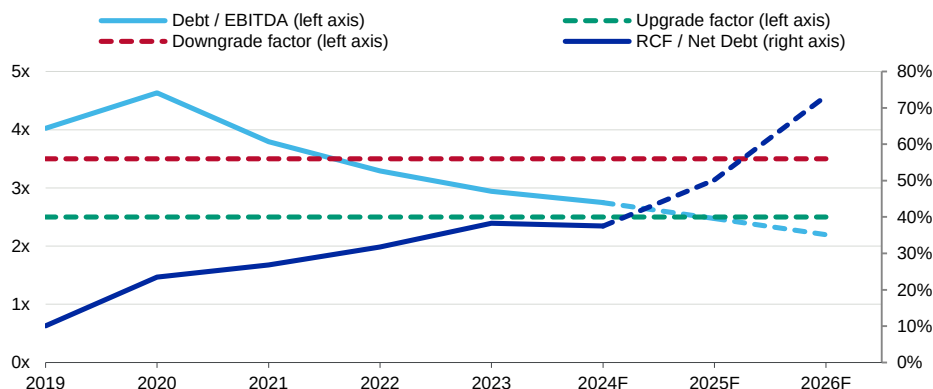
[Weir Group Plc \(The\)](#)'s (Weir) Baa3 issuer rating remains supported by its (1) strong market leadership in product niches which are key to the mining industry and robust market share for core products; (2) good diversification in terms of commodity and geography which enables proximity to the diverse customer base; (3) focus on fairly inexpensive but operationally critical products, with very high aftermarket potential, which provides more stability and typically higher margins; (4) positive underlying business trends including increasing demand for a range of metals coupled with the environmentally responsible requirements for extraction; and (4) high profitability in its core mining operations and solid free cash flow generation, particularly during downturns.

The main constraints for the Baa3 rating are (1) Weir's modest scale in terms of revenue and somewhat narrower product portfolio when compared to similarly rated peers; (2) short lead time of its businesses with limited backlog, which constrains revenue visibility into new equipment sales; (3) its exposure to mainly one end market, mining and minerals, which experiences some cyclical pressures at times; and (4) some risk of debt-funded acquisitions that could temporarily increase leverage.

In May 2023, we placed Weir's ratings on positive outlook reflecting its strong performance underpinned by positive underlying trends in demand for Weir's offerings. We expect company's growth and margin expansion to continue in the next 12-18 months with leverage decreasing towards the lower end of the rating guidance.

Exhibit 1

Leverage expected to improve further; retained cash flow strengthening



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

- » Strong market positions and high profitability
- » Very high share of the aftermarket business, which provides more stability and typically higher margins
- » Geographical diversification in terms of revenue, production and service operations
- » Tightened financial policy

Credit challenges

- » Modest scale, with a focus on a single end market
- » Cyclicity of the mining end market, although Weir's offerings are viewed as critical and less affected by the cycle
- » Requirement to build longer track record operating under tightened financial policy
- » Some risk of debt-funded acquisitions that could temporarily increase leverage

Rating outlook

The positive rating outlook reflects Moody's expectation that in addition to continued EBITDA growth, Weir will reduce its gross debt in the next 12-18 months. The agency further expects Weir to continue complying with its stated financial policy and to maintain ample liquidity.

Factors that could lead to an upgrade

We would consider upgrading the ratings if the company improves its scale while Moody's-adjusted debt/EBITDA falls sustainably below 2.5x and Moody's-adjusted retained cash flow/net debt rises sustainably above 30%. Further, Moody's would expect Weir to reduce its funded debt and to sustain its leverage closer to the lower bound of its financial policy range.

Factors that could lead to a downgrade

We could downgrade the ratings if Moody's-adjusted debt/EBITDA exceeds 3.5x for a prolonged period, if Moody's-adjusted retained cash flow/net debt falls below 20% for a prolonged period, or if Weir's liquidity position weakens, for example, because of shrinking flexibility under its net leverage covenant ratio (test level of 3.5x) or if free cash flow after capex, interest and dividends turns negative.

Key indicators

Exhibit 2

Weir Group Plc (The)

(in £ billions)	2019	2020	2021	2022	2023	2024F	2025F	2026F
Revenue	2.0	2.0	1.9	2.5	2.6	2.7	2.9	3.0
EBITA Margin %	14.7%	13.9%	15.7%	16.1%	16.0%	16.7%	17.8%	19.3%
Debt / EBITDA	4.0x	4.6x	3.8x	3.3x	2.9x	2.7x	2.5x	2.2x
RCF / Net Debt	10.1%	23.4%	26.8%	31.8%	38.3%	37.5%	50.2%	73.2%
FCF / Debt	-4.0%	8.8%	0.2%	6.7%	11.6%	8.8%	11.4%	14.5%
EBITA / Interest Expense	6.2x	5.3x	5.8x	7.7x	6.4x	6.8x	7.6x	8.6x
EBITDA Margin %	19.5%	17.5%	19.2%	19.3%	18.8%	19.5%	20.6%	22.1%

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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

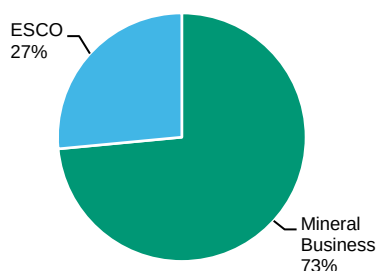
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

Headquartered in Glasgow, UK, Weir is an engineering solution provider focusing on designing, manufacturing and supplying products and engineering services for mining and minerals end markets. The company reports in two principal divisions: Minerals (73.5% of group revenue in 2023) and ESCO (26.5%), acquired in July 2018, which is a provider of ground engaging tools for large mining machines. In 2023, Weir generated £2.6 billion in revenue from continuing operations. Weir is a publicly listed company, and as of 5 July 2024, it had a market capitalisation of around £5.1 billion.

Exhibit 3

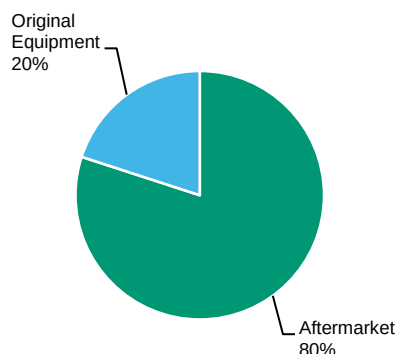
Revenue breakdown by division



Source: Company data

Exhibit 4

Revenue breakdown by share of Aftermarket and OE



Source: Company data

Detailed credit considerations

Modest scale, but market leadership positions

Weir is a relatively small among other Baa-rated companies in the manufacturing industry, with £2.6 billion of revenues in 2023. However, the current Baa3 rating recognises the company's strong market leadership position in a relatively consolidated market. In the Mineral segment, Weir reports around 25% market share in its addressable market, ahead of the closest competitors such as Metso-Outotec (Baa2 stable), FLSmidth and KSB. In its core products such as comminution and mill circuit products, specifically for slurry pump, Weir reports a market share approaching around half of its addressable market. Similar to its main European competitors, Weir focuses on hard rock mining, such as copper and gold (surface mining). ESCO manufactures ground engaging tools primarily for mining operations, such as buckets and tooth systems fitted to large mover machines, and estimates that 40% of global large primary mover machines are fitted with ESCO products (surface mining). By utilising its strong global footprint as well as long customer relationships with key participants in the mining industry, we believe Weir is well positioned to protect its market share in the foreseeable future even in very challenging market conditions. We further believe that large macro trends, such as urbanisation, driving the need for more metals, as well as miners' requirement for more technologically sophisticated and environmentally friendly solutions, are also supportive for Weir's business.

High share of the aftermarket business, which provides more stability and typically higher margins

Weir's product strategy is focused on relatively inexpensive, but operation-critical, equipment that is used in extreme environments (high abrasion, temperature or pressure) and is, therefore, exposed to high wear rates. This creates not only significant aftermarket opportunities for the company, but also more resilience to capital expenditure and commodity price cycles. Weir's aftermarket sales accounted for c. 80% of annual revenues in 2023, with revenues of the Mineral business consisting of 72% aftermarket and this figure being even higher for ESCO at 92%. According to management, the aftermarket capture rate is very high, enabled by Weir's high installed base and a very strong service footprint that creates a barrier to entry, given that downtimes can be very costly for Weir's customers. The high share of the aftermarket business is a significant benefit for Weir firstly because it is typically more profitable than the original equipment business and secondly because it is less volatile and more predictable. The greater visibility into the aftermarket business occurs due to its dependency on activity levels that are more stable than customers' expansionary capital spending, which can experience significant fluctuations. Apart from the high share of the aftermarket business, we note that Weir has fairly flexible

operations, with relatively limited capital spending needs and a reasonably flexible cost base, with cost of goods sold in recent years representing slightly over 60% of the cost base, being mostly variable.

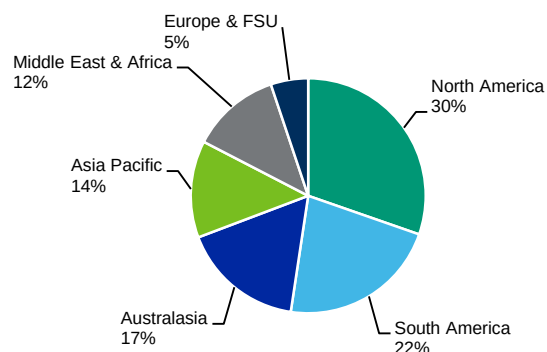
Diversification by geography and commodity, despite exposure to one main cyclical end market

Following the disposal of the Oil & Gas division in 2020 (completed in the first quarter of 2021), the company essentially achieved its goal of being a pure-play mining and minerals company. Given its strong market positions and high proportion of steady and profitable aftermarket business, we expect Weir's performance to be less volatile in the coming years than it had been at some points in the past.

Despite its moderate scale, Weir has a broad geographical footprint in terms of revenue, production and service operations. We consider its broad service footprint as a competitive strength and as supportive of close customer relationships, particularly given its aftermarket focus. Weir's proximity to its customers is especially important for the aftermarket service because it allows repairs and replacements of necessary parts and equipment to be completed promptly without causing costly production outages for the miners.

Exhibit 5

Diversified geographic profile Order input by region (2023)

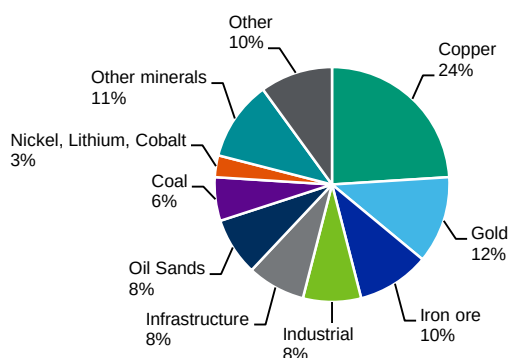


Source: Company data

In addition to its geographic diversity, Weir serves a wide range of commodities including copper (24% as of 2023), iron ore (10%), gold (12%), oil sands (8%) and coal (6%). These minerals have different supply and demand trends and provide a measure of diversification. Demand for metals, especially copper used in the production of electric vehicles and renewable energy technologies, is expected to increase in line with the collective effort to reduce greenhouse gas emissions and transitioning to renewable energy. Still, we note that China is the largest consumer of metals creating a concentration risk over demand in this sector.

Exhibit 6

Diversified across minerals with different trends Revenues by commodity (2023)



Source: Company data

Structural decline in ore grades and tightening environmental regulations will support growth

The structural decline of valuable minerals in ore over time necessitates more efficient mining processes and advanced technology to extract value from lower-grade ore. As mining companies expand production to extract more value, this increases the demand for aftermarket spares, as equipment wears out more quickly. Additionally, as companies in the mining sector seek to enhance efficiency during the extraction process this could also benefit the sales of original equipment. We also note that regulatory and environmental pressures are driving mining companies to electrify their operations and invest into new technologies, enabling the switch to more renewable energy sources. As a result of these positive trends, Weir has consistently reported book-to-bill ratios in excess of 1x (except for the seasonally slower fourth quarter) indicating robust demand for its products.

In 2023, the company benefited from favorable conditions in the mining markets and high commodity prices, leading to a 9% revenue increase for the mineral business. Notably, demand was strong in Australasia and for copper, whereas coal and oil sands saw reduced demand. Regulatory challenges slowed expansion projects, causing a shift in customer focus towards efficiency and subsequently increasing demand for the company's aftermarket spares and expendables. As well, we positively note that the company's sustainable solutions attracted the interest of Weir's customers, especially for brownfield and debottlenecking projects.

In the next 12-18 months, we expect Weir to grow sales at low to mid single digit rates driven by increasing demand due to structural decline in ore grades and continued focus on sustainable solutions from its customers.

Margin expansion will drive deleveraging and stronger cash flow generation in the next 12-18 months; financial policy expected to remain tight

In 2022 the company introduced a Performance Excellence programme aimed at improving operational efficiency and margin improvements. The initiative was aiming at achieving 17% operating margins in 2023, target that has been not only accomplished but also exceeded for the year. Weir expects operating profit margin improvement above 20% by 2026, translating into circa £60 million of cost savings per year, evenly distributed across capacity optimization, lean processes and consolidation of administrative and supporting functions into a centralized model. The total one-off cost of the programme is £90 million, with the phasing of the costs biased towards the early years of the programme. The company expects to incur £40 million in costs in 2024 related to this programme. We expect company's operating margins to approach 18% in 2024 supported by operating leverage and the phasing of the cost saving program.

While disposals appear less likely in the future because the company has essentially achieved its desired focus as a pure-play mining and minerals business, debt-funded acquisitions could temporarily increase leverage. Weir has a track record of being acquisitive, for example ESCO in 2018 which was largely debt financed. In December 2021, the company completed the acquisition of technology company Motion Metrics for initially £89 million and up to a further £59 million payable by end of 2024 depending on revenue and profit performance. The company also bought Carriere Industrial Supply, a manufacturer and distributor of parts and aftermarket services to the Canadian mining industry, in April 2022 for an enterprise value of £20 million. For the purpose of expanding its digital capabilities and accelerate the roll-out of its process optimization solutions, Weir acquired SentianAI in 2023 for £6.7 million. We positively note that the acquisitions in recent years were funded from existing cash balances.

We also note that the company protected the balance sheet and covenant headroom during the market downturn in 2015-17 by offering a scrip dividend option (although not a dividend reduction) and turned to equity-financed acquisitions, for example, in 2017 for KOP. In any case, we would expect the company to adhere to its financial policy currently stated as net debt to EBITDA between 0.5x to 1.5x, and up to 2.0x for acquisitions, with through-cycle 33% adjusted earnings per share being distributed by way of dividend.

Liquidity analysis

Weir's liquidity profile is excellent. As of December 2023, the company had £707.2 million of cash and short-term deposits, as well as access to a committed revolving credit facility (RCF) of \$800 million (£97.7 drawn) maturing in April 2028 (with the option to extend for a further year). In February 2024, the RCF was reduced by \$200 million ahead of stronger cash flow generation, bringing the total committed RCF to \$600 million. The company has \$800 million and £300 million of Sustainability-Linked Notes due to mature in May 2026 and June 2028, respectively. In addition, the company has access to a \$1 billion commercial paper programme, unused as of December 2023. Weir has a net debt/EBITDA financial maintenance covenant of 3.5x tested semi-annually, with a current company-

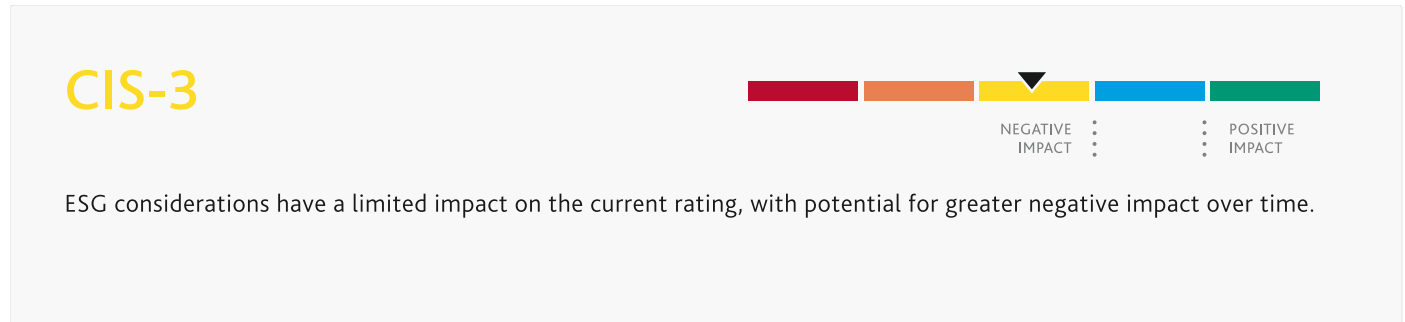
defined leverage of 1.1x as of December 2023. The first half of the year is typically seasonally weaker in terms of cash flow generation due to the financing of dividends and working capital.

ESG considerations

Weir Group Plc (The)'s ESG credit impact score is CIS-3

Exhibit 7

ESG credit impact score

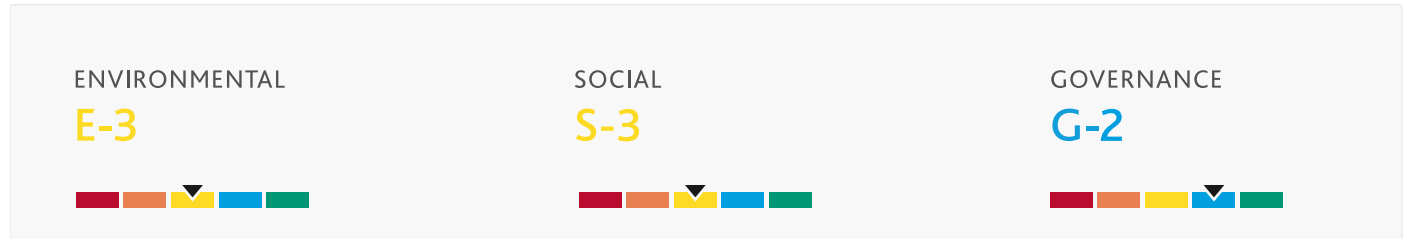


Source: Moody's Ratings

Weir's **CIS-3** indicates that ESG considerations have a limited impact on the current rating, with greater potential for future negative impact over time. The ESG considerations reflect mostly sector-driven moderately negative exposure to environmental and social risks, as well as neutral-to-low exposure to governance risks.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

As a manufacturer, Weir is exposed to physical climate risks. It also faces carbon transition risks through the use of energy and raw materials in its production processes, as well as waste management risks, particularly in light of rising environmental regulation. These risks are partially mitigated by the company's efforts to improve its environmental footprint.

Social

Weir is moderately exposed to social risks, including health & safety, human capital and responsible management of supply chains. As a manufacturer, health and safety of its employees is of great concern, as is the availability of highly qualified engineers needed by Weir to maintain and improve its production processes. Responsible production is another important consideration from the perspective of understanding risks in the supply chains. Weir is also exposed to the challenges of reducing emissions as part of societal trends and involvement in carbon intensive mining end markets, including coal. Weir mitigates its risks with respect to these demographic and societal trends by taking the opportunity to offer products that help improve the environmental efficiency of customer operations, as well as serving the mining end markets that support carbon transition.

Governance

Weir's exposure to governance risks is neutral-to-low, reflecting the company's investment-grade financial policies and track record, as well as the reporting quality and transparency as a long-standing publicly listed company with a diversified shareholder base.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in rating Weir was the Global Manufacturing Companies rating methodology.

Exhibit 9

Rating factors

Weir Group Plc (The)

Manufacturing Industry Scorecard			Current FY Dec-23		Moody's 12-18 month forward view	
Factor 1 : Scale (20%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (\$ billions)	3.3	Ba	3.4 - 3.6	Ba		
Factor 2 : Business Profile (25%)						
a) Business Profile	Baa	Baa	Baa	Baa		
Factor 3 : Profitability and Efficiency (5%)						
a) EBITA Margin	16.0%	Baa	17% - 18%	A		
Factor 4 : Leverage and Coverage (35%)						
a) Debt / EBITDA	2.9x	Baa	2.4x - 2.6x	Baa		
b) Retained Cash Flow / Net Debt	38.3%	A	45% - 55%	Aa		
c) Free Cash Flow / Debt	11.6%	Baa	10% - 12%	Baa		
d) EBITA / Interest Expense	6.4x	Ba	7.5x - 7.8x	Baa		
Factor 5 : Financial Policy (15%)						
a) Financial Policy	Baa	Baa	Baa	Baa		
Rating:						
a) Scorecard-Indicated Outcome		Baa3		Baa2		
b) Actual Rating Assigned				Baa3		

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 10

Peer Comparison

Weir Group Plc (The)

(in \$ millions)	Weir Group Plc (The) Baa3 Positive			Metso Corporation Baa2 Stable			Pentair Finance S.a.r.l. Baa3 Positive			Flowserve Corporation Baa3 Stable		
	FY	FY	FY	FY	FY	LTM	FY	FY	FY	FY	FY	LTM
	Dec-21	Dec-22	Dec-23	Dec-22	Dec-23	Mar-24	Dec-21	Dec-22	Dec-23	Dec-22	Dec-23	Mar-24
Revenue	2,660	3,058	3,278	5,238	5,829	5,720	3,765	4,122	4,105	3,624	4,321	4,428
EBITDA	512	589	617	814	1,040	1,035	754	841	912	407	435	498
Total Debt	1,913	1,886	1,859	1,450	1,764	1,704	1,064	2,461	2,161	1,591	1,589	1,579
Cash & Cash Equivalents	764	831	902	641	705	734	95	109	170	435	546	532
EBITA Margin %	15.7%	16.1%	16.0%	13.8%	16.2%	16.4%	17.8%	18.0%	19.7%	7.6%	7.2%	8.5%
EBITA / Interest Expense	5.8x	7.7x	6.4x	14.2x	10.8x	9.9x	34.8x	10.7x	6.3x	4.4x	3.8x	4.6x
Debt / EBITDA	3.8x	3.3x	2.9x	1.8x	1.7x	1.7x	1.4x	2.9x	2.4x	3.9x	3.7x	3.2x
RCF / Net Debt	26.8%	31.8%	38.3%	31.1%	51.0%	52.2%	56.9%	20.7%	29.3%	8.3%	17.3%	22.8%
FCF / Debt	0.2%	6.7%	11.6%	-16.0%	-9.0%	-6.9%	40.0%	5.9%	18.7%	-14.3%	9.1%	11.5%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted debt reconciliation**Weir Group Plc (The)**

(in £ millions)	2019	2020	2021	2022	2023
As reported debt	1,430.3	1,359.1	1,336.9	1,488.4	1,397.3
Pensions	138.7	160.8	56.7	34.9	28.0
Securitization	22.0	6.5	18.5	44.7	33.0
Non-Standard Adjustments	21.6	67.0	-	-	-
Moody's-adjusted debt	1,612.6	1,593.4	1,412.1	1,568.0	1,458.3

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted EBITDA reconciliation**Weir Group Plc (The)**

(in £ millions)	2019	2020	2021	2022	2023
As reported EBITDA	389.9	342.2	371.1	432.3	497.6
Pensions	-	1.7	1.1	1.5	(1.8)
Unusual Items	10.7	-	-	42.4	-
Moody's-adjusted EBITDA	400.6	343.9	372.2	476.2	495.8

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 13

Overview on selected historical and forecasted Moody's-adjusted financial data

Weir Group Plc (The)

(in £ millions)	2019	2020	2021	2022	2023	2024F	2025F
INCOME STATEMENT							
Revenue	2,050	1,965	1,934	2,472	2,636	2,722	2,858
EBIT	255	230	263	356	385	415	467
EBITA	301	274	303	398	423	454	508
EBITDA	401	344	372	476	496	530	588
Interest Expense	49	52	52	52	67	67	67
BALANCE SHEET							
Cash & Cash Equivalents	274	375	564	691	707	749	828
Total Debt	1,613	1,593	1,412	1,568	1,458	1,455	1,455
Net Debt	1,339	1,219	848	877	751	707	627
CASH FLOW							
Funds from Operations (FFO)	257	286	257	346	384	369	419
Capital Expenditures	(161)	(115)	(81)	(93)	(118)	(120)	(126)
Dividends	122	-	30	67	97	104	104
Retained Cash Flow (RCF)	135	286	227	279	287	265	315
RCF / Debt	8.4%	17.9%	16.1%	17.8%	19.7%	18.2%	21.6%
Free Cash Flow (FCF)	(65)	140	3	106	169	128	166
FCF / Debt	-4.0%	8.8%	0.2%	6.7%	11.6%	8.8%	11.4%
PROFITABILITY							
% Change in Sales (YoY)	-16.3%	-4.2%	-1.6%	27.8%	6.6%	3.3%	5.0%
EBIT Margin %	12.4%	11.7%	13.6%	14.4%	14.6%	15.2%	16.4%
EBITA Margin %	14.7%	13.9%	15.7%	16.1%	16.0%	16.7%	17.8%
EBITDA Margin %	19.5%	17.5%	19.2%	19.3%	18.8%	19.5%	20.6%
INTEREST COVERAGE							
EBIT / Interest Expense	5.2x	4.4x	5.0x	6.9x	5.8x	6.2x	7.0x
EBITA / Interest Expense	6.2x	5.3x	5.8x	7.7x	6.4x	6.8x	7.6x
EBITDA / Interest Expense	8.2x	6.6x	7.1x	9.2x	7.4x	7.9x	8.8x
LEVERAGE							
Debt / EBITDA	4.0x	4.6x	3.8x	3.3x	2.9x	2.7x	2.5x
Net Debt / EBITDA	3.3x	3.5x	2.3x	1.8x	1.5x	1.3x	1.1x

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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Ratings

Exhibit 14

Category	Moody's Rating
WEIR GROUP PLC (THE)	
Outlook	Positive
Issuer Rating - Dom Curr	Baa3
Senior Unsecured	Baa3
Commercial Paper	P-3

Source: Moody's Ratings

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