

**Rating Action: Moody's changes Weir's outlook to stable; affirms Baa3**

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30 Apr 2021

London, 30 April 2021 -- Moody's Investors Service ('Moody's') has today changed the outlook for Weir Group Plc (The), or Weir (company), to stable from negative. Concurrently, Moody's has also affirmed the existing ratings of Weir.

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

**RATINGS RATIONALE**

The stabilization of the outlook and rating affirmations reflect Moody's expectation that the company's metrics will improve in 2021 to levels that are commensurate with the Baa3 rating. Weir has taken several positive actions in recent months including the application of proceeds from the Oil & Gas division disposal to debt reduction and tightening of its net leverage and dividend policies. In addition, most key end markets benefit from a good market outlook which supports revenue growth and there is some potential for margin improvement in 2021 and thereafter. The outlook stabilization also incorporates Moody's expectation that the company will address its 2022 debt maturities in a timely manner.

Weir's Moody's-adjusted debt/EBITDA remained elevated in 2020 at 4.5x despite a relatively stable performance, but Moody's expects the metric to reduce below 3.5x and to remain within Moody's expectations for the rating going forward. The improvement in leverage is in the first instance driven by debt reduction as a result from the Oil & Gas division disposal, which has already taken place, but Moody's also expects further debt reduction going forward. In addition, there is some margin growth potential in 2021 given the now simplified business, some investments into shared services centres and consolidation around overhead costs. The company also aims for mid-to-high single digit revenue growth going forward, underpinned by good end market conditions, which would also support margin and profit growth. However, year-on-year revenue growth will likely be lower in 2021 due to a large one-off order received last year while raw material cost inflation also presents a risk to margin growth.

The company's retained cash flow to net debt metric also improved significantly in 2020 to 24% from 10% in 2019 due to the suspension of dividends. Moody's expects RCF/net debt to remain above 20% given the company's updated dividend policy of 33% of earnings per share instead of a progressive dividend policy. The reduction of the net leverage target, as defined by Weir, to a normal range of 0.5-1.5x from below 2.0x previously also indicates the company's intention to improve its credit metrics further in the coming years as the company's December 2020 net leverage was 1.7x pro-forma for the disposal-related debt reduction.

While further 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. However, Moody's would expect the company to remain disciplined and adhere to its financial policy.

Weir's rating also remains supported by its (1) strong market leadership in product niches, which are key to the mining industry, with the group being typically the leader or among the global leaders in respective addressable markets and with good market share for core products; (2) good geographical diversification at the group level and wide manufacturing and services footprint with focus on diverse minerals, which enables proximity to its also diverse customer base; (3) business model that is focused on fairly inexpensive but operation-critical products, with very high aftermarket potential, which provides more stability and typically higher margins; and (4) high profitability in its core mining operations and solid free cash flow generation, particularly during downturns. These supporting factors are balanced by (1) Weir's modest scale in terms of revenue and somewhat narrower product portfolio than that of 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 although profit volatility is now lower after the Oil & Gas division disposal.

Weir's liquidity profile is good. As of December 2020, the company had GBP575 million of available liquidity including GBP374 million of cash. The \$950 million committed revolving credit facility (RCF) is due in June

2023 with the option to extend for a further two years. The company has several debt maturities in the next two years including the March 2022 GBP200 million term loan, the February 2022 \$590 million private placement notes and February 2023 \$200 million private placement notes. Moody's would expect the company to address these maturities in a timely manner. The company has no other material debt maturities but has a \$1 billion commercial paper programme, which was unused as of December 2020. The company has a net debt/EBITDA financial maintenance covenant tested semiannually at 3.5x, with a current company-defined leverage of 1.7x as of December 2020 pro-forma for the Oil & Gas division disposal. The first half of the year is typically seasonally weaker in terms of cash flow generation (dividends, working capital).

## ESG CONSIDERATIONS

The company's tightened financial policy was an important consideration for this rating action. The tightened dividend and net leverage targets support Moody's metrics more commensurate with a Baa3.

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

Moody's 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%. Concurrently, Moody's 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 looming maturities, 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.

## LIST OF AFFECTED RATINGS

### Affirmations:

..Issuer: Weir Group Plc (The)

....LT Issuer Rating, Affirmed Baa3

....Senior Unsecured Bank Credit Facility, Affirmed Baa3

....Senior Unsecured Commercial Paper, Affirmed P-3

### Outlook Actions:

..Issuer: Weir Group Plc (The)

....Outlook, Changed To Stable From Negative

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing Methodology published in March 2020 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1206079](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1206079). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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. For the 12 months ended December 2020, Weir generated revenue of GBP2.0 billion from continuing operations. Weir is a publicly listed company, and as of 25 April 2021, it had a market capitalisation of around GBP5.1 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 at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1263068](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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