

**Rating object**

Holcim Ltd (formerly known as LafargeHolcim Ltd)  
 Holcim Finance (Luxembourg) S.A.  
 Long Term local currency senior unsecured issues issued by  
 Holcim Finance (Luxembourg) S.A.

**Rating incl. outlook / watch**

BBB+ / stable  
 BBB+ / stable  
 BBB+ / stable

The present ratings are, in the regulatory sense, public unsolicited ratings.

**Date of inception / disclosure to rated entity / maximum validity:**

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Holcim Ltd (formerly known as LafargeHolcim Ltd)	05.11.2021	08.11.2021	Withdrawal of the rating
Holcim Finance (Luxembourg) S.A.	05.11.2021	08.11.2021	Withdrawal of the rating
Long Term local currency senior unsecured issues issued by Holcim Finance (Luxembourg) S.A.	05.11.2021	08.11.2021	Withdrawal of the rating

There were no changes after the communication of the rating to the rating object.

**Rating summary:**

Creditreform Rating has confirmed the unsolicited corporate issuer ratings of Holcim Ltd. (formerly known as LafargeHolcim Ltd; hereinafter also referred to as Holcim) and Holcim Finance (Luxembourg) S.A., as well as the unsolicited corporate issue ratings of the euro-denominated, long-term senior unsecured Notes issued by Holcim Finance (Luxembourg) S.A. – insofar as they are part of the list of ECB-approved marketable assets - at **BBB+** in the context of an annual update. The outlook remains **stable**.

In addition to the company's leading global market position in the cement and building materials industry and its geographical diversification, the main reason for confirming the ratings were the resilient operating and financial performance in 2020 despite the negative effect of COVID-19 pandemic and the subsequent strong business development in 2021 year-to-date, a trend that will likely continue given the overall positive fundamentals for the industry.

In the financial year 2020, Holcim recorded a marked decline in sales of 13.4% to CHF 23.1 billion (previous year CHF 26.7 billion) against the backdrop of the social and macroeconomic upheavals in the wake of the COVID 19 pandemic. Holcim's reported recurring EBIT decreased by 10.4% to CHF 3.7 billion (previous year CHF 4.1 billion), but at a lower rate than sales. This was due to the "Health, Cost & Cash" action plan initiated and successfully implemented to reduce costs and maintain liquidity, which led to an improvement in operating margin and stabilized the Holcim Group's earnings and internal financing power. While operating cash flow was slightly below the previous year's level, Holcim was nevertheless able to even increase free cash flow compared to the pre-Corona year 2019 and further reduce net financial debt from CHF 10.1 billion to CHF 8.5 billion through a targeted reduction in capital expenditure. The financial ratio net financial debt / recurring EBITDA (debt leverage) used by Holcim decreased to a factor of 1.4x in 2020 (PY 1.5x). The net total debt / EBITDA adj. ratio used by CRA decreased slightly from 3.6x in 2019 to 3.4x in 2020. Overall, the already recently satisfactory result of the financial ratio analysis of the Holcim Group for the financial year 2020 improved slightly, which confirmed our rating assessment.

At the beginning of the current financial year, Holcim acquired Firestone Building Products, one of the leading suppliers for the construction of flat roofs in the US. The value of this transaction amounted to approximately USD 3.4 billion and was financed partly from cash and partly by debt, which again significantly increased net financial debt (as of June 30, 2021 CHF 12.4 billion; as of June 30, 2020 CHF 10.7 billion). Due to the strong operational development in the current financial year, the financial ratio "debt leverage" for the full year 2021 is expected to be below 2x, which would be in line with the Holcim Group's strategic targets for 2022.

The current business development of the Holcim Group in the current financial year 2021 is characterized by a strong recovery compared to the previous year, which was particularly negatively impacted by the pandemic. The Holcim Group achieved significant growth in sales and especially in recurring EBIT in the first half of 2021. Recurring EBIT even significantly exceeded the pre-Corona level. In addition to increased sales volumes in all product segments, favorable pricing had a positive impact, enabling a further noticeable improvement in margins. Even though the overall recovery in sales volumes slowed down in the third quarter of 2021 due to the baseline effect in the previous year, the Holcim Group was able to continue on its growth path in terms of sales and earnings due to its ability to increase prices, which more than compensated the cost inflation on energy and raw materials.

In view of the positive operating development in the current financial year and the improved cash flow generation, we consider the internal financing strength to have improved. In conjunction with the existing liquidity, the available credit facilities and the proven capital market capability, we assess the current liquidity situation of the Holcim Group overall as solid. However, risks remain with regard to potential M&A transactions to accelerate the shift towards becoming a leading global provider of innovative and sustainable construction solutions. Disposals of assets that are no longer in line with the Holcim's strategy should, to certain extent, mitigate these risks.

Against the backdrop of persistently low interest rates and government-funded economic stimulus programs, we currently consider the market and industry environment to be sufficient for the Holcim Group to continue its positive business development, despite remaining pandemic-related uncertainties and current cost inflation. The Company will likely meet its Strategy 2022 targets - such as sales and earnings growth, limitation of CAPEX and debt leverage, maintenance or improvement of internal financing strength and return on invested capital - one year in advance, which should lead to a stabilization or further improvement of the financial ratios despite the Holcim's expansion efforts.

We have derived the unsolicited corporate issuer rating of Holcim Finance (Luxembourg) S.A. from the rating of Holcim Ltd based on its interrelationship with the parent company in terms of corporate and liability law, as well as its strategic, financial, and economic relationship, setting this equal to that of Holcim Ltd (**BBB+ / stable**). Application of the CRA rating system for corporate issues results in a rating of (**BBB+ / stable**) for the euro-denominated, long-term senior unsecured issues assessed here.

#### Primary key rating drivers:

- + Worldwide leading market position in the building materials industry with sufficient geographic diversification
  - + Improved results of the financial ratios analysis for 2020 mainly due to debt reduction and decreased financial expenses
  - + Successful implementation of the "Health, Cost & Cash" action plan to mitigate the negative effects of the COVID-19 pandemic led to improved recurring EBIT margins, higher free cash flows and reduced gross and net financial debt in 2020
  - + Strong business development in first 9 months 2021 with recurring EBIT well above pre-Corona level
  - + Holcim expects to achieve all Strategy 2022 targets one year in advance
  - + Sufficiently solid liquidity position in connection with internal financing strength and established access to the capital market
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- COVID-19 related reduced sales and earnings level in 2020
  - Increase in debt in H1 2021 due to corporate acquisitions - further M&A transactions will be accelerated
  - Sale of "Holcim Philippines Inc." failed for the time being

#### ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Holcim Ltd we have not identified any ESG factor with significant influence.

The environmental and climate impact of cement production is particularly intensive. Around 8% of global greenhouse gas emissions are caused by cement production. Against this background, Holcim as a cement producer is particularly subject to climate protection targets and stringent regulations relating to carbon dioxide emissions (CO<sub>2</sub> emissions) at national and international level, in particular the European Union Emission Trading System, which entered its fourth and, for the time being, final phase at the beginning of 2021. Holcim is committed to exploiting existing potential for improvement and to develop such potential in order to reduce CO<sub>2</sub> emissions. In addition to stepping up the use of renewable energies and convert materials from construction and demolition waste, Holcim aims to offer more low-carbon and climate-neutral products. In addition, the company has joined the Science Based Targets Initiative (SBTi) "Business Ambition for 1.5°C" and together with SBTi has validated interim targets on the reduction path towards net zero emissions. By 2030, CO<sub>2</sub> emissions are to be reduced from 555 kg net CO<sub>2</sub> emissions per ton of cementitious materials to 475 kg net CO<sub>2</sub> emissions per ton of cementitious materials (Scope 1). However, to achieve the net zero target in cement production, effective carbon capture and use or storage (CCUS) is required. In this context, Holcim is currently conducting 20 pilot projects to explore CCUS technology and find a scalable and cost-effective CCUS solution by 2030.

The sustainability strategy pursued by the company was also reinforced by the issuance of sustainability-linked bonds and is in line with the United Nations Sustainable Development Goals, which are intended to ensure sustainable development at economic, environmental and social level. Overall, we see potential for improvement at Holcim with regard to the ESG factors, despite good progress, but do not (yet) identify any significant impact on the rating. It remains to be seen whether Holcim will achieve its ambitious targets compared to the rest of the industry. In the future, ESG factors may have an impact on our rating assessment, depending on the achievement of the company's self-imposed targets and regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

**Rating scenarios:**

*Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.*

Best-case scenario: A-

In our best-case scenario for one year, we consider it possible to lift the rating to A-. We assume a continuation of the current positive business development into the 2022 financial year, which should contribute to a further improvement in profitability and internal financing power and thus to the result of the financial ratio analysis. We also assume that the strategic portfolio transformation and the M&A transactions accelerated in this context can be carried out without significant debt. The successive increase in free cash flow should consequently contribute to a reduction in debt.

Worst-case scenario: BBB

In the worst-case scenario, we see a rating downgrade to BBB over the course of the year. Such a downgrade would have to be considered in the event of a significant deterioration in the economic and geopolitical situation and a related sustained decline in business performance, which would lead to a significant deterioration in earnings and internal financing power, an increase in debt, and thus a sustained deterioration in key financial ratios. An inappropriate dividend policy and leveraged M&A transactions could also have a negative impact on the rating.

**Analysts / Person approving (PAC):**

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**Initial rating:**

Rating object	Event	Rating created	Publication date	Monitoring until	Result
<b>Corporate Issuer Rating of Holcim Ltd (formerly LafargeHolcim Ltd)</b>	Initial rating	08.05.2019	20.05.2019	13.12.2020	BBB+ / stable
<b>Corporate Issuer Rating of Holcim Finance (Luxembourg) S.A.</b>	Initial rating	08.05.2019	20.05.2019	13.12.2020	BBB+ / stable
<b>LT LC Senior Unsecured Issues Issued by Holcim Finance (Luxembourg) S.A.</b>	Initial rating	08.05.2019	20.05.2019	13.12.2020	BBB+ / stable

**Status of solicitation and information basis:**

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

**Rating methodology / Version / Date of application:**

Rating methodology	Version number	Date
<a href="#">Corporate Ratings</a>	2.3	29.05.2019
<a href="#">Non-financial Corporate Issue Ratings</a>	1.0	October 2016
<a href="#">Rating Criteria and Definitions</a>	1.3	January 2018

**Regulatory requirements:**

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating<sup>1</sup> was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

**Conflict of interests**

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

**Rules on the presentation of credit ratings and rating outlooks**

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To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

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The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

<sup>1</sup> In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

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