MOODY'S

Rating Action: Moody's places Solvay SA's Baa2 long term issuer rating on review for downgrade

16 Jun 2023

Frankfurt am Main, June 16, 2023 -- Moody's Investors Service (Moody's) assigned a Baa2 long-term issuer rating to Solvay SA (Solvay), which concurrently is placed on review for downgrade. A potential downgrade of Solvay's long-term issuer rating is expected to be limited to one-notch. Moody's intends to close the review for downgrade upon completion of the partial demerger of Solvay SA's specialty chemical business Specialty HoldCo Belgium SRL (aka SpecialtyCo, Baa1 stable).

The assignment of the long-term issuer rating is for technical and analytical reasons, as during the partial demerger process, there might be a period during which Solvay has no rated debt outstanding. The Baa2 long term issuer rating reflects the current perimeter of Solvay SA, and the review for downgrade incorporates Moody's expectations for the rating of Solvay's remaining operations (EssentialCo) following the demerger.

Moody's placed all Baa2 ratings of the senior unsecured instruments issued by Solvay SA and its subsidiaries Solvay Finance (America), LLC. and Cytec Industries Inc. on review with direction uncertain.

The Ba1 ratings of the €500 million and €300 million undated subordinated notes (hybrids or hybrid notes) issued by Solvay SA as well as the €500 million backed undated subordinated notes with a first call date in December 2025 issued by Solvay Finance in 2013 are placed on review with direction uncertain.

The Ba1 rating of the €500 million backed undated subordinated notes with its first call date in June 2024 issued by Solvay Finance in 2015 is placed on review for downgrade.

Moody's also placed the P-2 rating of Solvay SA's commercial paper program on review for downgrade.

Solvay intends to spin off its Specialty Polymers and Composites businesses, and the majority of Solvay's Solutions segment, including Novecare, Technology Solutions, Aroma Performance, and Oil and Gas Solutions into SpecialtyCo. The company aims to complete the separation via a partial demerger by December 2023.

The company indicated that existing Solvay SA senior note holders and the holders of undated subordinated notes with the first call date in 2025 will be offered an opportunity to transfer their obligations to SpecialtyCo prior to the separation. The company also communicated plans to call its hybrid notes with the first call date during 2023 prior to the completion of the demerger and that it considers a tender offer for its undated subordinated notes with its first call date in June 2024 issued by Solvay Finance in 2015.

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

RATINGS RATIONALE

Solvay's Baa2 long term issuer rating reflects the current credit quality of Solvay (EssentialCo & SpecialtyCo), and the review for downgrade reflects the high likelihood of a rating downgrade, likely limited to one notch, upon closing of the partial demerger. Following the split, EssentialCo's business profile will be characterized by strong positions in its markets for soda ash & bi-carbonate, peroxides and silica, and a financial policy geared towards achieving and maintaining an investment grade rating.

EssentialCo operates in relatively consolidated (either on a local or global level) markets, which in combination with a focus on cost management, enabled the company to generate EBITDA margins (company defined) in excess of 20%

for the past seven years. EssentialCo's revenue diversification across end-consumer industries and geographies also support its credit quality. EssentialCo's somewhat small scale with pro-forma core revenues of around €5.6 billion, as well as some product concentration, constrain its rating. EssentialCo generates close to 54% of sales from soda ash (around 40% of 2022 sales) and peroxides, (14%) Moody's estimates that the share of EBITDA of the soda ash and peroxides businesses is even higher, which exposes it to pricing & volume trends for respective products and the risk of shifts in supply / demand dynamics. Furthermore, expectations for relatively moderate free cash flow generation in particular during the 2024 to 2025 period, a function of high dividend pay-outs and high capital expenditures, weigh negatively on EssentialCo's credit rating.

Despite relatively high FFO generation, high investments of around 7% of sales and dividend pay-outs in the range of €260 million to €280 million will limit free cash flow generation.

Based on an expected Moody's adjusted gross debt level of around €3.2 billion, Moody's estimates that EssentialCo's Moody's adjusted leverage will be below 3x in 2023, a level commensurate with Moody's expectations for an investment grade rating.

RATIONALE FOR THE REVIEW OF THE INSTRUMENT RATINGS

The company disclosed that it will consider a tender offer for the Ba1 €500 million backed hybrid bonds with the first call date in 2024. The review for downgrade of these instruments reflects the risk that the company will not launch the tender offer or that the bond will not be fully retired. In these scenarios the instruments could remain with Solvay SA and will likely be downgraded by one notch.

Moody's also placed the Baa2 ratings for the existing senior unsecured debt instruments of Solvay SA and its subsidiaries and the Ba1 ratings of all other hybrid notes on review with direction uncertain. The uncertain direction incorporates expectations for the debt to be either i) transferred to SpecialtyCo, which would likely result in a one notch upgrade, or ii) remain with Solvay SA, which would likely result in a one notch downgrade of the instrument ratings to a rating in line with the expected long term issuer rating of Solvay SA.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Moody's expects that EssentialCo's organizational and governance structure will be in line with expectations and requirements for a listed company and that Solvac SA will remain the largest shareholder of EssentialCo. Solvac SA currently holds around 30.8% in Solvay. Details on management teams and board of directors and ultimately also the longer-term shareholder structure are yet to emerge and a track record of operating as commodity product focused much smaller company as well as operating within the boundaries of its stated financial policy will need to be established. EssentialCo is committed to an investment grade rating. At the outset the company will appropriate 60% of Solvay SA's 2023 dividend, but further details on the application of the dividend and capital allocation policies have not yet been disclosed at this stage.

EssentialCo's environmental risk exposure in particular reflects is high CO_2 emissions, including for example its soda ash production facilities, which emit limestone powder and gases that can negatively impact air quality. Failure to comply with regulations governing these emissions can result in substantial penalties or investment needs. The company disclosed provisions for environmental remediation expenses of €432 million as of 31 December 2022 related to EssentialCo's operations, as well as environmental contingent liabilities of €303 million.

LIQUIDITY PROFILE

At the completion of the demerger EssentialCo will have cash & cash equivalents of around €450 million. The company has not disclosed further details on additional liquidity facilities, but EssentialCo's rating reflects the expectation for sufficient availability under revolving credit facilities to maintain an excellent liquidity profile, in line with its commitment for an investment grade rating. FFO generation of at least €700 million in the next 12 month further supports EssentialCo's liquidity profile, with expectations for liquidity sources to comfortably cover swings in working capital, expected dividend payments in excess of €260 million and capital expenditures around or slightly above current levels.

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

Moody's expects to provide more detailed guidance on expectations for credit metrics and qualitative factors upon completion of the review.

The indication that a downgrade of the rating is likely limited to one-notch is based on the expectation that the company will sustainably operate with Moody's adjusted leverage of below 3x. Furthermore the indication provided reflects Moody's expectation that the company will generate RCF/Net debt of 20% or above, maintain its underlying EBITDA margins above 20%, and establish a financial policy in line with its commitment to maintain an investment grade rating.

LIST OF AFFECTED RATINGS

..Issuer: Solvay SA

Assignments, Placed On Review for Downgrade:

.... LT Issuer Rating, Assigned Baa2

Placed On Review for Downgrade:

....Commercial Paper, currently P-2

Placed On Review Direction Uncertain:

....Pref. Stock, currently Ba1

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

Outlook Actions:

....Outlook, Changed To Ratings Under Review From Stable

..Issuer: Solvay Finance

Placed On Review for Downgrade:

....BACKED Pref. Stock, currently Ba1

Placed On Review Direction Uncertain:

....BACKED Pref. Stock, currently Ba1

Outlook Actions:

....Outlook, Changed To Ratings Under Review From Stable

..Issuer: Cytec Industries Inc.

Placed On Review Direction Uncertain:

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

Outlook Actions:

....Outlook, Changed To Ratings Under Review From Stable

..Issuer: Solvay Finance (America), LLC.

Placed On Review Direction Uncertain:

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

Outlook Actions:

....Outlook, Changed To Ratings Under Review From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Chemicals published in June 2022 and available at https://ratings.moodys.com/rmc-documents/389870. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Upon completion of the partial demerger of SpecialtyCo, Solvay SA will operate the businesses currently known as EssentialCo. EssentialCo will comprise Solvay's current Soda Ash, Peroxides, Silica, Coatis and Special Chem (Rare earth for auto catalysts) businesses. In 2022 EssentialCo generated core revenues of €5.6 billion and company defined EBITDA of around €1.3 billion, equivalent to a company defined EBITDA margin of 23%.

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 on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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 issuer/deal page for the respective issuer on https://ratings.moodys.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.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.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 issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Moritz Melsbach
Vice President - Senior Analyst
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

Karen Berckmann, CFA
Associate Managing Director
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
