Creditreform Corporate Issuer / Issue Rating

Holcim Ltd

Creditreform Rating

Rating object	Rating information	
Holcim Ltd	Corporate Issuer Rating: **BBB+ / positive**	Type: Update Unsolicited Public rating
Creditreform ID: 400993814 Incorporation: 1912 Based in: Rapperswil-Jona, Switzerland Main (Industry): Manufacturing of building materials CEO: Jan Jenisch	LT LC Senior Unsecured Issues: **BBB+ / positive**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Holcim Ltd Long-term Corporate Issuer Rating: Holcim Finance (Luxembourg) S.A. Long-term Local Currency Senior Unsecured Issues issued by Holcim Finance (Luxembourg) S.A.	Rating date: 1 December 2022 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Holcim Ltd (hereinafter referred to as "Holcim" or "the Company"), formally traded as Lafarge-Holcim Ltd following the merger of Switzerland's Holcim and France's Lafarge in July 2015, was renamed back to its original name in 2021.

As a global producer of building materials headquartered in Rapperswil-Jona, Switzerland, it is the leading cement manufacturer worldwide in terms of sales. The Company has a presence in 60 countries, with approximately 70,000 employees and a consolidated cement grinding capacity of 72.2 million tons per year. The Company operates 266 cement and grinding plants, 661 aggregates plants and 1,374 ready-mix concrete plants worldwide. In order to become a net zero emissions company by 2050, the focus of its strategy includes sustainable growth by offering an increasing number of sustainable materials as well as construction and refurbishment solutions for housing and infrastructure projects.

In 2021, Holcim generated revenues of CHF 26,834 million (2020: CHF 23,142 million) and an annual profit of CHF 2,681 million (2020: CHF 2,002 million).

Rating result

The current unsolicited corporate issuer rating of BBB+ attests Holcim Ltd a highly satisfactory level of creditworthiness, representing a low to medium default risk. Holcim is a worldwide leading cement producer with very good geographical diversification and, despite strong competition on the local markets, a solid competitive force. The Company has a stable and satisfactory earnings capacity and pursues a prudent financing policy, which is the foundation for its solid financials. We see the Company's target of keeping net financial debt / recurring EBITDA ratio under 1.5x, as well as its strategy focusing on sustainability, as favorable and aligned with the requirements, which the industry is faced with.

Exposure to risks related to highly sensitive to economic developments, demand for construction materials, energy intensity and exposure to volatile energy prices, dependency on environmental requirements, and above-average local competition, have a dampening effect on our rating assessment. However, despite the severe market conditions which the industry is currently faced with, Holcim has been able to exceed pre crisis levels in terms of sales and in results, improving its key financials in connection with its profitable transformation strategy.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2021:
+Sales and results
+Net total debt /EBITDA
+Liquidity
+Ratio of interest expenses to total debt improved

- Equity ratio decreased by debt rise
- Ratio of interest expenses to total debt
- Profitability ratios

General rating factors summarize the key issues which – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Outlook

We have revised the one-year outlook from stable to positive. We expect further revenue and profit growth as a result of its current strategy, or at least development consistent with the financial year 2021, showing sustainably improved financials also in 2023. We expect the Company to continue to develop positively based on its broader product structures, enabling operating performance to remain overall unaffected by the current adverse circumstances (inflationary costs and rising interest rates), and maintaining its financials at least at their current level. Against the background of the continuing weakening global economy, rising interest rates and rising commodity prices, negative effects on the financial position and increasing pressure on profit margins, which could lead to a reversal of the positive outlook, cannot be ruled out at present.

Relevant rating factors

Table 1: Financials I Source: Holcim Ltd Annual Report 2021, standardized by Creditreform Rating AG (CRA)

Holcim Ltd Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12.(IFRS)	CRA standardized figures[1]	
	2020	2021
Sales (million CHF)	23,142	26,834
EBITDA (million CHF)	5,100	6,036
EBIT (million CHF)	2,800	3,716
EAT (million CHF)	2,002	2,681
EAT after transfer (million CHF)	1,697	2,298
Total assets (million CHF)	46,505	52,125
Equity ratio (%)	51.16	48.02
Capital lock-up period (days)	48.45	50.94
Short-term capital lock-up (%)	19.32	19.61
Net total debt / EBITDA adj. (Factor)	3.43	3.31
Ratio of interest expenses to total debt (%)	2.78	2.11
Return on investment (%)	5.44	6.05

General rating factors

+ Globally leading cement manufacturer with very good geographical diversification
+ Mix of different products and solutions
+ Generally favorable global framework conditions for construction (growing population, expanding cities, demand for sustainable and energy-efficient construction)
+ Strong earnings capacity and good access to financial markets
+ Limited degree of substitutability for the Company's products

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- Dependency on economic cycles and intensive competition
- Highly energy-intensive production and exposure to volatile energy prices
- Exposure to stringent environmental regulation
- Political and economic risks in merger countries
- Seasonality and weather-dependency

Current rating factors

Current rating factors are the key factors which, in addition to the underlying rating factors, have an impact on the current rating.

\+ Sales and operating results in 2021, outperforming pre-crisis-level
\+ Strategy upgrade due to strategy 2022-targets achieved one year in advance
\+ Accelerated divestments and acquisitions, offsetting negative effects of inflation by boosting operative performance and giving financing strength
\+ Despite adverse market conditions, remarkable operating performance in 9M 2022 enabling an improved and promising business outlook for 2022

- Sales market Asia Pacific largely impaired by inflation and net zero COVID- strategy in China
- Share buybacks worth up to CHF 2 billion
- Worsening market conditions in construction industry due to inflationary environment, rising interest rates and risk of recession in Europe; construction projects were shelved or canceled
- Uncertainty about further geopolitical course and actual economic consequences

Prospective rating factors

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

\+ Further business transformation increasing growth and profitability
\+ Reducing CO_2-emissions and shifting towards low-carbon construction
\+ Stabilization of energy prices, inflation, and geopolitical risks
\+ Stable to positive development of our result of the financial key figure analysis for 2022 and overall good half-year figures for 2023

- Economic slowdown and high interest rates adversely affect construction industry significantly in the short- and medium-term
- Competitive pressure hampers prices rising above cost
- Rising leverage without sufficient operating compensation,or deteriorating equity-ratio

ESG-factors

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

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

The environmental and climate impact of cement production is particularly intensive. Roughly 8% of global greenhouse gas emissions are caused by cement production. Against this background, Holcim as a leading cement producer is particularly subject to climate protection targets and stringent regulations related to carbon dioxide emissions (CO_2 emissions) at national and international levels, 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 developing such potential in order to reduce CO_2 emissions. In addition to stepping up the use of renewable energies and converting 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 2050. By 2030, CO_2 emissions are to be reduced from 553 kg net CO_2 emissions per ton of cementitious materials to 475 kg net CO_2 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 more than 30 pilot projects worldwide 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 levels. In order to achieve its ambitious goals of carbon-neutrality by 2050 and offering so-called green products, the Company is strongly engaged in the development of disruptive technologies, such as the development of magnetizable concrete for road surfaces, in collaboration with a German start-up named “Management”, which would enable electric vehicles to recharge wirelessly while in motion. The Company already offers a broad spectrum on sustainable products and house building solutions. A year ago, Holcim launched their product ECOPact, a CO_2-reduced concrete solution, and ECOPlanet, a CO_2-reduced cement, both of which enable a lower CO_2 footprint in the range of between 30% and 80% compared to standard materials. For further examples of green house building solutions, see the section ‘Business risk’.

To measure the internal progress of its CO_2 emission reduction, the Company introduced its own KPI: measuring the reduction of CO_2 per million of net sales, amounting to 30% in 9M 2022. We cannot not currently identify any significant adverse material impact on the rating as a result of the environmental and climate impact of cement production; however, this could change in future, e.g. due to stricter regulatory requirements or to failure to reach its targets in the long-term.

In relation to Governance factors, Holcim's subsidiary Lafarge S.A. was accused of providing material support and resources to terrorist organizations during the civil war in Syria. To protect its operating Syrian cement plant, former Lafarge executives paid approx. over USD 10 million between 2013 and 2014, among others to the Islamic State. Holcim, which acquired Lafarge in 2015, has pleaded guilty before the U.S. Department of Justice and will pay a fine of USD 778 million. The settlement concludes the proceedings against Lafarge and the already dissolved Syrian subsidiary. Although we consider this behavior to be suitable in principle for a negative G-factor to be taken into account in the rating, we consider the situation to have been rectified from a rating perspective with the admission of guilt. This financial one-off effect is likely to be overcompensated by other positive one-off effects (see chapter Business Development).

Lafarge is also currently being charged in Paris due to complicity in human rights violations, however the Group rejects this accusation.

Overall, we see certain past governance failures and an environmentally detrimental business model in its original design, but also technological advances to reduce carbon emissions, and an overall improving ESG policy in the Company, particularly as regards its current strategy. At this stage, we believe that the more sustainable business model remains essential for the transition to a more climate-friendly economy, but needing still efforts.

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 one-year best-case scenario, we consider an upgrade of the rating to A- possible despite the challenging market conditions for the industry. We assume that the current positive business development will continue in 2023, which should contribute to a further improvement in profitability and internal financing power. The result of the financial ratio analysis should develop at least at a stable basis, observing critically the margin and interest expenditure development due to the higher commodity prices and interest rates. In addition, in this scenario, we assume that further M&A transactions in connection with the portfolio transformation will proceed without increasing its leverage.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. This could be the case if profitability significantly worsens in 2023 as a result of a significant deterioration in the economic and geopolitical situation. Rising interest rates and economic instability could lead to a decline in sales, which cannot be sufficiently compensated by price rises, deteriorating earnings. A significant increase in indebtedness without a compensating EBITDA improvement as result of Holcim's transformation and expansion path could also have a negative impact on the rating assessment.

Business development and outlook

In the wake of economic recovery after the pandemic upheavals in 2020, Holcim recorded strong performance in 2021, exceeding pre-crisis levels. Net sales[2] amounting to CHF 26,834 million grew by 16.0% compared to 2020 and by 0.4% compared to 2019 – 2019 is used as a reference year for pre-crisis levels. According to the Company, net sales growth was 11.3% compared to 2020 on a like-for-like basis. Every division and sales market contributed to the growth; however, the key growth driver was the North America region, boosted by the Solutions and Productions division, in particular through the acquisition of Firestone (for more details, see the section 'Structural risk'). The Ready-Mix Concrete division, due to the favorable performance of its new products, ECOPact - green concrete range, and DYNAMax - high-performance concrete, also recorded significant growth, up 13.0% from 2020. Despite a negative one-off effect[3], the EBIT margin improved from previous years, amounting to 13.8% (2020: 12.1%; 2019: 13.0%) due to more profitable business and cost reduction. Benefitting from lower interest expenses, Holcim also recorded a net income of CHF 2.681 million (2020: CHF 2.002 million; 2019: CHF 2.513 million), up to 33.9% compared to 2020 and up to 5.9% compared to 2019.

[2] Sales after deducting allowances for damaged or missing merchandise and returns.

[3] Loss of disposals of CHF 161 million due to translation differences in connection with divestments in Middle East Africa.

Table 2: The development of business of Holcim Ltd I Source: Annual Report 2019 and 2021, structured by CRA

Holcim Ltd				
In million CHF	2018	2019	2020	2021
Net Sales	27,466	26,722	23,142	26,834
EBITDA	4,898	5,955	5,100	6,036
EBIT	2,669	3,466	2,800	3,716
EAT	1,719	2,513	2,002	2,681

The previous and current financial years were characterized by transformation, both geographically and in terms of divisional focus in connection with the strategic plan 2022 based on growth and the strategic plan 2025 based on accelerated green growth. Since the strategic goals of the 2022 plan had already been achieved in 2021, a plan upgrade took place in the same year with an increased focus on sustainable products and solutions, as well as on further expansion in those markets with strong and resilient earnings profiles, strengthening the Company's foothold in its matured markets of North America, Europe and Latin America. In the current year, mature markets accounted for 77% of net sales on a pro forma basis, while in 2019 this was at 59%. Holcim expanded, in particular in North America, increasing from 24% in 2019 to 40% in 9M 2022, while divesting in Asia Pacific, decreasing from 25% to 9%. Several acquisitions were made in 2021, among them a great milestone in green growth with the major acquisition of Firestone Building Products (Firestone), a leading U.S. company offering diverse roofing system solutions from green to cool roofs. This acquisition enabled Holcim's 4th division, Solutions & Products, to expand immensely; the contribution of sales increased by 89.5% compared to 2020, recording sales of 3.6 billion (2020: 1.9 billion). During 2022 in particular, acquisitions helped to expand and complement the division Solution and Products, such as the U.S. company Malarkey, also a leader in innovative and sustainable in roofing systems on the US residential market. According to the Company's new strategic plan, the segment Solutions and Products are to account for 30 percent of net sales in 2025. As of September 31, 2022, the Company announced that 25% had already been reached on a pro forma basis (For more details, see Structural risk).

The portfolio transformation has already begun to bear fruit in the current challenging fiscal year 2022. Despite significant adverse market conditions, especially for the energy intensive industry, the Company was able to achieve record sales and results. In the first nine months 2022, Holcim recorded revenues of CHF 22,725 million (9M 2020: CHF 19,842 million), up 14.5% and on a like-for-like basis 13.9%, again boosted by North America and the Solutions and Products division. Solutions and Products contributed roughly 60% to net sales growth, with an increase of 1,717 million (67.6%) compared to the same period in the previous year, driven by strong demand in the Roofing Systems division. Higher prices, cost-saving measures, and in particular the transformation, were able to more than offset the huge cost increases in raw materials, transport and energy, so that recurring EBIT improved from CHF 3,516 million to 3,724 million, up 5,9% and on a like-for-like basis 6,5%. With regard to sales regions, North America was the key growth driver, recording a growth rate of 36.5% on a like-for-like basis, while Asia Pacific recorded a decline of 31.6% like-for-like against the background of inflation and the COVID-19 lockdowns in China. In terms of divisions, Solutions and Products contributed the largest recurring EBIT growth like-for-like of 125.7%, driven by the highly profitable Roofing Systems, showing double-digit net sales growth and improving recurring EBIT margin - 20% in Q3 2022 (Q2 2022: 19%) according to Holcim.

As is common, in its third-quarter report, the Company does not report either the reported EBIT or the net income. According to the Outlook and Guidance 2022 statement of Holcim, in addition to an excellent operating performance, net income will benefit from capital gains of more than CHF 1.5 billion from the divestments in Brazil and India. This one-off effect will be partially dampened by an outstanding legal settlement of approx. USD 778 million (for more details see the 'ESG factors' section). Also, the half-year numbers show improving results at downstream levels (see table 3).

Table 3: The development of business of Holcim Ltd in H1 2022 I Source: Half-Year Report 2022,

In million CHF	H1 2021	H2 2022	Δ
Net Sales	12,556	14,681	16.9%
Recurring EBIT	1,983	2,173	9.6%
EBIT	1,794	2,067	15.2%
EAT	1,072	1,302	21.4%

Table 4: The development of business of Holcim Ltd in 9M 2022 I Source: Q3 Trade Update 2022 – Media release

In million CHF	9 M2021	9M 2022	Δ
Net Sales	19,842	22,725	14.5%
Recurring EBIT	3,516	3,724	5.9%

Holcim has mastered this highly challenging year so far, but the prospects for the coming year are gloomy due to persistently high raw material prices and high inflation rates, as well as an impaired economy. In particular, tighter market funding conditions to curb inflation and underlying uncertainty in consumer confidence with regard to the economic consequences could have a negative impact on the construction sector in longer term. For 2022, the IMF currently expects a global GDP of 3.2% (2021: 6.0%), expecting further to decline to 2.7% in 2023. For the euro area, Holcim's currently second largest sales market (for more details see 'Structural risk'), we expect GDP to rise by 3.2% in 2022 in the wake of government support, while for 2023 we forecast the economy to be nearly stagnant (+0.2%). For the U.S., Holcim's most important country with regard to sales, we also expect a significant economic growth slowdown, although a GDP decline should be avoided. Nevertheless, we expect continuing rising interest rates from the Fed, but in smaller steps than is currently the case (For more details see our economic briefs "Heading for recession"[4]). Nonetheless, transnational government measures to stimulate the economy can also be expected in the coming year, so that the potential negative impact on the construction sector may be partially mitigated. In addition, it remains to be seen how the economy will develop in line with the geopolitical situation, and what the actual impact will be, as it is currently characterized by a high degree of uncertainty.

In view of the strong results, the Company has raised its Group outlook for 2022 for the second time during the current year. Holcim now expects net sales growth of 12% on a like-for-like basis (H1 2022: 10%) and mid-single digit growth on its recurring EBIT also on a like-for-like basis (H1 2022: indication limited to positive), thereby reaching a debt leverage ratio of approx. 1.0x for 2022. In 2021, Holcim's debt leverage ratio was 1.4x; however, the generally unfavorable development of financial market conditions in connection with the worsening macroeconomic environment could dampen Holcim's promising development and expansion path in the medium to

[4] Published on CRA website on 23-11-2022: www.creditreform-rating.de.

long term. Nevertheless, the Company is currently coping excellently with the challenging conditions and is confident of its further business development. For the time being, we see Holcim's development as positive, but would also highlight some uncertainty with regard to further market development.

Structural risk

The holding company Holcim Ltd is registered in Rapperswil-Jona, Canton of St. Gallen, Switzerland, under Swiss law for an indefinite period, and has direct and indirect interests in numerous regional subsidiaries worldwide. Its origins date back to 1912, and the Company has been listed on the stock exchange since 1958. As of 31 December 2021, the largest single shareholder is Thomas Schmidheiny, holding 8.4% of the Company's shares, with approx. 80.7% of the shares in free float, held largely by institutional investors.

Measured by sales, Holcim was the second-leading building material producers worldwide in 2021[5], operating in 60 countries and with a workforce of approx. 70,000. Its competitors include Cement Roadstone Holding (Ireland, sales of EUR 29.3 billion), Anhui Conch Cement (China, EUR 21.4 billion), and HeidelbergCement (Germany, EUR 17.6 billion), of which the latter is also a rating object in CRA's portfolio (Unsolicited corporate update rating at 08.11.2022: BBB / stable)[6]. The difference of at least one notch to HeidelbergCement's unsolicited corporate rating in particular derives from two factors: The result of Holcim's financial ratio analysis overall is slightly stronger, in particular with regard to leverage ratios and liquidity. The degree of diversification and the concept of the business model prove to be more resilient under highly challenging market conditions. Heidelberg's business development has been significantly impacted by the consequences of the COVID-19 pandemic, as well as currently by the inflationary environment, reflected in its outlook.

In terms of its organizational structure, Holcim's operations are organized into five geographical segments: North America, representing the Company's largest sales market (net sales contribution in 9M 2022: 40%[7]), Europe (32%), Latin America (10%), Asia Pacific (9%), and Middle East Africa (9%) and North America (27.7%). The main business divisions are Cement (net sales contribution in 9M 2022: 52.1%), Ready-Mix Concrete (19.0%), and Solutions and Products (18.7%) and Aggregates (10.2%). The Cement division, accounting for the largest net sales contribution, includes all activities related to the manufacturing and distribution of cement, ranging in type from classical Portland and masonry cements to special products for different environments, such as those with harsh natural conditions. The Aggregates division focuses on the production, processing and distribution of aggregates such as crushed stone, gravel and sand, which are used as raw materials in concrete production, masonry and asphalt, as well as a base materials for roads, landfills and buildings. Recycled aggregates from concrete are an alternative that is gaining in importance. Ready-Mix Concrete comprises the production and distribution of a range of ready-mix concretes including self-filling and self-levelling concrete, architectural, insulation, and pervious concrete, as well as low-carbon concrete solutions. The Solutions & Products division offers contracting services, including construction, energy efficiency, repair and refurbishment as well as products such as asphalt, mortars and ultra-high specific products.

5 Source: Statista "Sales of building materials manufacturers worldwide in 2021".

6 For more details, see the unsolicited corporate issuer rating report of HeidelbergCement AG puplished on CRA website 08.11.2022: www.creditreform-rating.de.

7 The following figures are on pro forma basis.

While for decades the focus was on the production of cement, the emphasis is gradually shifting as a result of climate change and the associated change in awareness. Solutions for more sustainable buildings in terms of energy efficiency which utilize thermal insulation and cooling, as well as low-carbon material, are coming to the fore. Holcim plans to become a global leader in energy-efficient roofing systems and innovative and sustainable building solutions, leading to a greater diversification adjusted to changing requirements. Through its expansion and innovation in green materials, and solutions coupled with structure optimization, especially regarding corporate support functions, and based on its financial strength, the Company plans to achieve net sales growth like-for-like of 3-5% and over-proportional increase on like-for-like basis in its recurring EBITDA annually, and a net financial debt / recurring EBITDA ratio under 1.5x by 2025,as well as structure optimization, especially regarding corporate support functions.

Based on publicly available information, we assume sufficiently developed structures with regard to risk management, accounting, and controlling, as well as regarding other administrative and operational functional areas. The widespread geographical diversification and size of the Company require a high degree of organization, and entail risks associated with local legal, political, cultural and social particularities, as well as risks related to access to resources. We assume that the Group's structure supports the implementation and monitoring of its strategy in accordance with the specific legislation and regulatory frameworks in the countries in which the Group operates. We consider its ambitious strategy as necessary for maintaining its globally leading market position in line with the ever-increasing requirements that the highly CO_2-emitting industry is facing; however, this implies integration and financial risks and still R&D efforts to reach its targets. Despite these risks, we assume only average industry risks, given the Company's many years of experience and positive track record.

Business risk

The Company's global alignment makes it dependent on a healthy global economy. Political, economic, and social instabilities in significant individual markets or regions can negatively affect the Group's activities as a whole, despite its generally strong position based on its broad geographical diversification. Currently, the consequences of the Russia-Ukraine war are significantly impacting Europe's economy, as well as other parts of the world due to global interdependencies. The demand for construction materials is driven by the development of the construction sector, which is very sensitive to overall economic cycles as well as to levels of expenditure for residential, industrial, and infrastructure construction. Construction services could suffer due to rising interest rates and a possible recession in some European countries. A global economic slowdown in the wake of high inflation, ongoing supply bottlenecks, and increased uncertainty dampens private consumption.

The production of cement implies a range of environmental concerns, such as high energy-consumption in mining, manufacturing and transporting cement, as well as concerns related to air pollution. The Group is required to comply with the environmental regulations in the countries where it operates, especially those governing greenhouse gases emissions, the discharge of materials into the environment, use of hazardous substances, as well as health and safety laws. In the European Union, the cement industry is subject to a cap and trade scheme on CO_2-emissions. Noncompliance with environmental regulations, or failure to meet its obligations to surrender CO_2-allowances, can incur penalties which could potentially have a significant negative impact on the Company's financials and cost structure.

Due to the energy-intensity of its operations, the Group is exposed to risks related to energy prices and the availability of different fuels. The soaring prices for energy, raw materials, and transport linked to the Russia-Ukraine war are having a noticeable impact on the industry; however, as described above, Holcim has so far successfully been able to cushion these effects, primarily due to its highly diversified business model. Although energy prices appear to have passed their temporary peak and are gradually falling, they are far from stable.. In order to mitigate the negative effects of price increases and supply bottlenecks, Holcim uses a variety of energy sources, hedging, long-term supply agreements, and technological improvements aimed at reducing the proportion of clinker, as well as its substitution through mineral components.

Based on the commodity nature of building material products and to the relatively low degree of product differentiation, the market for cement, aggregates and other construction materials and services is highly competitive. The competition in these segments is based primarily on price and only to a lesser extent on quality and services. Although Holcim is one of the largest cement manufacturers, the Company faces intense competition in most of its regional markets. In order to secure its market position, the Company sets itself apart with complementary industry-related services supplementing its core business. As a key growth driver, Holcim focuses on sustainability and innovation. Besides offering sustainable roofing systems, the Company developed a new lightweight floor system, reducing material use by 50% and CO_2 by up to 80%. This cutting-edge-technology will enable Holcim to offer complete sustainable building solutions from roof to foundation. The expanded range of services could attract green infrastructure projects financed by public funds in order of economic stimulus packages.

Global trends such as the growing world population, urban growth, demand for better living standards, and energy efficiency are reasons for the increasing demand for building materials and construction services, creating overall positive framework conditions for Holcim's business in the long-term, despite stringent environmental regulation. Based on the deteriorating market conditions paired with high uncertainty, we consider the business risk to be moderate due to the Company's strong market position, geographical and product diversification, and the earnings capacity of its business model, which creates additional competitive advantages as well as the ability to comply with strict environmental protection requirements.

Financial risk

CRA has adjusted the original values in the financial statements for purposes of the financial ratio analysis. We have deducted only 50% of the goodwill reported in the balance sheet from equity, as we assume a certain recoverability of the balance sheet item. The following descriptions and indicators are largely based on CRA adjustments.

We consider the financing structure of the Group to be solid and well-balanced, taking into consideration its solid adjusted equity ratio of 48.0% as of 31 December 2021 (2020: 51.2%), and the predominantly long- and medium-term character of its liabilities, which accounted for 64.0% of total debt. In addition, the solid asset coverage ratio (excluding medium-term debt) of 99.0% emphasizes the good balance sheet structure. The equity ratio deteriorated slightly compared to the previous year, as debt rose disproportionately to equity. Analytical equity increased by approx. CHF 1.244 million compared to 2020, amounting to CHF 25.033 million (2020: CHF 23,790 million), mainly due to the generated net income in 2021 and remeasurements (CHF 693 million), dampened in particular by dividend payout (CHF 1,365 million).

Analytical total debt increased by CHF 4,377 million, amounting to CHF 27.092 (2020: CHF 22,715 million) mainly as result of a rise in financial debt of CHF 3,235 million, mostly with non-current character,[8] and a rise of non-financial debt of roughly CHF 1,139 million compared to 2020. In 2021, issues amounting to CHF 4.220 million were carried out in connection with the increase in acquisitions, amounting to CHF 3,409 million (2020: CHF 135 million). In general, the Group finances its operations and acquisitions through operating cash flows and borrowing facilities, particularly through bonds from capital markets (94.9% of the reported financial debt as of 31 December 2021). The average financial debt maturity was seven years as of 31 December 2021.

Net financial debt amounted to CHF 9,977 million (2020: CHF 8,483 million), up 17.6%, however with the net financial debt / recurring EBITDA ratio remaining at a solid level of 1.4x (2020: 1.4x). CRA's key ratio net total debt / EBITDA adj. even improved slightly from 3.43x to 3.31x due to the improved operating performance of Holcim. For 2022 the Company targets a debt leverage ratio of 1.0x, supported by cash proceeds of USD 7.3 billion from divestments in Brazil and India. The cash proceeds will be used for further acquisitions and a share buyback program in the amount of up to CHF 2 billion, while at the same time maintaining its solid balance sheet structure. Due to the share buyback program starting in November 2022, the Company plans to repurchase up to 40 million shares by May 2023.

In the first half of 2022, the reported total debt increased further from CHF 29,411 million to CHF 32,258 million, up 9.7% inter alia due to issuance of bonds amounting to approx. CHF 1.7 billion. Despite better operating performance, the cash flow from operating activities was 21.0% lower compared to the same period of the previous year, amounting to CHF 1,151 million (H1 2021: 1,457), largely due to higher inventory as a result of inflation. Both negative effects will be more than offset by the significant additional cash inflow from the divestments in the second half of the year, also reflected in the positive outlook for net financial debt / EBITDA. However, leverage becoming detrimental to the equity ratio could prevent a rating upgrade.

The Company's liquidity position is also convincing, with abundant reserves. As of 30 June 2022, Holcim's secured liquidity comprised more than CHF 9 billion in cash and undrawn committed credit lines, covering current financial liabilities roughly 2.8 times. In addition, the Company has commercial paper programs of USD 2 billion and approx. EUR 6 billion for the purpose of covering short-term liquidity needs. As of 31 December, 2021CHF 340 million from these programs had been drawn.

With regard to the inherently high capital intensity of its assets (2021: 72.2%), which is customary in the industry, ongoing capital expenditure is required. In 2021, capex amounted to CHF 1,420 million (2020: CHF 1,026 million). Taking into consideration the Company's strong cash generation capacity, with a cash flow from operating activities of CHF 5.0 billion in 2021, an average value over the last four years of roughly 4.4 billion, its cash reserves and the considerable volume of committed credit lines, the Company has comfortable financial headroom to fund the necessary capex. The Company's financial capacity is constrained by its dividend payouts (payout ratio of 45.6% in 2021) and occasional share-buybacks, as well as capital-intensive acquisitions. However, Holcim aims to maintain its financial strength, keeping its financial debt ratio low, and its path of transformation has benefited its financials and, above all, its ability to withstand crises, as described above.

Despite interest and the energy and commodity price risks, we do not see any overall significant short or medium-term financial risks for Holcim that might endanger the Company's financial sustainability. The Company has well-balanced and diversified funding sources at its disposal and generates solid operating cash flows to meet its investments. However, a deterioration of

[8] Non-current financial debt increase amounted to CHF 2,804 million and current to CHF 431 million.

Holcim's financials in connection with an economic slowdown, or rising leverage due to Holcim's path of expansion, could have a dampening impact on the rating assessment.

We consider the short-term financial risk to be low and the medium-term financial risk to be moderate. The impact of the rise in interest rates remains to be critically observed, both in direct relation to Holcim but also in its market environment.

Issue rating

Further issuer ratings

In addition to the rating of Holcim Ltd the following issuer and its issues (see below), have been rated.

- Holcim Finance (Luxembourg) S.A.

Due to the corporate, strategic, liability, financial, economic and performance-related interdependency of the aforementioned subsidiary (which is direct 100% subsidiary of Holcim Ltd and which have been consolidated into the Group annual accounts) we derive the unsolicited issuer rating of Holcim Finance (Luxembourg) S.A. from the unsolicited issuer rating of Holcim Ltd and set it equal to its rating of BBB+ / positive. It is essential that the parent company acts as guarantor of the liabilities assessed here.

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Holcim Finance (Luxembourg) S.A. and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 03 August 2022. This EMTN programme amounts to EUR 15 billion. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of control clause and a cross default mechanism.

We have provided the debt securities issued by Holcim Finance (Luxembourg) S.A. with a rating of BBB+ / positive. The rating is based on the corporate rating of Holcim Finance (Luxembourg) S.A. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA.

Overview

Table 5: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Holcim Ltd	01.12.2022	BBB+ / positive
Holcim Finance (Luxembourg) S.A.	01.12.2022	BBB+ / positive
Long-term Local Currency (LC) Senior Unsecured Issues	01.12.2022	BBB+ / positive
Other	--	n.r.

Table 6: Overview of 2022 Euro Medium Note Programme I Source: Base Prospectus dated 03.08.2022

Overview of 2022 EMTN Programme			
Volume	EUR 15,000,000,000	Maturity	Depending on respective bond
Issuer /Guarantor	Holcim Ltd (Guarantor) Holcim Finance (Luxembourg) S.A. (Issuer)	Coupon	Depending on respective bond
Arranger	BNP PARIBAS	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes that will be issued by Sanofi S.A. and that have similar conditions to the current EMTN programme, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Financial ratio analysis

Table 7: Financial key ratios |Source: Holcim Ltd annual report 2018-2021, structured by CRA

Asset structure	2018	2019	2020	2021
Fixed asset intensity (%)	75.78	74.35	74.90	72.23
Asset turnover	0.52	0.53	0.47	0.56
Asset coverage ratio (%)	70.47	92.41	92.60	72.97
Liquid funds to total assets	4.84	8.12	11.17	12.83
Capital structure				
Equity ratio (%)	47.36	51.66	51.16	48.02
Short-term debt ratio (%)	20.62	17.88	17.58	18.70
Long-term debt ratio (%)	6.05	17.04	18.21	4.68
Capital lock-up period (in days)	45.90	44.72	48.45	50.94
Trade-accounts payable ratio (%)	6.64	6.40	6.61	7.18
Short-term capital lock-up (%)	23.72	19.46	19.32	19.61
Gearing	1.01	0.78	0.74	0.82
Leverage	2.16	2.02	1.94	2.02
Financial stability				
Cash flow margin (%)	12.73	17.75	17.28	18.87
Cash flow ROI (%)	6.72	9.27	8.60	9.71
Total debt / EBITDA adj.	5.57	4.36	4.44	4.39
Net total debt / EBITDA adj.	5.06	3.63	3.43	3.31
ROCE (%)	7.02	8.73	8.70	11.01
Total debt repayment period	9.14	4.54	4.25	4.88
Profitability				
Gross profit margin (%)	67.89	68.53	69.31	67.69
EBIT interest coverage	2.79	4.05	4.44	6.51
EBITDA interest coverage	5.11	7.04	8.42	10.60
Ratio of personnel costs to total costs (%)	7.98	7.96	7.80	7.30
Ratio of material costs to total costs (%)	32.11	31.47	30.69	32.31
Cost income ratio (%)	90.31	87.17	87.91	86.17
Ratio of interest expenses to total debt (%)	3.50	3.46	2.78	2.11
Return on investment (%)	4.88	6.28	5.44	6.05
Return on equity (%)	7.02	10.02	7.98	11.23
Net profit margin (%)	6.26	9.40	8.65	9.99
Operating margin (%)	9.72	12.97	12.10	13.85
Liquidity				
Cash ratio (%)	23.45	45.37	63.47	68.55
Quick ratio (%)	80.77	107.22	109.93	114.33
Current ratio (%)	117.43	143.50	142.74	148.50

Appendix

Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 8: Corporate Issuer Rating of Holcim Ltd

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	08.05.2019	14.05.2019	Withdrawal of the rating	BBB+ / stable

Table 9: Corporate Issuer Rating of Holcim Finance (Luxembourg) S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	08.05.2019	14.05.2019	Withdrawal of the rating	BBB+ / stable

Table 10: LT LC Senior Unsecured Issues issued by Holcim Finance (Luxembourg) S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	08.05.2019	14.05.2019	Withdrawal of the rating	BBB+ / stable

Regulatory requirements

The rating[9] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

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

A management meeting did not take place within the framework of the rating process.

[9] 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 documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Christina Sauerwein	Lead-analyst	C.Sauerwein@creditreform-rating.de
Christian Konieczny	Analyst	C.Konieczny@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Stephan Giebler	PAC	S.Giebler@creditreform-rating.de

On 1 December 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 2 December 2022. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for 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.

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 at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

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.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

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.

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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