

# P R E S S   R E L E A S E

from ASSA ABLOY AB (publ)

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## **ASSA ABLOY rated 'A-/A-2' – Standard & Poor's predict stable outlook**

Standard & Poor's today assigned its single-'A'-minus long-term and 'A-2' short-term corporate credit ratings to Sweden-based lock manufacturer ASSA ABLOY AB. At the same time, Standard & Poor's also assigned the following ratings:

- A rating of single-'A'-minus was assigned to the Swedish krona (Skr) 3.0 billion (\$286.1 million) Swedish medium-term note program of related entity ASSA ABLOY Financial Services AB and ASSA ABLOY AB (guaranteed by ASSA ABLOY AB).
- A rating of 'A-2' was assigned to the Skr3.0 billion Swedish commercial paper program of ASSA ABLOY Financial Services AB and ASSA ABLOY AB (guaranteed by ASSA ABLOY AB).
- A rating of single-'A'-minus was assigned to the €1.2 billion (\$1.1 billion) unsecured multicurrency revolving credit facility of ASSA ABLOY AB, **Assa Abloy Treasury S.A.**, and ASSA ABLOY Financial Services AB (guaranteed by ASSA ABLOY AB). The loan facility has been given the same rating as the corporate credit rating based on the assumption that there will be no material external debt funding in the group's operating subsidiaries.

The outlook is stable.

The ratings on ASSA ABLOY reflect the group's strong positions in entrenched lock markets, a geographically diverse earnings base, strong cash flows, but also a moderate financial profile. ASSA ABLOY is the world's leading manufacturer of locks, with about 10% of the world market. The group develops, produces, and markets mechanical, industrial, electromechanical, and electronic locks, as well as hotel locks, fittings, exit devices, and accessories. Although slowly consolidating, the global lock industry is highly fragmented; markets are relatively local in nature, reflecting local lock standards. For existing players, market characteristics are generally favorable. Key competitive factors such as brand name, and access to the installed base and distribution channels create high barriers to entry into local markets. Although price competition exists, it is not as keen as in many other industries, reflecting the low value of locks in the overall construction cost and low price awareness among private individuals.

ASSA ABLOY has gradually built up its market positions through a large number of acquisitions since the group was formed in 1994 (through a merger between Assa AB and Abloy Oy), and has leading market positions in several European countries and the U.S. Through the acquisitions ASSA ABLOY has ensured access to established brand names, installed base, and distribution channels in the local markets. Although the lock industry is exposed to general economic conditions and construction activities, cyclicity is moderate,

reflecting the fact that about one-half of sales is made up of replacements. ASSA ABLOY's broad geographical presence further mitigates effects from regional economic downturns, although the U.S. accounts for about 45% of sales.

ASSA ABLOY's operating margins have gradually improved to about 18%-19% in recent years, from about 10% in 1994. This largely reflects the successful integration of acquired companies, and synergy benefits from the enlarged group through cross-selling and internal benchmarking. Cash flow generation is strong and capital expenditures low, reflecting the low capital intensity of the business. As a result, funds from operations normally cover capital expenditures by about 3 times (x). Large acquisitions over the past few years have, however, resulted in increased debt levels, despite equity injections. At the end of June 2001, net debt to capital was about 52%.

## **STABLE OUTLOOK**

ASSA ABLOY is expected to continue to grow through acquisitions. Although this might lead to the balance sheet being temporarily stretched, acquisitions are discretionary, and the company's strong free cash flow represents a mitigating factor. Standard & Poor's also expects that equity will be used to part-finance any large transaction to keep financial measures within expectations for the rating. EBITDA net interest coverage is expected to be about 6x on average.

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*The ASSA ABLOY Group is the world's leading manufacturer and supplier of locking solutions dedicated to satisfying end-user needs for security, safety and convenience. Current sales for the Group are in excess of SEK 20 billion (approximately USD 2 billion) and the number of employees is approximately 25,000.*