

**Rating Action: Moody's assigns first-time Baa2 issuer rating to Metso Outotec; Stable outlook**

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Stockholm, October 08, 2019 -- Moody's Investors Service ("Moody's") has today assigned a first-time Baa2 Long-Term Issuer Rating to Metso Outotec, a Finland-based manufacturer of mining and aggregates equipment, to be formed through the merger between Metso Corporation (Metso, Baa2 Stable) Minerals Division and Outotec Oyj. The outlook is stable.

The merger is estimated to be completed April 1, 2020, pending approvals by Metso's and Outotec Oyj's shareholders as well as customary regulatory approvals.

"The assigned Baa2 rating reflects our positive view of the merger, establishing a company that will have a strong and comprehensive offering of solutions to the mid and downstream value chain within minerals processing", says Daniel Harlid, Moody's lead analyst for Metso Outotec.

#### RATINGS RATIONALE

The Baa2 long-term issuer rating of Metso Outotec reflects as positives its (1) good market position and comprehensive solutions offering within the mid and downstream mining and aggregates value chain; (2) high share of aftermarket sales, amounting to over 50% of 2018 revenue pro forma for the merger which should support relative stability of profitability through the cycle; (3) diversified revenue base in terms of both geography and commodity; (4) meaningful exposure to aggregates, a sector that historically has behaved somewhat countercyclical to the traditional mining sector and (5) firm commitment to maintaining an investment grade rating, demonstrated by Metso's track record of de-risking its balance sheet and reflected in its Moody's-adjusted debt/EBITDA of 1.6x, as of June 2019.

However, the rating is constrained by the company's (1) somewhat narrow end market exposure, as 55% of revenue is derived from the highly cyclical mining sector; (2) somewhat low profitability compared to peers within the rating category, however a reflection of the struggling Metals, Energy and Water (MEW) segment which is expected to be turned around over the next years; (3) risks related to complex project business and (4) initially low single digit free cash flow/debt ratio due to Metso's historical low capital expenditure levels.

#### LIQUIDITY

Moody's views Metso Outotec's liquidity to be strong, with sources including an opening cash balance expected as of 1 January 2020 of €277 million and a revolving credit facility (RCF) with a total available amount of €600 million. Furthermore, Moody's expects funds from operations (FFO) to amount to €385 million in 2020. Main uses include capital expenditures spend of 1.5%-2.0% of sales annually, equivalent to €80 - €100 million, and working capital outflows of €30 - €40 million annually. As the dividend policy is yet to be decided on, a 50% pay-out ratio has been modelled, which is in line with Metso's current dividend policy.

#### RATING OUTLOOK

The stable outlook is based on our expectations of a continued healthy business environment related to mining capex for the next 12-18 months, translating to a growth forecast of around 7% during the period. This, together with some revenue and cost synergies, should translate to a slowly increasing Moody's-adjusted EBITA margin, from 10% in 2019 to 11% in 2020. The outlook also factors in an improving Moody's-adjusted FCF/debt ratio above 9% in our forward view as capex returns to more normal levels of around 1.5% of sales. In addition, adjusted debt to EBITDA is expected to be maintained below 2.5x through the cycle.

#### WHAT COULD CHANGE THE RATING UP/DOWN

Positive rating pressure would build if Metso Outotec would show a Moody's-adjusted debt/EBITDA close to or below 2.0x and free cash flow/debt at or above 10%, accompanied by a double-digit EBITA-margin.

Negative pressure on the ratings would result from a Moody's-adjusted debt/EBITDA above 3.0x and a

Moody's-adjusted EBITA margin decreasing below 10%. Additionally, a prolonged period of negative free cash flow generation would also exert negative ratings pressure.

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Manufacturing Companies published in June 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### COMPANY PROFILE

Headquartered in Helsinki, Finland, Metso Outotec will be the name of the combined group consisting of Metso's Minerals segment and Outotec Oyj, employing 15,600 employees globally. Post the proposed merger, the group's main revenue source will be a comprehensive offering of equipment and services to the mid- and downstream value chain of minerals and aggregates processing. Pro forma for 2018, the group generated revenue of €4.2 billion and an adjusted EBITA €369 million.

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Daniel Harlid  
Asst Vice President - Analyst  
Corporate Finance Group  
Moody's Investors Service (Nordics) AB  
Norrandsgatan 20  
Stockholm 111 43  
Sweden  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Christian Hendker, CFA  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:

Moody's Investors Service (Nordics) AB  
Norrandsgatan 20  
Stockholm 111 43  
Sweden  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454



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