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CREDIT OPINION
29 February 2024

Update

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RATINGS

Akzo Nobel N.V.

Domicile	Amsterdam, Netherlands
Long Term Rating	Baa2
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Akzo Nobel N.V.

Update of key credit considerations

Summary

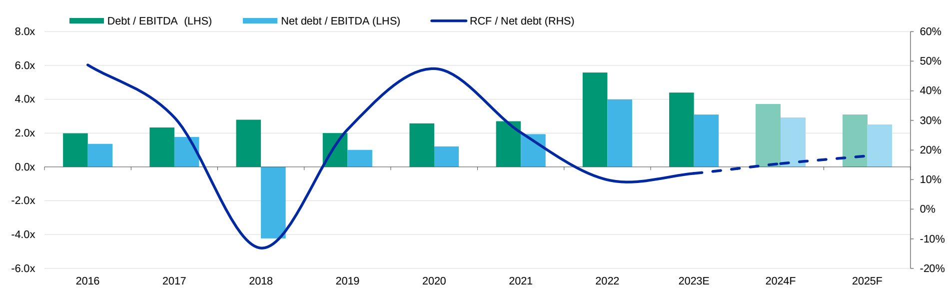
Akzo Nobel N.V.'s Baa2 rating reflects its strong regional and global positions in the markets for paints and coatings. The company's rating is constrained by its high Moody's-adjusted gross leverage, which exceeds our expectation for the Baa2 rating and positions the company weakly in the rating category.

Based on preliminary calculations, AkzoNobel's leverage decreased to 4.4x in 2023 after peaking at 5.6x in 2022. We expect moderate volume growth, continued support from lower-priced raw materials and further reduction in gross debt to support a reduction in leverage to 3.5x-4x over 2024. We expect further leverage decrease to around 3x in 2025 as the company continues to reduce its gross debt and its EBITDA generation benefits from the cost savings measures it initiated during 2023.

AkzoNobel's intention to maintain a strong investment-grade rating and to attain its stated net leverage target of 2x (company defined) continue to support its rating. Furthermore, the Baa2 rating reflects a strong business profile, with a leading position in the decorative paint and coatings market; and low capital intensity, which supports it capacity to generate free cash flow (FCF).

Exhibit 1

We expect AkzoNobel's leverage to have peaked, but leverage reduction will remain slow



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
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E = Estimated 2023 figures based on preliminary reporting.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Credit strengths

» Strong business profile, underpinned by leading market positions and balanced geographical exposure between developed and emerging economies

» Improved underlying operating performance, driven by comprehensive restructuring and efficiency initiatives

» Management's commitment to maintain a strong investment-grade rating

» Track record of maintaining high levels of cash on balance sheet

Credit challenges

» High leverage and need to further reduce gross debt

» Inflated short-term debt maturities

» Constraints on organic growth, reflecting the maturity of the European market and the company's exposure to cyclical end markets

» Event risk because of ongoing sector consolidation

Rating outlook

The stable outlook on AkzoNobel's ratings reflects our expectation that the company will demonstrate its ability to substantially reduce its Moody's-adjusted gross leverage over the next 12-18 months. The stable outlook also reflects our expectation that the company will prudently manage its liquidity, including its short-term debt maturities.

Factors that could lead to an upgrade

» An upgrade of AkzoNobel's rating is currently unlikely because of the improvement in credit metrics necessary to sustain a higher rating. Positive pressure could result if the company's Moody's-adjusted gross leverage falls below 2.5x on a sustained basis. Retained cash flow/net debt consistently in the mid-20s in percentage terms and FCF/debt well above 10% would also support a rating upgrade. Furthermore, an upgrade would require a clear commitment to achieve and defend a higher rating.

Factors that could lead to a downgrade

» A failure to reduce leverage towards 3x Moody's-adjusted gross debt/EBITDA or a lack of commitment to reduce leverage would be negative for the rating. Retained cash flow/net debt remaining below 20% would also result in a rating downgrade.

Key indicators

Exhibit 2

Akzo Nobel N.V.

(in € billions)	2018	2019	2020	2021	2022	2023E
Revenue	9.3	9.3	8.5	9.6	10.8	10.7
EBITDA Margin %	12.9%	15.3%	15.8%	15.6%	10.2%	12.6%
ROA - EBIT / Average Assets	4.8%	6.6%	7.5%	8.5%	5.1%	6.7%
Debt / EBITDA	2.7x	2.0x	2.6x	2.7x	5.6x	4.4x
RCF / Net Debt	-13.1%	26.9%	47.5%	25.9%	9.9%	12.1%
EBITDA / Interest Expense	8.0x	15.2x	16.4x	17.3x	8.7x	6.1x
EBITA / Interest Expense	6.1x	12.0x	12.6x	2.5x	5.9x	4.8x
FCF / Debt	4.8%	-6.9%	16.6%	-2.4%	-7.2%	6.3%

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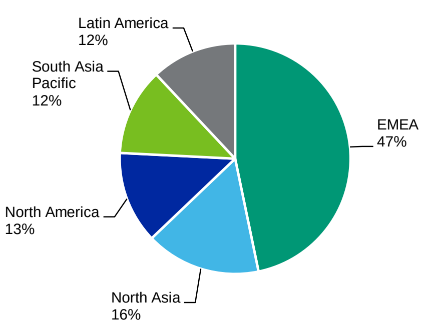
Profile

Akzo Nobel N.V. is a leading producer of paints and coatings. In 2023, it generated total sales of €10.7 billion. The group serves a diversified customer base in all major regions in which it has production facilities, and has an extensive international manufacturing presence. In 2023, it derived 40% of its revenue from decorative paints, 20% from industrial coatings, 13% from powder coatings, 13% from automotive and specialty coatings, and 14% from marine and protective coatings. AkzoNobel's market capitalisation was about €11.8 billion as of 19 February 2024.

Exhibit 3

Balanced regional exposure between developed and emerging economies

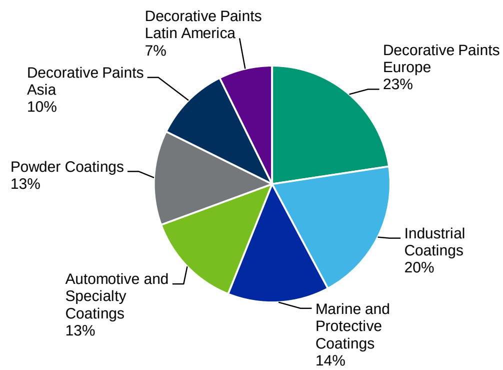
Breakdown of sales by region (2023)



Source: Company reports

Exhibit 4

Breakdown of sales by segment (2023)



Source: Company reports

Detailed credit considerations

Moderate volume growth likely to support EBITDA expansion and leverage reduction in 2024

We expect AkzoNobel's leverage to gradually decline to 3.5x-4x over 2024, which will continue to exceed the leverage level we deem appropriate for its current Baa2 rating. We expect the company to continue to reduce debt during 2024 and its EBITDA generation to be supported by some moderate sequential volume improvements after the company contended with declining volumes and raw material inflation between Q3 2021 and Q2 2023, while benefitting from a deflation of raw material prices in the second half of 2023.

Over the longer term, AzkoNobel deems itself to be well positioned to benefit from the structural growth trend in its decorative paints business, with the emerging markets in Asia and Latin America driving its underlying growth. Furthermore, the company aims to utilise its strong position in the powder coatings market and protective marine coatings to facilitate volume growth.

During Q4 2023, AkzoNobel's working capital as a percentage of sales reached around 15%. Although this is an improvement from the 17% in 2022, these levels continue to be high compared with the levels of 13% in 2021 and 10% in 2020. We expect the company's FCF generation in 2024 to benefit from improved EBITDA generation and, to some degree, a continued focus on working capital management. We expect the company to continue to allocate substantial parts of its FCF to reduce absolute debt.

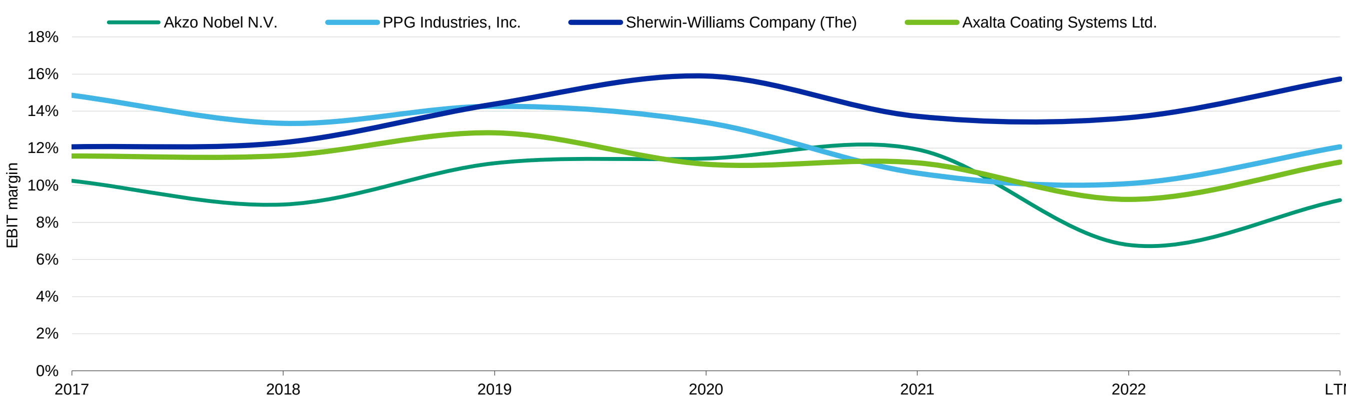
During 2022, the company increased its short-term debt to around €2.5 billion from around €0.8 billion in 2022 to accommodate cash outflow for a working capital build-up, acquisition spending, a share buyback programme and dividend payments. In 2023, it reduced its short-term debt (excluding the current portion of long-term debt) to around €1.8 billion, which continues to be high.

Margin gap with peers has narrowed; continued focus on efficiency gains

Since the sale of its specialty chemicals activities in 2018, AkzoNobel has restructured its organisation and implemented various measures to improve the operating profitability of its paints and coatings businesses. These measures include warehouse and ERP system consolidation, margin management by dropping low-margin businesses and overhead cost reduction. By focusing on making its organisation more efficient, AkzoNobel has made some progress in closing the historical margin gap with peers such as Axalta Coating Systems Ltd. (Ba3 positive), PPG Industries, Inc. (A3 stable) and Sherwin-Williams Company (The) (Baa2 positive), but this gap widened somewhat in 2022.

Exhibit 5

AkzoNobel had narrowed the margin gap with peers but its margin contracted more than peers in 2022



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
For Akzo Nobel, PPG Industries and Axalta Coating Systems, LTM = Last 12 months as of 31 December 2023 and for Sherwin-Williams Company, LTM = Last 12 months as of 30 September 2023.
Source: Moody's Financial Metrics™

In response to persistently low margin levels, the company initiated its "Industrial Excellence" programme, which aims at reducing unit production cost, for example, by product reformulations and footprint optimisation as well as by increasing asset utilisation. In its European decorative paints business, the company operated with a utilisation rate of around 50% in 2023, which it plans to increase to around 70% by 2027. In total, the company guides to around €250 million of efficiency gains and cost savings to be achieved by 2027, with most of the benefits to be realised at a later stage of the programme execution in 2026 and 2027. The company guides to additional costs for the programme implementation of €130 to €150 million and additional capital expenditures of around €150 million in the 2024 to 2026 period.

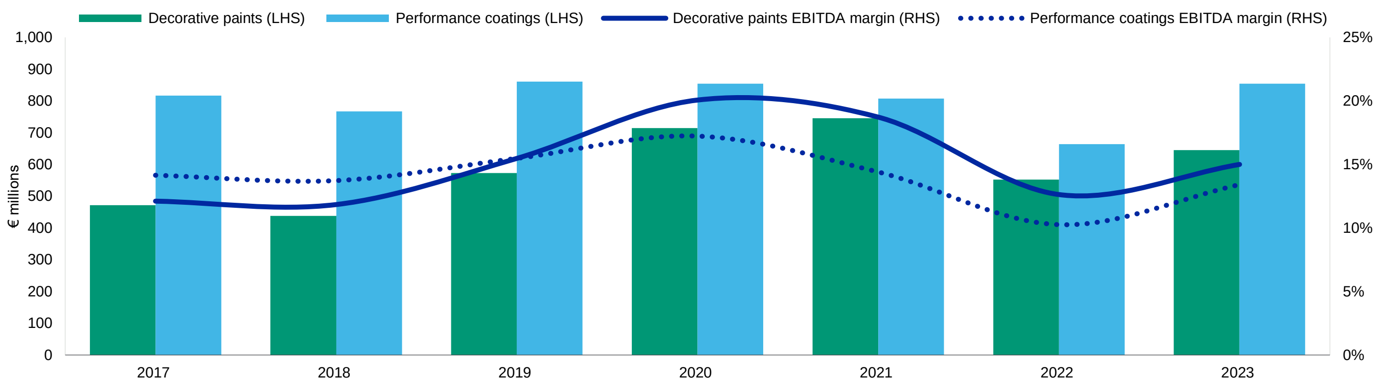
Leading market positions in paint, supported by strong brands, but no presence in key North American market

The decorative paints segment benefits from regional diversification, AkzoNobel's strong brand, and recurring revenue from the renovation market. The segment generated €4.3 billion in sales in 2023, with around 56% of sales derived from the EMEA region, 26% from Asia and 18% from Latin America. However, the company is absent from key markets including North America and Japan.

AkzoNobel typically has number one or two positions in its relevant markets, particularly with Dulux — the leading decorative paint brand in the UK — and Sikkens brands. In August 2023, the group completed the acquisition of the Chinese decorative paints business of Sherwin-Williams, which includes the Huarun decorative paints brand, further strengthening Akzo Nobel's footprint in China. End markets include the building and infrastructure sectors, and around 75% of its segment revenue stems from more stable maintenance, renovation and repair work. However, inventory reduction in the sales channels created demand volatility in the segment recently, and a decrease in discretionary consumer spending can also hurt volume development in the paints segment.

Exhibit 6

Historical EBITDA and EBITDA margin split by segment



Periods are financial year-end unless indicated.
Source: Company filings

The Performance Coating segment accounted for €6.4 billion in sales in 2023, or around 60% of group sales. AkzoNobel benefits from a greater geographical diversity in Coatings than in Decorative Paints, with EMEA accounting for around 40% of its sales followed by the Americas with 30%, and the Asia-Pacific and other regions with 30%. However, this segment also exposes the company to more cyclical end markets. The company primarily sells directly to industrial customers spanning the shipping, oil and gas, automotive repair, transportation and consumer goods sectors. AkzoNobel has the number one position in relevant markets for Powder Coatings, and number one and two positions in Industrial Coatings. Interpon for powder coatings, and Sikkens for specialty and wood coatings are two well-known AkzoNobel-owned brands, among others.

Further acquisition-driven growth and sector consolidation likely

Although we expect the large global painting companies to continue to pursue bolt-on acquisitions rather than transformative M&A, renewed merger/take-over advances by a large peer remain possible. AkzoNobel has been supplementing organic growth by making bolt-on and medium-sized acquisitions, which we expect to continue. In 2022, AkzoNobel closed the acquisition of Orbis, a Colombia-based paints and coatings company with presence in 10 countries in South America, Central America and the Antilles and consolidated revenue of around €460 million in 2022. The company also intended to strengthen its African footprint by acquiring Kansai Paint Africa for an enterprise value of around €500 million. However, this acquisition was cancelled following an antitrust review and the company has communicated to allocate the capital earmarked for the acquisition to debt reduction instead.

The paint and coatings industry has witnessed large-scale consolidation, mostly during 2017, such as Sherwin-Williams' acquisition of Valspar and the subsequent disposal of Valspar's industrial wood coatings business to Axalta, as well as PPG's takeover attempts of AkzoNobel, merger talks between Axalta and AkzoNobel that ultimately failed, and Nippon Paint's negotiations to merge with Axalta.

ESG considerations

Akzo Nobel N.V.'s ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score

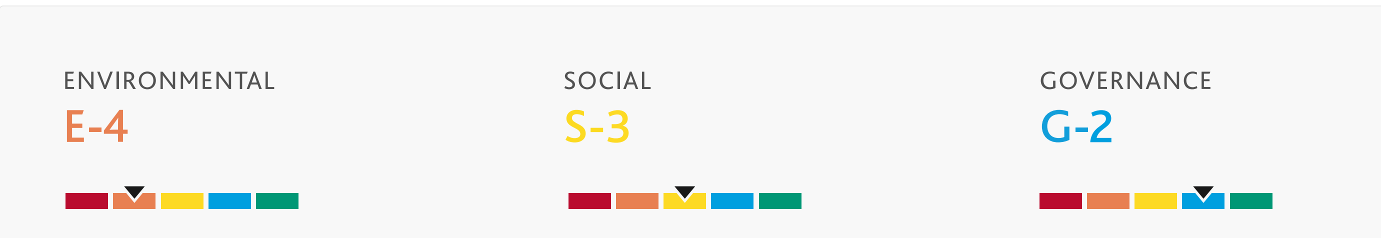
CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

CIS-2. Akzo Nobel's ESG credit impact score is neutral to low (**CIS-2**), reflecting the company's strong governance, which helps to mitigate environmental and social risks.

Exhibit 8
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

E-4. Akzo Nobel's credit exposure to environmental risks (**E-4**) reflects exposure to high Waste & Pollution risks related to the volatile organic compounds in its solvent-based paints and coatings. We note that in particular the portion of water borne decorative paints has increased substantially over time. Akzo Nobel has moderate risk in other environmental categories: its geographical diversification helps mitigate exposure to Physical Climate risk and risks from Carbon Transition are low owing to the company's low scope 1 and 2 CO_2 footprint.

Social

S-3. Akzo Nobel is exposed to social issues that carry moderately negative credit risks. On the one hand, paints and coatings producers are largely formulators, resulting in lower Health & Safety and Responsible Production risks when compared to the overall chemical sector. On the other hand, risks associated with Customer Relations are moderate and therefore higher than the sector. This takes into account the direct consumer exposure through the company's retail distribution network in some countries.

Governance

G-2. Akzo Nobel exposure to governance considerations. This reflects the commitment to an investment grade rating, the low financial leverage target ratio of 1-2 times net debt/EBITDA (on a reported basis), as well as the high credibility and strong management track record supported by closing of the profitability gap against sector peers. The company has made voluntary contributions to its pension plans and used divestiture proceeds to repay debt. The company's strategy encompasses bolt-on and mid-sized acquisitions that reduces risks associated with large-scale M&A.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

AkzoNobel's liquidity remains supported by likely annual funds from operations of around €950 million, and cash and cash equivalents of around €1.7 billion (including short-term investments) as of December 2023. The company has access to a €1.3 billion committed revolving credit facility, without any financial covenants, maturing in 2027. However, as of December 2023, the company had short-term debt of around €2.4 billion. We expect the company to reduce its short-term debt maturities to preserve appropriate liquidity over time.

Methodology and scorecard

The principal methodology used in rating AkzoNobel is our Chemicals rating methodology.

The scorecard-indicated outcome for 2023 is Baa3, one notch below the assigned rating. The forward view indicates a Baa2 outcome in line with the actual rating.

Exhibit 9

Chemical Industry Scorecard	Current FY Dec-23E		Moody's 12-18 month forward view	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ billions)	11.4	Baa	12.5 - 12.8	Baa
Factor 2 : Business Profile (25%)				
a) Business Profile	A	A	A	A
Factor 3 : Profitability (10%)				
a) EBITDA Margin	12.6%	Ba	14.5% - 15%	Ba
b) Return on Average Assets	6.7%	B	8% - 10%	Ba
Factor 4 : Leverage & Coverage (30%)				
a) Debt / EBITDA	4.4x	B	2.8x - 3.2x	Baa
b) RCF / Net Debt	12.1%	B	18% - 22%	Baa
c) EBITDA / Interest Expense	5.6x	Ba	9x - 10x	Baa
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa2
b) Actual Rating Assigned				Baa2

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E = Estimated 2023 figures based on unaudited accounts.
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Source: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Appendix

Exhibit 10

Peer comparison

Akzo Nobel N.V

	Akzo Nobel N.V. Baa2 Stable			PPG Industries, Inc. A3 Stable			Sherwin-Williams Company (The) Baa2 Positive			Axalta Coating Systems Ltd. Ba3 Positive		
(in $ millions)	FY Dec-21	FY Dec-22	FY Dec-23E	FY Dec-21	FY Dec-22	FY Dec-23	FY Dec-21	FY Dec-22	LTM Sep-23	FY Dec-21	FY Dec-22	FY Dec-23
Revenue	11,343	11,431	11,415	16,802	17,652	18,246	19,945	22,149	23,030	4,416	4,884	5,184
EBITDA	1,772	1,169	1,342	2,559	2,533	2,961	3,730	4,037	4,672	843	783	893
Total Debt	4,600	6,612	5,883	8,335	8,230	7,509	11,574	12,566	11,939	4,217	4,026	3,878
Cash & Cash Equivalents	1,294	1,580	1,650	1,005	1,099	1,514	166	199	503	841	645	700
EBITDA margin %	15.6%	10.2%	12.6%	15.2%	14.3%	16.2%	18.7%	18.2%	20.3%	19.1%	16.0%	17.2%
ROA - EBIT / Average Assets	8.5%	5.1%	6.7%	8.7%	8.4%	10.3%	13.1%	13.6%	15.6%	6.9%	6.3%	8.1%
EBITDA / Interest Expense	17.3x	8.7x	6.1x	16.0x	11.2x	9.7x	9.5x	8.8x	9.4x	5.5x	4.7x	3.8x
Debt / EBITDA	2.7x	5.6x	4.4x	3.3x	3.2x	2.5x	3.1x	3.1x	2.6x	5.0x	5.1x	4.3x
RCF / Debt	18.6%	7.1%	8.6%	19.2%	15.4%	21.7%	21.2%	19.6%	24.5%	15.1%	14.7%	16.9%

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Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
AKZO NOBEL N.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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