

## ISSUER COMMENT

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## Lanxess AG

Acquisition of IFF's Microbial Control business strengthens global biocide position with moderate impact on leverage

[Lanxess AG](#) (Baa2 stable) on 24 August announced that it would acquire the Microbial Control (biocide) business of [International Flavors & Fragrances, Inc.](#) (IFF, Baa3 negative) for an enterprise value of around €1.1 billion. The proposed transaction is credit positive as it strengthens Lanxess' position in the global biocide market without a material deterioration of credit metrics, despite funding of the transaction with €1.1 billion of debt. The acquisition moves Lanxess' Moody's-adjusted debt/EBITDA to around 3.1x in 2022 and RCF/net debt to the mid 20s (%). We expect a strengthening of metrics back to the requirements for the current rating category once the business has been integrated.

IFF's Microbial Control business (MB) operates two production sites in the US, has normalised sales of around \$450 million and a Lanxess-adjusted normalised EBITDA of around \$100 million. Lanxess expects to benefit from €30 million of synergies after total one-off implementation costs of €30 million in 2022-2024. This prices the transaction at an EV/EBITDA after synergies at 9.6x which looks reasonable for a business with EBITDA margins in excess of 20%. MB is complementary to Lanxess' existing geographical footprint and adds to its exposure in North America. Once MB is integrated into Lanxess' Consumer Protection (CP) segment, CP becomes the most important EBITDA contributor to the group with a pro-forma annualised EBITDA contribution in excess of €400 million.

Lanxess intends to fund the transaction with €1.1 billion of debt. Given (i) the strong performance year-to-date, (ii) the additional EBITDA contributions from its 2021 acquisitions (most recently Emerald Kalama) and (iii) the repayment of its €500 million bond in June 2020, the MB transaction on a pro-forma basis results in a Moody's-adjusted debt/EBITDA 2022e of around 3.1x. We have not taken any contributions from further potential divestitures into account that Lanxess is likely to pursue as it continues to increase its exposure to specialty chemicals.

The sale of IFF's Microbial Control business is credit positive, but does not have an immediate impact on the company's ratings or outlook. We have long viewed this business as non-core and a possible asset sale candidate. IFF has stated that the cash proceeds net of taxes and expenses will primarily be applied to reduce outstanding debt. IFF and prior owner [DuPont de Nemours, Inc.](#) (Baa1 stable) have experienced volatility in the microbial business given exposure to some cyclical sectors such as paints & coatings and building materials. While the loss of annual revenue estimated by the company to be \$440 million and \$85 million EBITDA contribution in 2021 slightly reduces our estimates, the emphasis on debt reduction and focus on integration of the N&B business are important considerations in IFF's credit profile.

The closing of the transaction is expected during Q2 2022. Lanxess might issue bonds still in 2021 to fund the transaction. We will qualitatively take this into account when assessing the increased debt position by adding the pro-forma MB EBITDA contribution.

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