



Rating Action: Moody's changes the outlook on ArcelorMittal to positive from stable; affirms its Baa3 ratings

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Frankfurt am Main, February 19, 2024 -- Moody's Investors Service (Moody's) has today affirmed the Baa3 long-term issuer rating of ArcelorMittal (AM); the Baa3 ratings of its senior unsecured bonds; the (P)Baa3 rating of its senior unsecured MTN programme; its (P)P-3 other short term rating; and its P-3 commercial paper rating. The outlook on AM has been changed to positive from stable.

"Today's change of the outlook to positive primarily reflects the progress AM is making in strengthening of its business profile and structurally improving its profitability, while maintaining positive free cash flow and discipline in capital allocation.", says Martin Fujerik, Moody's lead analyst for AM. "An upgrade to Baa2 would require a further evidence of the structurally improved earnings profile and sustained credit metrics improvements even in the ongoing difficult macroeconomic environment with a downside risk to steel prices.", adds Mr. Fujerik.

RATINGS RATIONALE

Today's rating action mainly reflects the progress AM has made in strengthening of its business profile over the past four years. Since 2020, it has achieved around \$2 billion cumulative cost/mix savings achieved through various commercial and operational initiatives. Additionally, it has exited some assets with higher cash costs, while acquiring companies in countries with high growth potential and globally competitive costs, such as Companhia Siderúrgica do Pecém in Brazil in Q1 2023.

Furthermore, in 2021 AM embarked on an ambitious organic expansion, targeting an EBITDA uplift of \$1.8 billion by the end of 2026. Several of the projects in the pipeline are likely to be commissioned or reach production already this year, with a gradual ramp up of the incremental EBITDA during 2025 and 2026. However, execution risks still exist for some of the key projects, in particular the steel capacity expansion in AM's joint venture in India.

AM has remained disciplined in capital allocation and has funded both the organic investments and the acquisitions without increasing its reported gross debt. While M&A remains a risk factor, Moody's expects that AM will refrain from large transformational deals and is unlikely to meaningfully increase its leverage through acquisitions over the next 12-18 months.

AM's performance in 2023 has been somewhat ahead of Moody's expectations despite the company's specific operational challenges in some of its facilities in Europe and CIS region. The still relatively high steel prices enabled the company to comfortably fund all of its investments from operating cash flow, including those for growth and

decarbonization, and to maintain its credit metrics very strongly positioned in the Baa3 rating.

Deceleration of GDP growth in 2024 could put pressure on steel prices in some countries or regions. AM further demonstrating a structurally improved profitability and cash flow generation, together with a further visibility on the success of its organic expansion, could put upward pressure on the Baa3 ratings.

AM's liquidity is strong. At the end of 2023, it reported around \$7.8 billion of cash and cash equivalents. Furthermore, it had access to an undrawn committed revolving credit facility of \$5.5 billion without maintenance financial covenants. The vast majority of the facility is due in December 2025 and the Baa3 rating assumes that the company will extend the maturity well in advance of its due date. AM's debt maturity profile is well spread.

ESG CONSIDERATIONS

Governance considerations are among the primary drivers for this rating action. AM has remained disciplined in capital allocation and it is improving its business profile without a meaningful increase in leverage, contrary to the agency's previous expectations.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the ratings would build, if (1) AM could sustain its EBIT margin at least 8%; (around 8% in 2023 according to the agency's rough preliminary estimates); (2) its leverage reduced towards 1.5x Moody's-adjusted net debt/EBITDA for a prolonged period of time (roughly 1.5x in 2023); (3) Moody's-adjusted (CFO - dividends) / debt ratio remained at 30% or higher (roughly mid-thirties in % terms in 2023); (4) very strong liquidity could be maintained at all times. An upgrade would be conditional on an expectation of greater resilience to cyclical downturns supported by a financial policy sufficiently conservative to maintain debt metrics through such periods.

Moody's could downgrade AM ratings, if (1) the company's EBIT margin (Moody's-adjusted) weakened to sustainably below 6%; (2) its leverage exceeded 2.5x net debt / EBITDA (Moody's-adjusted) on a sustainable basis; (3) its Moody's-adjusted (CFO - dividends) / debt ratio fell below 20%, (4) liquidity were to deteriorate.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Steel published in November 2021 and available at <https://ratings.moodys.com/rmc-documents/356428>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Luxembourg, AM is one of the world's largest steel companies, with crude steel production of 58.1 million metric tonnes and revenue of around \$68.3 billion in 2023. It has a global footprint, operating in around 60 countries with primary steelmaking facilities in 15 countries.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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