

**Rating Action: Moody's changes outlook on ArcelorMittal's ratings to positive; affirms Ba1 CFR**

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20 May 2021

Frankfurt am Main, May 20, 2021 -- Moody's Investors Service ("Moody's") has today changed to positive from stable the outlook on all ratings of ArcelorMittal ("group"). Concurrently, Moody's affirmed the group's Ba1 corporate family rating (CFR), Ba1-PD probability of default rating (PDR), its Ba1 senior unsecured rating and the senior unsecured rating on its medium-term notes (MTN) programme at (P)Ba1, the short-term rating on its Commercial Paper at NP, and its other short-term rating at (P)NP.

"The outlook change to positive recognizes ArcelorMittal's very strong results for the first quarter of 2021 and our expectation of a highly supportive market environment throughout 2021, at least, supporting a further significant improvement in its credit metrics", says Goetz Grossmann, a Moody's Vice President and Moody's lead analyst for ArcelorMittal. "The achievement of financial ratios in line with an investment grade rating, alongside a prudent financial policy helping to maintain such metrics and a strong liquidity profile could lead to an upgrade in the next few quarters."

#### RATINGS RATIONALE

The change of the outlook to positive was prompted by ArcelorMittal's substantially improved earnings in the first quarter of 2021 (Q1 2021), with company-adjusted EBITDA increasing to \$3.2 billion from around \$1 billion in Q1 2020, and Moody's upward revised earnings forecast for the rest of this year. Besides the strong Q1 2021 results, Moody's acknowledges the group's better than expected cash flow generation, with consistent strong positive Moody's-adjusted free cash flow (FCF) of \$2.4 billion in the 12 months through March 2021 (\$2.3 billion in 2019), albeit partly driven by further working capital reductions and lower capital spending. As a result, the group's reported net debt reduced to \$5.9 billion at the end of March 2021, over \$3.5 billion lower than a year earlier.

ArcelorMittal's ballooning earnings in Q1 2021 were fueled by a rapid rebound in demand of key steel-using industries, driving increased capacity utilization and an unprecedented surge in steel prices since the second half of 2020. As steel prices continue to rise from already record highs in many regions currently, Moody's expects the positive momentum to last for some additional months before easing into 2022. Significantly wider steel spreads through 2021 should, therefore, enable the group's Moody's-adjusted EBITDA to surpass \$12 billion this year, versus \$3.1 billion in 2020, and its Moody's-adjusted EBIT margin to reach 15% (0.2% in 2020). The higher earnings will also boost ArcelorMittal's funds from operations and support Moody's-adjusted FCF of close to \$3 billion in 2021, despite a substantial build-up in working capital, increasing capital spending and moderately higher dividends than last year. ArcelorMittal's credit metrics will, therefore, clearly meet Moody's defined levels for a Baa3 rating in 2021, and likely remain in line with an investment-grade rating also in 2022, as indicated by the positive outlook.

Moody's decision on a possible upgrade over the next 12-18 months will also take into consideration the group's demonstration of a prudent financial policy, including its stance towards increasing dividends and share repurchases. Considering its current guidance of share buybacks to be limited to 50% of surplus FCF (after dividends) and progressively growing base dividends, Moody's expects ArcelorMittal's net debt to further reduce over the next two years. This forecast also rests on the assumption of no larger acquisitions in the foreseeable future. Moody's does not expect ArcelorMittal to materially reduce its gross debt in the coming years, which, however, could accelerate the de-leveraging to sustainably below 3x gross debt/EBITDA (Moody's-adjusted). That said, Moody's assessment of ArcelorMittal's adjusted leverage continues to take into account large debt adjustments relating to guarantees provided for joint ventures (while at-equity accounted income remains unadjusted) and the rating agency's treatment of its mandatorily convertible bonds as debt. The assessment also factors in the group's significantly lower net leverage (Moody's-adjusted net debt/EBITDA), which will reduce to around 1.5x in 2021, and -- if maintained below 2.5x -- would be in line with an investment grade rating.

#### ESG CONSIDERATIONS

The rating action positively incorporates ArcelorMittal's implementation of a conservative financial policy earlier this year, which Moody's expects to allow the group to further reduce its net debt and leverage over the next two to three years.

## OUTLOOK

The positive outlook mirrors strong upward pressure currently building on ArcelorMittal's rating. It indicates a likely upgrade over the next few quarters, if ArcelorMittal's Moody's-adjusted net leverage falls and could be sustained below 2.5x. An upgrade would further require the group to adhere to a prudent financial policy as shown by no excessive increases in shareholder returns and positive free cash flow.

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

Upward pressure on the ratings would build, if ArcelorMittal's (1) profitability improved sustainably, exemplified by Moody's-adjusted EBIT margins of well above 6%, (2) net leverage could be reduced to below 2.5x net debt/EBITDA, on a sustained basis, (3) Moody's-adjusted (CFO - dividends) / debt ratios remained consistently above 20%.

Moody's could downgrade ArcelorMittal's ratings, if (1) its net leverage remained well above 3.5x Moody's-adjusted debt/EBITDA, (2) its Moody's-adjusted (CFO-dividends) / debt ratio fell towards 15%, (3) liquidity were to contract.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Steel Industry published in September 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1074524](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1074524). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## COMPANY PROFILE

ArcelorMittal is one of the world's largest steel companies, with an annual production of over 70 million tons (mt) of crude steel, steel shipments of 69 mt, \$53 billion revenue and company-adjusted EBITDA of \$4.3 billion (8.1% margin) in 2020. The group operates in more than 60 countries worldwide, with steelmaking operations in 17 countries on four continents. The group also operates iron ore and coking coal mines in several geographies for its own consumption and external sales.

ArcelorMittal's largest market is Europe, which accounted for 48% of its sales in 2020 (18% of EBITDA). NAFTA accounted for 23% of sales (10%), Brazil for 11% (21%), Africa and Commonwealth of Independent States (ACIS, Eastern Europe and South Africa) for 10% (10%) and mining for 8% (41%).

## 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 at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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