

## Alfa Laval AB

**Primary Credit Analyst:**

Shivalika Gupta, Frankfurt (49) 69-33-999-208; shivalika.gupta@spglobal.com

**Secondary Contact:**

Marta Bevilacqua, Milan + (39)0272111298; marta.bevilacqua@spglobal.com

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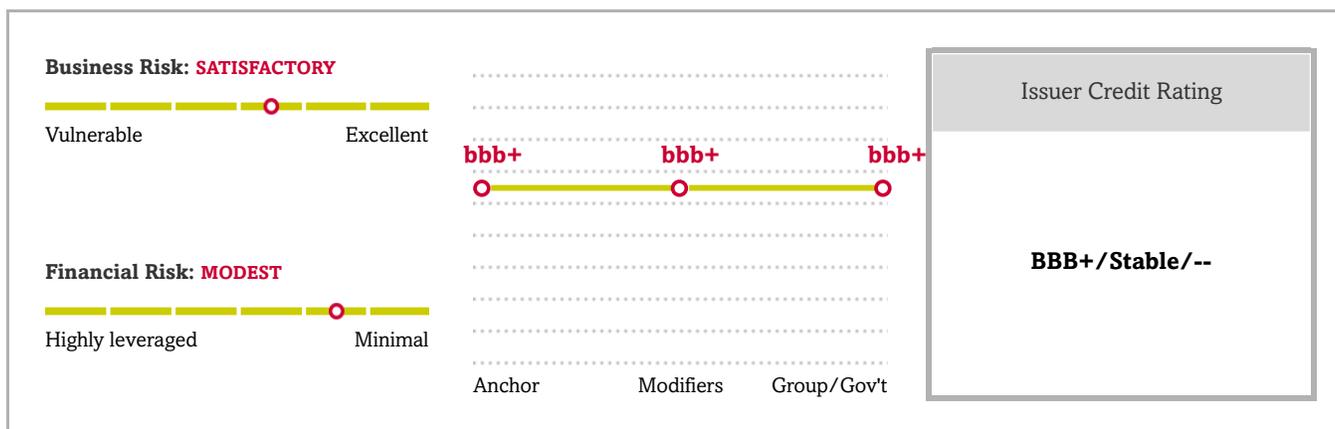
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# Alfa Laval AB



## Credit Highlights

### Overview

Key strengths	Key risks
Leading global market position, with the market shares of its key technologies--separation, heat transfer and fluid handling--ranging between 10%-35% in each niche.	Exposure to cyclical end markets such as oil and gas (O&G), and shipping, making the top-line susceptible to volatility. New equipment sales represent about 30% of the group's revenue.
Diverse earnings base, with about 60% of consolidated revenues from services or stable end markets such as food and water; and heating, vacuuming, and air conditioning (HVAC) and refrigeration.	Relatively small presence in the aftermarket, representing about 30% of sales, although improving.
Solid profitability track record, with expected S&P Global Ratings' adjusted EBITDA margins of 18.5%-19.5% for 2021, compared with 19.4% in 2020.	Increased appetite for shareholder distributions expected to reach Swedish krona (SEK) 3.8 billion in 2021 and acquisition spending of about SEK4.0 billion, leading to some debt build-up.

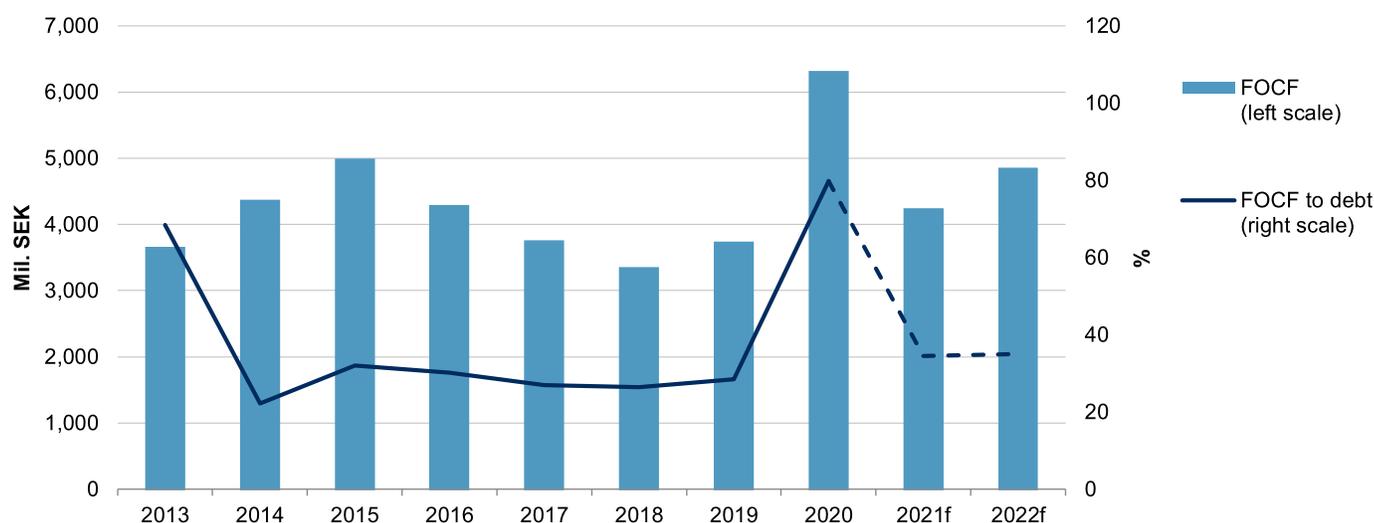
**Although we expect the company's 2021 revenue will be below 2020 levels, due to the effects of foreign exchange (FX) and the late-cycle nature of the company's business, they are likely to recover to close to pre-pandemic levels by 2022-2023.** Alfa Laval's consolidated top-line recovery in the first half of 2021 has been softer compared with peers in the wider capital goods industry due to the company's late-cycle nature, where invoicing lags order intake. During the first six months of 2021, the company's sales were down 10% compared with the same period in 2020, to SEK18.9 billion from SEK21.0 billion, mostly because of FX rates which accounted for -7.4% of the decline. At the same time, in the second quarter (Q2) of 2021, the company saw a strong order intake, which increased 25% compared with Q2 2020, to SEK12.2 billion from SEK9.7 billion (a 32.6% rise if we exclude currency effects). For the first half of 2021, order intake increased by 3.5% compared with the same period in 2020 (a 12.2% rise excluding FX effects). Moreover, like other companies operating in the capital goods sector, ongoing supply chain issues could have a temporarily negative effect on production rates, lead times, and deliveries. As a result, we expect that Alfa Laval's 2021 sales will decrease to about SEK39.5 billion–SEK40 billion, even if gradually recovering over the second half of the year. For now, we expect that Alfa Laval's sales could approach pre-pandemic levels by 2022 or 2023.

**Robust profitability and free operating cash flow (FOCF) continue to support Alfa Laval's business.** Alfa Laval has a strong record in maintaining relatively stable profitability, notwithstanding the cyclical nature of its end markets. In 2020, the company defended its profitability with adjusted EBITDA margins reaching 19.4%, compared with 19.0% in 2019, despite a 10.9% decline in the top line. This, in turn, supports a steady base for cash generation. We expect the company's EBITDA margins will remain strong at 18.5%-19.5% over 2021-2022. As a result, working capital dynamics will play a role in 2021, and we expect some working capital build up for 2021. During the first half of 2021, the

company's working capital outflow was SEK337million, a contrast to an inflow of SEK668 million in the same period in 2020. As such, we believe the company's cash generation will moderate this year in comparison with 2020, due to the investments required to support post-pandemic recovery. We expect Alfa Laval will generate FOCF of SEK4.0 billion–SEK4.5 billion in 2021, compared with SEK6.3 billion in 2020, which is more in line with SEK3.7 billion in 2019.

### Chart 1

#### Alfa Laval AB--FOCF Generation Forecast



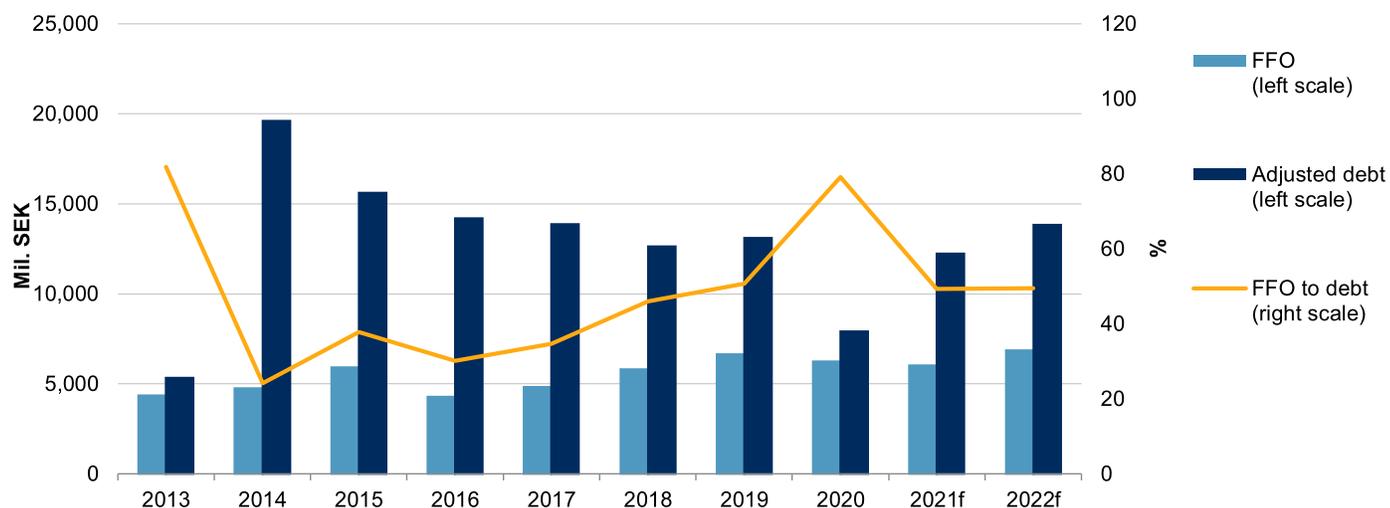
f--Forecast. FOCF--Free operating cash flow. SEK--Swedish krona. Source: S&P Global Ratings.

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***We anticipate decreasing financial flexibility in 2021-2022, as the company has increased its appetite for shareholder returns and acquisition investments focused on sustainability and digitalization.*** In early 2021, Alfa Laval announced a new share buyback program of about SEK2.0 billion expiring in 2022. During the first half of 2021, the company completed share repurchases for about SEK330 million. For the time being we assume that Alfa Laval will buy back shares for up to SEK1.5 billion in 2021. Additionally, in 2021, the company resumed its dividend payments, which it suspended in 2020 because of the pandemic. In May 2021, Alfa Laval paid SEK2.3 billion of cash dividends that represents a 65% dividend payout on 2020 profits, a 10% increase from the 2019 cash dividends, which stood at SEK2.1 billion. Following a quiet 2020 for mergers and acquisitions, Alfa Laval has resumed acquisitions, with a total spend of about SEK3.6 billion incurred in the first half of 2021. Currently, we estimate full-year acquisition spending will be about SEK4.0 billion, since we do not expect any major acquisitions over the second half of 2021. We also note that, through these new bolt-on acquisitions, Alfa Laval aims to strengthen its product offering with sustainable and highly digitalized services. As a result, Alfa Laval's credit metrics will weaken materially in 2021. Under our revised base case, we now expect Alfa Laval's funds from operations (FFO) to debt to reach 48%-50% in 2021, down from 79.1% in 2020. This is more in line with the 50.7% observed in 2019.

Chart 2

## Alfa Laval AB--FFO To Debt Evolution



f--Forecast. FFO--Funds from operations. SEK--Swedish krona. Source: S&P Global Ratings.

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### Outlook: Stable

The stable outlook reflects our expectation that Alfa Laval will continue to generate positive FOCF, supported by a gradual recovery in demand across the company's end markets and maintaining FFO to debt at about 50% for both 2021 and 2022. We expect that 2021 sales will be somewhat affected by ongoing supply chain challenges, recovering thereafter. We believe the company will maintain EBITDA margins in the 18.5%-19.5% range over 2021-2022, supported by improving volumes and cost saving measures.

### Downside scenario

We could lower the rating if Alfa Laval's credit ratios materially depart from our expectations, including FFO to debt below 45% with no prospects for short-term recovery. This could follow significant debt-financed acquisitions, or higher than envisaged shareholder returns. We could also lower the rating if Alfa Laval's profitability deteriorates from historical levels, specifically if its EBITDA margins drop significantly below 18% without near-term prospects for recovery. This could stem from further substantial restructuring expenses, or a sharper weakening of end markets than we expect, resulting in declining sales volumes and order intake, and no sufficient counterbalancing measures from the company.

### Upside scenario

We see limited rating upside over the next two years. A positive rating action could stem from a material strengthening of credit ratios, including management's commitments to maintain a stronger balance sheet, leading to FFO to debt materially above 60% notwithstanding the business cycle.

## Our Base-Case Scenario

### Assumptions

- A rebound in global GDP with 5.8% growth in 2021 and 4.4% in 2022, after a 3.4% contraction in 2020. U.S. GDP to expand 5.7% in 2021 and 4.1% in 2022, and the eurozone to expand by 5.1% in 2021 and 4.5% in 2022.
- Despite the stabilizing macroeconomic conditions, revenue to decline by 3.0%-4.0% in 2021, mainly driven by the effects of FX, followed by growth in 2022 of 9.0%-11.0%, supported by strong order activity and improving demand.
- Adjusted EBITDA margins of 18.5%-19.5% in 2021, supported by good performance in the less cyclical, and margin lucrative, food and water division, and higher share of services; and improving slightly to 19.0%-20.0% in 2022, supported by higher volumes and better fixed cost absorption.
- Working capital outflows of about SEK500 million per year in 2021 and 2022, to support increased order activity. This compares with the release of working capital of SEK955 million in 2020.
- Capital expenditure (capex) of about SEK1.3 billion in 2021, compared with SEK1.2 billion in 2020, increasing to SEK1.5 billion in 2022 to support organic growth.
- Acquisition spending of about SEK4.0 billion in 2021, moderating to SEK2.5 billion in 2022, compared with SEK70 million in 2020.
- Dividend payments of SEK2.3 billion in 2021, and about SEK2.0 billion in 2022, compared with zero in 2020.
- Share buy-backs of about SEK1.5 billion in 2021, increasing to about SEK2.0 billion in 2022.

### Key Metrics

#### Alfa Laval AB--Key Metrics

(%)	--Fiscal year ended Dec. 31--			
	2019a	2020a	2021f	2022f
Sales (bil. SEK)	46.5	41.5	39.5-40.0	44.0-45.0
Sales growth	14.4	(10.9)	(3.0)-(4.0)	9.0-11.0
EBITDA (bil. SEK)	8.8	8.0	7.3-7.8	8.3-8.8
EBITDA margin	19.0	19.4	18.5-19.5	19.0-20.0
Free operating cash flow (bil. SEK)	3.7	6.3	4.0-4.5	4.5-5.0
DCF (bil. SEK)	1.6	6.3	0.4-0.6	0.5-1.0
Acquisition spending (bil. SEK)	0.1	0.1	~4.0	~2.5
Debt (bil. SEK)	13.1	7.9	12.0-12.5	13.5-14.0
Debt to EBITDA (x)	1.5	1.0	1.5-2.0	1.5-2.0
FFO to debt	50.7	79.1	48.0-50.0	48.0-50.0
FOCF to debt	28.4	79.6	30.0-35.0	32.0-37.0
DCF to debt	12.4	79.6	2.0-5.0	5.0-10.0

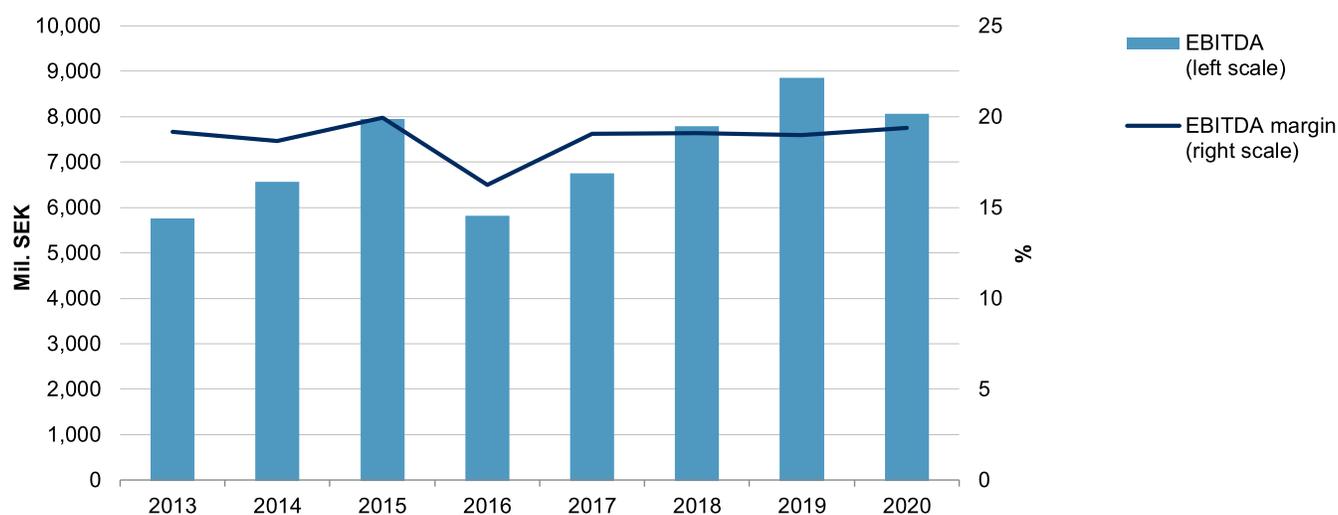
All figures are S&P Global Ratings-adjusted. SEK--Swedish krona. a--Actual. f--Forecast. DCF--Discretionary cash flow.

## Company Description

Alfa Laval is a leading global supplier of products and solutions for heat transfer, separation, and fluid handling. As of year-end 2020, the group reported revenue of SEK41.5 billion, a decrease of 10.9% against 2019. Its adjusted EBITDA margin stood at of 19.4%, compared with 19.0% in 2019 and the historical trend of 18.0%-21.0%.

**Chart 3**

### Alfa Laval AB--Evolution Of EBITDA And EBITDA Margin



SEK--Swedish krona. Source: S&P Global Ratings.

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Alfa Laval's main products are:

- Heat transfers used in heating, cooling, and ventilation systems, representing more than 30%-35% of market share and 40% of the group's revenue in 2020.
- Separators and decanters to separate liquids from other liquids or solids, representing 25%-30% of market share and 17% of 2020 revenue.
- Sanitary fluid-handling equipment, including pumps, valves, and fittings, representing a 10%-15% market share and 22% of the group's consolidated 2020 revenue.

The company's products are used in a wide range of industrial applications for heating, cooling, separation, and transporting products such as oil, water, chemicals, beverages, food, pharmaceuticals, and starch.

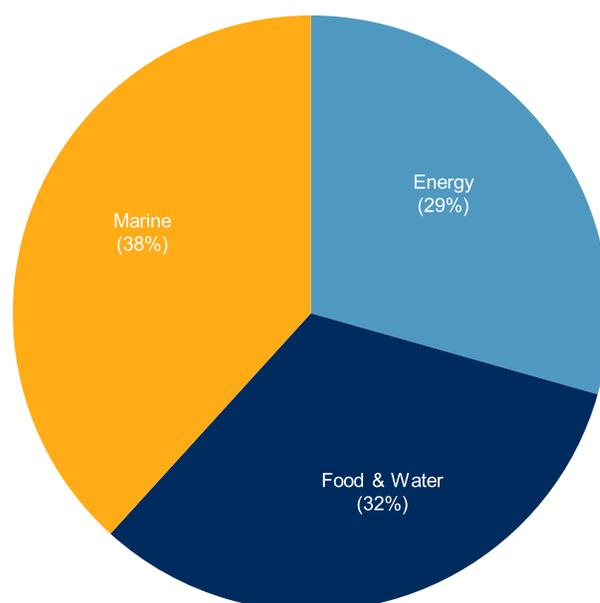
Alfa Laval reports under three main business divisions with a shared supply chain:

- The energy division serves clients focused on O&G, heating, vacuuming and air conditioning, and refrigeration. Sales in 2020 totaled SEK12.2 billion, or 30% of consolidated revenue.

- The food and water division serve food, pharmaceuticals, biotech, vegetable oils, breweries, dairy, and body care products. In addition, it focuses on public and industrial water and wastewater treatment. Sales in 2020 totaled SEK13.4 billion, or 32% of consolidated revenue.
- The marine segment targets ship owners, shipyards, manufacturers of diesel and gas engines, and companies that specialize in offshore extraction of oil and gas. Total sales in 2020 amounted to SEK15.9 billion, or 38% of consolidated revenue.

#### Chart 4

##### Alfa Laval AB--Consolidated Sales Breakdown By Division



Source: S&P Global Ratings.

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Alfa Laval's customers operate in the sanitary, food and brewery, ship manufacturing, utility, pharmaceutical, forest products, O&G, chemical, and original-equipment manufacturing industries. The group has a diversified geographical span. Europe accounted for about 37% of consolidated revenue in 2020 and the remaining consolidated revenue stemmed from the U.S. (14%), China (15%), and the rest of Asia (25%).

Alfa Laval first listed on the Stockholm Stock Exchange in 1901, where it remained for 90 years, until Tetra Pak bought the company in 1991. Alfa Laval returned to the stock exchange on May 17, 2002. As of Dec. 31, 2020, Tetra Laval B.V., ultimately owned by Tetra Pak, controls 29.1% of Alfa Laval's capital. Free float represented about 56% of shares outstanding. The company's market capitalization as of Oct. 19, 2021 was about SEK140.3 billion (€13.9 billion).

## Peer Comparison

Table 1

Alfa Laval AB--Peer Comparison					
Industry Sector: Capital Goods/Diversified					
	Alfa Laval AB	Sandvik AB	Atlas Copco AB	Epiroc AB	Danfoss A/S
Ratings as of Oct. 5, 2021	BBB+/Stable/--	A-/Stable/A-2	A+/Stable/A-1	BBB+/Stable/--	BBB/Stable/A-2
<b>--Fiscal year ended Dec. 31, 2020--</b>					
(Mil. SEK)					
Revenue	41,468.0	86,404.0	99,787.0	36,122.0	58,550.5
EBITDA	8,045.0	17,200.0	24,043.0	9,098.0	9,624.5
Funds from operations (FFO)	6,248.0	12,647.0	19,165.0	7,204.0	7,585.0
Interest expense	301.0	1,128.0	388.0	160.0	371.7
Cash interest paid	260.0	1,035.0	347.0	94.0	341.6
Cash flow from operations	7,522.0	15,783.0	20,670.0	8,016.0	8,037.1
Capital expenditure	1,232.0	3,634.0	1,762.0	665.0	2,461.4
Free operating cash flow (FOCF)	6,290.0	12,149.0	18,908.0	7,351.0	5,575.8
Discretionary cash flow (DCF)	6,290.0	12,149.0	9,305.0	4,450.0	5,173.9
Cash and short-term investments	7,768.0	23,752.0	11,655.0	15,053.0	6,138.4
Debt	7,901.5	0.0	18,729.0	0.0	8,167.1
Equity	29,071.0	64,817.7	53,534.0	23,531.4	31,987.8
<b>Adjusted ratios</b>					
EBITDA margin (%)	19.4	19.9	24.1	25.2	16.4
Return on capital (%)	14.7	17.6	27.4	33.4	15.4
EBITDA interest coverage (x)	26.7	15.2	62.0	56.9	25.9
FFO cash interest coverage (x)	25.0	13.2	56.2	77.6	23.2
Debt/EBITDA (x)	1.0	0.0	0.8	0.0	0.8
FFO/debt (%)	79.1	N.M.	102.3	N.M.	92.9
Cash flow from operations/debt (%)	95.2	N.M.	110.4	N.M.	98.4
FOCF/debt (%)	79.6	N.M.	101.0	N.M.	68.3
DCF/debt (%)	79.6	N.M.	49.7	N.M.	63.4

N.M.--Not meaningful. SEK--Swedish krona.

Alfa Laval's scale is somewhat comparable to that of Epiroc, but smaller than that of other rated peers with strong investment grade ratings. Although broad end-market diversity counterbalances the group's moderate size to an extent, energy and shipping represent about 65% of sales. In our view, Alfa Laval's diversity is still moderate when compared with peers in the wider capital goods industry, such as Atlas Copco, ABB, and Siemens.

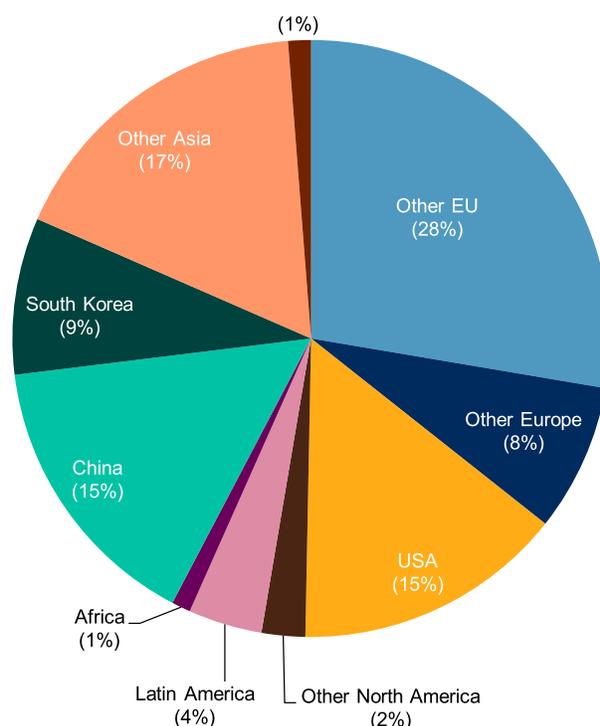
## Business Risk: Satisfactory

**Robust position in its core businesses.** In our view, Alfa Laval boasts a solid position in its core businesses. As shared by the company in its 2020 results, Alfa Laval holds market-leading positions in heat transfer (30%-35% market share), separation (25%-30% market share), and fluid handling (10%-15% market share) markets through key products like heat exchangers, separators, pumps, and valves. The group's record as a reliable supplier of quality products, and its global service network, underpins its strong brand name. Alfa Laval is also well positioned to benefit from its environmental product for ballast water treatment and for scrubbers, which gained importance in 2016 after the International Maritime Organization introduced stricter norms on sulfur emissions. We believe the company will continue to benefit from the demand for energy-efficient solutions.

**Wide customer base and balanced geographic presence.** Alfa Laval enjoys a diverse customer base with no single customer accounting for more than 10% of net sales. The company's largest customer is Tetra Laval Group, which represented about 4.7% of Alfa Laval's sales in FY2020. Furthermore, the company's geographic diversity reduces the effects of regional cyclicalities. In 2020, the group derived about 40% of its sales from Asia, 37% from Europe, 21% from Americas and 2% from others.

#### Chart 5

##### Alfa Laval AB--Consolidated Sales Breakdown By Geography



Source: S&P Global Ratings.

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**Exposure to cyclical end-markets.** Although Alfa Laval derives over 65% of its sales from its energy and shipping divisions, about 30% of the group's consolidated sales are exposed to cyclical end markets. Its products are used in the manufacturing of food, chemicals, and pharmaceuticals, as well as in engineering, waste-water treatment, and indoor climate control. These markets typically are more stable than energy and shipping. This stability, along with the group's service sales (about 30% of sales), somewhat mitigate the volatility from some of its core sectors.

**We expect Alfa Laval will maintain EBITDA margins above 18% over the cycle.** We believe Alfa Laval's strong profitability for the industries it operates in supports its business risk. Thanks to the company's efforts to streamline its energy and marine divisions, its EBITDA margin has held up well. Despite a challenging operating environment, and a 10.9% drop in top line in 2020, the company's adjusted EBITDA margin was 19.4%, compared with 19% in 2019. We view the company's flexible cost structure positively, as it enabled the group to sustain its EBITDA margin of 18%-21%, despite its exposure to the volatile O&G and shipping sectors where investment levels fell materially over 2014-2017. Investment levels in the O&G and marine divisions are the largest risk for Alfa Laval's margin.

## Financial Risk: Modest

In our view, Alfa Laval's financial risk profile is supported by adequate leverage for the rating. As of June 30, 2021, S&P Global Ratings-adjusted FFO to debt, was about 45.1% and the adjusted debt-to-EBITDA ratio was 1.6x.

The company could occasionally embark on big material acquisitions. For example, the 2014 debt-financed acquisition of Frank Mohn tripled the company's debt and materially weakened its credit ratios. During the first half of 2021, the company announced the acquisition of Norway-based marine digital services company StormGeo for Norwegian krone 3.6 billion (€364 million). We do not foresee any major acquisitions over the remainder of 2021 or in 2022, because the company's revised financial objectives are oriented to organic growth and profit generation. However, we cannot rule out external acquisitions of moderate size in the medium-to-long term.

## Financial summary

Table 2

Alfa Laval AB--Financial Summary					
Industry Sector: Capital Goods/Diversified					
	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
<b>(Mil. SEK)</b>					
Revenue	41,468.0	46,517.0	40,666.0	35,314.0	35,634.0
EBITDA	8,045.0	8,830.0	7,770.5	6,736.0	5,789.5
Funds from operations (FFO)	6,248.0	6,648.0	5,810.4	4,814.9	4,267.8
Interest expense	301.0	347.0	382.1	413.1	424.7
Cash interest paid	260.0	281.0	318.1	338.1	360.7
Cash flow from operations	7,522.0	5,062.0	5,183.4	4,733.9	5,190.8
Capital expenditure	1,232.0	1,337.0	1,490.0	675.0	617.0
Free operating cash flow (FOCF)	6,290.0	3,725.0	3,693.4	4,058.9	4,573.8
Discretionary cash flow (DCF)	6,290.0	1,628.0	1,910.4	2,261.9	2,773.8
Cash and short-term investments	7,768.0	6,467.0	4,912.0	4,345.0	3,694.0
Gross available cash	7,768.0	6,467.0	4,912.0	4,345.0	3,694.0
Debt	7,901.5	13,111.9	12,636.4	13,862.9	14,203.3
Equity	29,071.0	27,747.0	23,599.0	20,500.0	20,276.0
<b>Adjusted ratios</b>					
EBITDA margin (%)	19.4	19.0	19.1	19.1	16.2
Return on capital (%)	14.7	18.4	17.0	14.4	11.6

Table 2

## Alfa Laval AB--Financial Summary (cont.)

	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
EBITDA interest coverage (x)	26.7	25.4	20.3	16.3	13.6
FFO cash interest coverage (x)	25.0	24.7	19.3	15.2	12.8
Debt/EBITDA (x)	1.0	1.5	1.6	2.1	2.5
FFO/debt (%)	79.1	50.7	46.0	34.7	30.0
Cash flow from operations/debt (%)	95.2	38.6	41.0	34.1	36.5
FOCF/debt (%)	79.6	28.4	29.2	29.3	32.2
DCF/debt (%)	79.6	12.4	15.1	16.3	19.5

SEK--Swedish krona.

## Reconciliation

Table 3

## Alfa Laval AB--Reconciliation Of Reported Amounts With S&amp;P Global Ratings' Adjusted Amounts

--Fiscal year ended Dec. 31, 2020--

Alfa Laval AB reported amounts (Mil. SEK)							
	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
	9,168.0	28,908.0	7,984.0	5,580.0	265.0	8,045.0	7,723.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(1537.0)	--
Cash interest paid	--	--	--	--	--	(260.0)	--
Trade receivables securitizations	17.0	--	--	--	--	--	(17.0)
Reported lease liabilities	2235.0	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	2424.0	--	28.0	28.0	36.0	--	--
Accessible cash and liquid investments	(5942.5)	--	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	(22.0)	--	--	--	--
Nonoperating income (expense)	--	--	--	48.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(184.0)
Noncontrolling interest/minority interest	--	163.0	--	--	--	--	--
EBITDA: Business divestments	--	--	55.0	55.0	--	--	--
Total adjustments	(1266.5)	163.0	61.0	131.0	36.0	(1797.0)	(201.0)

Table 3

## Alfa Laval AB--Reconciliation Of Reported Amounts With S&amp;P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjusted amounts							
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations
	7,901.5	29,071.0	8,045.0	5,711.0	301.0	6,248.0	7,522.0

SEK--Swedish krona.

## Liquidity: Strong

We consider Alfa Laval's liquidity as strong, with a sources-to-uses ratio of about 2.0x over the coming 12 months and 1.4x over the next 24 months. If EBITDA were to decline unexpectedly by 30%, we would still expect the group's liquidity sources to exceed its uses.

We also believe that the group's geographic and end-market diversity should enable it to absorb high-impact, low-probability events in some sectors without refinancing. Other supportive factors include Alfa Laval's solid relationships with banks, its high standing in credit markets underpinned by its repeated access to capital markets, and the solid investment-grade rating. Although not included in our liquidity analysis, SEK1 billion under Alfa Laval's SEK2 billion commercial paper programs is available, as of June 30, 2021.

Principal Liquidity Sources	Principal Liquidity Uses
<p>We estimate Alfa Laval's principal liquidity sources and uses, starting from June 30, 2021, are as follows:</p> <ul style="list-style-type: none"> <li>• Cash and liquid investments of about SEK1.2 billion;</li> <li>• Cash FFO of SEK5.8 billion–SEK6.0 billion over the next 12 months and SEK6.3 billion–SEK6.5 billion over the subsequent 12 months; and</li> <li>• A fully undrawn bank line of about SEK7.0 billion maturing in 2026.</li> </ul>	<ul style="list-style-type: none"> <li>• Debt maturities of about SEK1 billion over the coming 12 months related to commercial paper, and SEK5 billion over the subsequent 12 months related to the €500 million bond due in September 2022;</li> <li>• Working capital outlays of about SEK500 million over the next 12 months and SEK350 million over the following 12 months;</li> <li>• Up to SEK2.0 billion of intrayear working capital swings per year;</li> <li>• About SEK1.4 billion capex over the next 12 months, increasing to SEK1.5 billion over the following 12 months;</li> <li>• Dividend payments of about SEK2.0 billion over the following 12 months and about SEK2.4 billion–SEK2.5 billion over the following 24 months; and</li> <li>• We do not incorporate share-buybacks in our liquidity analysis since they are discretionary in nature. At the same time, if we were to include them</li> </ul>

they would have a non-material effect on our liquidity analysis.

### Debt maturities

The debt maturity profile as of June 30, 2021, is as follows:

- 2022: €500 million bond maturing in September 2022
- 2024: €300 million bond maturing in June 2024

## Covenant Analysis

The company does not have any financial maintenance covenants.

### Environmental, Social, And Governance

For the capital goods industry, a key factor will be reducing carbon emissions and managing resources from an environmental perspective.

Alfa Laval derives more than 65% of its sales from its energy and marine business divisions, exposing the company to industries with long-term environmental risks, including oil & gas, power generation, energy downstream, chemicals and shipbuilding. In our view, these industries face long-term risks, especially in the transition to renewable energy. At the same time, we note the company's efforts towards developing its portfolio of sustainable products, which currently is still in nascent stages, focusing on areas such as thermal energy storage, hydrogen fuel cell technology and waste-water treatment among others.

Alfa Laval's public disclosure and governance framework is consistent with the accepted standards and there are no other governance-related issues.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

Alfa Laval's capital structure consists of senior unsecured debt issued at its financing subsidiary, Alfa Laval Treasury International AB.

### Analytical conclusions

We rate Alfa Laval's debt 'BBB+', in line with the issuer credit rating, because no significant elements of subordination risk are present in the capital structure. This is also supported by the group's low leverage and our view of modest

financial risk.

## Ratings Score Snapshot

### Issuer Credit Rating

BBB+/Stable/--

### Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

### Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

### Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
<b>Satisfactory</b>	a/a-	<b>bbb+</b>	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

## Ratings Detail (As Of October 20, 2021)\*

### Alfa Laval AB

Issuer Credit Rating

BBB+/Stable/--

### Issuer Credit Ratings History

17-Nov-2020

BBB+/Stable/--

14-Jul-2020

BBB+/Watch Neg/--

01-Apr-2020

BBB+/Negative/--

23-May-2018

BBB+/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

### Additional Contact:

Industrial Ratings Europe; Corporate\_Admin\_London@spglobal.com

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