

30 August 2021

Moody's affirms Boral's Baa2 credit rating

Moody's Investors Service (Moody's) has today affirmed the investment credit rating of 'Baa2' for Boral Limited (ASX:BLD) with a stable outlook, following the increased shareholding interest of Seven Group Holdings Limited ("SGH").

In its release, Moody's reports that the affirmation of the ratings reflects the strength of Boral's balance sheet, the company's leading position in Australia and Moody's expectations Boral will benefit from government stimulus measures that support construction. Moody's also notes *"The rating is supported by Boral's financial framework that preserves its balance sheet strength amid the inherently cyclical building and construction materials sector. The framework supports the company's financial strategy and risk management, a key component in Moody's governance risk assessment framework"*.

Boral's Chief Finance & Strategy Officer, Tino La Spina, said:

"We welcome the decision by Moody's to affirm its investment grade credit rating and stable outlook for Boral, recognising the strength of Boral's financial framework and our disciplined approach to managing Boral's balance sheet."

"We recognise that maintaining a strong balance sheet is in the best interests of investors."

"In line with our financial framework, we can comfortably support Boral's net debt being maintained at around \$900 million."

"Following receipt of proceeds from announced divestments Boral will have significant surplus capital available to reinvest and return to shareholders."

"We are focused on generating additional surplus capital and being disciplined in the way we allocate capital."

A copy of the Moody's Investor Service Ratings report is attached.

Authorised for lodgement by Dominic Millgate, Company Secretary.

Moody's

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Rating Action: **Moody's affirms Boral's Baa2 ratings; outlook stable**

30 Aug 2021

Sydney, August 30, 2021 -- Moody's Investors Service has affirmed Boral Limited's Baa2 issuer rating as well as its (P)Baa2 senior unsecured medium-term note program rating. At the same time, Moody's has also affirmed the Baa2 backed senior unsecured ratings of Boral Finance Pty Limited and Boral Industries Inc. The outlook on all ratings is stable.

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RATINGS RATIONALE

The affirmation of the ratings reflects the strength of Boral's balance sheet, the company's leading market position in Australia and Moody's expectation that the company's Australian operations will benefit from government stimulus measures that support infrastructure and detached housing construction.

The rating action also takes into consideration the near-term weakness in demand for Boral's products given restrictions in the east coast of Australia and the likely slow ramp-up of construction activities in these states once restrictions lift.

The rating is supported by Boral's financial framework that preserves its balance sheet strength amid the inherently cyclical building and construction materials sector. The framework supports the company's financial strategy and risk management, a key component in Moody's governance risk assessment framework. Today's rating action considers the impact of Boral's governance practices on its credit profile, which Moody's views as credit positive.

The affirmation also takes into consideration Seven Group Holdings Ltd's (Seven) increased ownership in Boral to 69.6%. This is credit negative because it increases Boral's ownership concentration by an entity that Moody's views as being of weaker credit quality than Boral. Mitigating this risk is Boral's publicly articulated financial framework and Seven's intention to maintain a majority independent board.

Boral has used proceeds from business divestments to reduce debt following the adoption of its new financial framework in February 2021. As a result, Boral's financial profile has improved significantly, with debt/EBITDA improving to around 2.1x in the fiscal year ended June 30, 2021 from 4.6x in fiscal 2020. Following the announced sale of its North American Building Products business (expected to close before the end of 2021), Boral's net debt target has decreased to AUD0.9 billion -- AUD 1.1 billion from AUD1.5 billion, in line with the framework. Moody's expects the company to reinvest and/or return to shareholders any funds that exceed its debt target.

Liquidity

Boral has an excellent liquidity profile. The company's primary sources of liquidity include the group's operating cash flow, which Moody's expects to be around AUD400 million-AUD420 million (excluding discontinued operations) over the next 12 months and cash balances of AUD903 million as of 30 June 2021. Liquidity is also supported by committed undrawn facilities of around AUD450 million as of 30 June 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Boral's ratings consider environmental, social and governance factors.

Building materials, especially fly ash, and concrete, have high carbon emissions. The sector is subject to numerous environmental laws and regulations pertaining to health, safety, and the environment. The building-products manufacturing companies and related distributors are exposed to regulations that relate to air standards, management and transport of materials, cleanup of contaminated areas, and reduction of toxic emissions. Ongoing tightening of regulations to increase the durability of the products and to meet higher energy efficiency standards will raise costs.

Boral has exited some business lines with higher emissions and continues to develop strategies to improve the resilience of its portfolio to climate-related impacts, reduce carbon emissions and improve energy efficiency. The company has committed to net zero emissions, aiming to achieve net zero earlier than 2050.

In terms of corporate governance, in February 2021, the company announced a new financial framework that will target net debt/EBITDA of 2.0x--2.5x and will govern capital management decisions.

There has been a refresh of the board of directors and senior management roles over the past 12 months. Seven has acquired a controlling stake with 69.6% of the voting power, up from 19.98% as of December 2020. Boral has two board seats (out of eight) and intends to maintain a majority independent board.

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

Boral's rating is not likely to be upgraded in the near term, given the inherent cyclicity in the building and construction materials industry.

However, over the longer term, the rating could be upgraded if Boral (1) sustains growth in each of its divisions; (2) remains committed to a financial policy that is commensurate with a higher rating; and (3) improves in its operating margins.

Credit metrics indicating such a development would be (1) debt/EBITDA below 2.0x, (2) adjusted retained cash flow (RCF)/net debt above 30% and (3) EBITDA margins above 20% through the cycle.

Boral's rating could face negative pressure if its (1) adjusted debt/EBITDA stays above 3.0x and/or net debt/EBITDA remains above 2.5x, and (2) adjusted RCF/net debt stays below 20%, on a sustained basis. The rating could also be downgraded if there is a deviation from the publicly announced financial framework, a material deterioration in the company's operating profile and/or liquidity and a deterioration in Moody's view of Seven's credit profile.

The principal methodology used in these ratings was Building Materials published in May 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1158917. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Boral Limited, based in Australia, generates earnings from building and construction materials operations in Australia and the US. The company is expected to exit the US market in fiscal 2022. Boral manufactures and distributes a wide range of building and construction materials, including quarry products, cement, fly ash, precast concrete and asphalt, and building products.

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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

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

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Saranga Ranasinghe
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: 61 2 9270 8141
Client Service: 852 3551 3077

Patrick Winsbury
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 61 2 9270 8141
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: 61 2 9270 8141
Client Service: 852 3551 3077

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