MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades AkzoNobel to Baa3; outlook stable

21 Nov 2025

Frankfurt am Main, November 21, 2025 -- Moody's Ratings (Moody's) downgraded Akzo Nobel N.V.'s (AkzoNobel or the company) senior unsecured ratings and backed senior unsecured rating to Baa3 from Baa2 and the rating of its senior unsecured medium-term note program to (P)Baa3 from (P)Baa2. Concurrently we have downgraded the rating of AkzoNobel's commercial paper program and its other short term rating to P-3 and (P)P-3 from P-2 and (P)P-2 respectively. The outlook was changed to stable from previously negative.

TRANSACTION DESCRIPTION

On November 18, 2025 AkzoNobel and Axalta Coating Systems Ltd. (Axalta, Ba2 stable) announced that they have entered into a definitive agreement to combine the companies in an all stock transaction. Post-closing, AkzoNobel's existing shareholders will own 55% and Axalta shareholders will own 45% of the merged entity. Prior to closing AkzoNobel shareholders will receive total a dividend payout of €2.5 billion consisting of AkzoNobel's regular dividend and a special dividend. The company has also cancelled a previously announced share buy back of €400 million. The companies are aiming to close the transaction in late 2026 or early 2027. The closing of the transaction is subject to the approval of shareholders of both companies and regulatory and antitrust approvals.

RATINGS RATIONALE

The downgrade of AkzoNobel's rating to Baa3 and a stable outlook reflects the high starting leverage of the combined entity. This high leverage is balanced by a commitment to an investment grade rating and achieving and thereafter maintaining a net leverage ratio of between 2.0x – 2.5x. The financial policy of the merged company is an ESG consideration reflected in the rating.

We expect that AkzoNobel will need to fund a substantial proportion of the dividend payout prior to closing with additional debt resulting in a 2025 proforma Moody's adjusted gross debt/EBITDA ratio of 4.6x. At this stage it remains unclear how the company is intending to swiftly reduce leverage, to achieve its stated financial policy target. We also expect that, over time, funds generated by asset disposals and applied to debt reduction would be needed to reach the targeted net leverage corridor. Further details on the combined entity's shareholder return policy and the development of the capital structure post and prior to closing have not yet been disclosed. In particular, there have been no indications on how the company will address the expected financing need in connection with the special dividend and the secured debt issued by one of Axalta's subsidiary, which we would expect to be refinanced with unsecured debt given the stated target of an investment grade capital structure.

The combined entity's ability to reduce leverage thus hinges on the company's ability to swiftly realize ambitious synergy targets of €600 million of which the companies expect to realize 90% within three years after closing. The companies aim to achieve these synergies on top of the currently ongoing cost reduction efforts at both companies. In addition to the integration risks, the current macro environment characterized by low growth rates and lackluster volume development are a headwind potentially negatively impacting AkzoNobel's ability to deleverage to levels commensurate with the current Baa3 rating, namely Moody's adjusted gross leverage in the range of 3x – 3.5x and retained cash flow / net debt in the range of 15% – 20%.

While the company has committed to an investment grade rating and a net leverage target, details on the shareholder return policy are yet to emerge. However, AkzoNobel has a track record of prioritizing shareholder returns even at times of a deteriorating operating environment and operating with weak credit metrics for the rating category and even above its own leverage target, which we view as indication of a financial policy geared towards prioritizing shareholder interest.

Given that shareholder and regulatory approvals for the proposed merger are still outstanding there is a scenario in which the combination does not go ahead. In such a scenario we would see AkzoNobel's rating as appropriately positioned at the Baa3 rating level with point in time debt/EBITDA of 4.8x per September 2025 and a still weak market environment.

RATING OUTLOOK

The stable outlook reflects our expectation that the company will present a tangible plan to deleverage to levels commensurate with its rating post-closing of the proposed merger and our expectation that the company will articulate a shareholder return policy commensurate with the assigned rating. Moreover, we expect that any structural subordination in the emerging capital structure will be mitigated over time.

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

We could consider upgrading AkzoNobel's rating if the combined entity sustains Moody's adjusted debt/EBITDA below 3.0x and adjusted Retained Cash Flow / Net debt above 20%. An upgrade furthermore would be supported by adjusted FCF/Debt sustained well above 5%. An upgrade furthermore would require a commitment to achieve and defend a higher rating.

Negative rating pressure will arise in case of a structural decline in operating performance resulting in the company sustaining Moody's adjusted debt/EBITDA above 3.5x. A weakening of the company's liquidity profile would also be negative for the rating.

LIQUIDITY

As of September 2025 AkzoNobel had cash and cash equivalents of €1.3 billion on balance sheet and access to €1.3 billion of availability under its committed revolving credit facility maturing in 2027 which in addition with operational cash flow generation and the expected proceeds of around €900 million from the sale of its stake in Akzo Nobel India Limited support AkzoNobel's liquidity profile. However, the company also had short term debt maturities of around €1.7 billion. We expect that the company will need to incur additional indebtedness to finance the announced special dividend in connection with the proposed merger with Axalta.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Chemicals published in October 2023 and available at https://ratings.moodys.com/rmc-documents/410490. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

PROFILE

Netherlands based AkzoNobel is a leading producer of paints and coatings. In 2024, it generated total sales of €10.7 billion and company defined adjusted EBITDA of close to €1.5 billion.

Axalta Coating Systems Ltd. is one of the world's leading coatings companies. The company operates two business segments: (i) Performance Coatings, and (ii) Mobility Coatings. Headquartered in Philadelphia, Pa., Axalta generates over $5 billion of revenues.

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.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

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Moritz Melsbach
Vice President - Senior Analyst

Karen Berckmann, CFA
Associate Managing Director

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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