

ASAHI KASEI's Acquisition of US-based Manufacturer of Automotive Interior Material—No Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on announcement by ASAHI KASEI CORPORATION (security code: 3407) on its acquisition of a US-based manufacturer of automotive interior material.

- (1) ASAHI KASEI CORPORATION (the "Company") announced on July 19, 2018 that it would acquire Sage Automotive Interiors, Inc. ("Sage"), a US-based manufacturer of automotive interior material, and make it a consolidated subsidiary. The transaction price will be approximately USD 700 million (depending on fluctuation of cash and debt balance, etc., at the time of closing) and the total acquisition price including Sage's net interest-bearing debt is USD 1.06 billion. Closing of the transaction is conditional upon performing the required procedures in accordance with each relevant country's antitrust regulations, and obtaining approval from the relevant authorities. Ratio of the total acquisition price to Sage's EBITDA is considered approximately 10x.
- (2) Sage develops, manufactures and sells fabrics as automotive interior material and holds No. 1 global share for vehicle seat fabric (woven and knitted fabric for vehicle seats excluding natural and synthetic leather). Having a major base in the U.S., it has been growing partly through acquisitions in Europe. The Company sells Lamous microfiber suede to Sage and the 2 companies have established good relationships between them and been maintaining it. Setting automobile as one of the key areas in the material field under the medium-term strategic management initiative, "Cs for Tomorrow 2018," for the three-year period from fiscal 2016 through fiscal 2018, the Company aims to expand sales to this area in the medium and long run. The acquisition this time is in line with this strategy.
- (3) The Company's financial structure is good as indicated by its equity capital of 1,287.4 billion yen and DER of 0.23x as of the end of the fiscal year ended March 31, 2018 (FY2017). Although this acquisition is the largest acquisition after Polypore International, Inc. (battery separator business) in 2015 and ZOLL Medical Corporation in 2012 (emergency medical equipment business), its DER after the acquisition will be approximately 0.3x, which is a slight worsening, (based on DER of 0.23x as of the end of FY2017). Under the medium-term strategic management initiative, it set forth a long-term investment plan (on a decision-adopted basis) including M&A totaling approximately 700 billion yen for 3 years. JCR has been incorporating its measures in line with this strategy into the Company's rating. Given that the acquisition this time is within the scope of the investment plan, JCR considers that the impact on the creditworthiness is limited.

Mikiya Kubota, Takeshi Fujita

<Reference>

Issuer: ASAHI KASEI CORPORATION

Long-term Issuer Rating: AA Outlook: Stable

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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