MOODY'S INVESTORS SERVICE

Rating Action: Moody's affirms Essity's Baa1/P-2 ratings; outlook stable

08 Jun 2022

Frankfurt am Main, June 08, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the Baa1 long term issuer rating and the P-2 short term issuer rating of Essity Aktiebolag (Essity). Concurrently, the rating agency has also affirmed the (P)Baa1 rating of its senior unsecured MTN programme and the Baa1 rating of various senior unsecured bonds issued under the programme. The outlook on all ratings remains stable.

"The affirmation of Essity's ratings reflects the company's strong market position and its track record of positive free cash flow generation," says Oliver Giani, Moody's lead analyst for Essity. "While profitability is currently weakened by a challenging market environment with rapid cost increases, Moody's expects that Essity will be able to strengthen profitability again by continuing innovation, cost reduction measures and by gradually passing-on input cost inflation to its customers via price increases," he added.

RATINGS RATIONALE

The drastic increase in cost for raw material, energy and distribution currently weighs on Essity's profitability. For 2021 Essity recorded a negative impact from these drivers of 480 basis points on its company adjusted EBITA margin. Despite of higher volumes, price increases, cost savings and positive mix effect, the company recorded a net decline of 330 basis points to an EBITA margin of 11.2% for 2021. In Q1 2022 the negative effect was even stronger, EBITA margin fell to 8.2%. The rating affirmation takes comfort from Essity's track record of solid profitability margins. Given its strong market position, Essity will be able to gradually pass-on the increased cost to its customers, albeit with some delay. In addition, cost saving measures will assist to reverse the negative margin trend. The Baa1 long term issuer rating reflects the company's large scale, with revenue of SEK129 billion for the 12 months that ended in March 2022 (around $14.6 billion), and a broad product portfolio; its leading market positions, with well-recognised brands and a good track record of innovation; its global footprint, with the faster-growing emerging markets representing roughly one-third of its revenue; the fairly good underlying growth and the stable demand for its products; its financial policies, which are aimed at protecting its solid investment-grade rating; and Essity's track record of generating significant positive free cash flow (FCF), which it tends to use for tuck-in acquisitions and can be used to reduce leverage, if needed.

Essity's ratings are primarily constrained by its exposure to volatile input costs, pulp in particular, which can be passed through only with a significant delay; its somewhat below average profitability compared with that of most of its similarly rated peers, such as Kimberly-Clark Corporation (K-C, A2 stable) or The Procter & Gamble Company (P&G, Aa3 stable), with a Moody's-adjusted EBITA margin of 10.0% for the 12 months that ended in March 2022; and a certain degree of debt-funded M&A risk, which, however, falls within the company's commitment to maintaining a solid investment-grade rating.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Essity's strong market position will enable the company to pass-on the rising input cost to its customers and to manage cost and thus to strengthen credit metrics back into the range Moody's expects for the Baa1 rating category. In addition, credit metrics will benefit from full-year contribution of recent acquisitions.

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

WHAT COULD MOVE THE RATING UP

Positive rating pressure would build up if Essity develops a track record of EBIT margins consistently above 12% throughout all of the company's business areas and retains RCF/Net Debt clearly above 25%; debt to EBITDA well below 2.5x combined with continued positive free cash flow generation applied towards debt reduction.

WHAT COULD MOVE THE RATING DOWN

Essity' ratings could be downgraded if its financial profile sustainably weakens as indicated by EBIT margins remaining below 9%, RCF/Net Debt below 20%, inability to reduce leverage below 3.0x debt to EBITDA, free cash flow turning negative or in case of an erosion of the company's liquidity profile.

LIQUIDITY

We consider Essity's liquidity to be good, primarily based on our expectation that the company will continue to generate significant positive FCF over the next four to six quarters. As of the end of March 2022, the company reported around SEK5.3 billion of cash and cash equivalents, roughly one-third of those in countries with currency restrictions. In addition, the company has access to various largely undrawn credit facilities, totaling roughly SEK20 billion, consisting primarily of two syndicated facilities, each of around €1.0 billion, maturing in 2025 and 2027 respectively. The facilities are of high quality, without material adverse change clauses and other conditionality language, and have also served as backstop facilities for the company's commercial paper programme, which has been a central source of Essity's short-term funding needs. As of the end of March 2022, the company reported roughly SEK14.8 billion in short-term debt, which includes SEK8.8 billion under Essity's commercial paper program. The company's maturity profile is generally well spread, with an average maturity of around 4.6 years.

ESG CONSIDERATIONS

The neutral to low Credit Impact Score (CIS-2) given to Essity combines moderately negative scores for environmental and social risks and a neutral to low assessment for Governance risk supported by a strong sub-score for Financial strategy & Risk Management within governance.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Consumer Packaged Goods Methodology published in February 2020 and available at https://ratings.moodys.com/api/rmc-documents/66411 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Stockholm, Sweden, Essity Aktiebolag (Essity) is one of the leading global hygiene and health companies, with sales of SEK129 billion for the 12 months that ended in March 2022 (around $14.6 billion). The company develops, produces and sells a wide range of products, including incontinence products, baby diapers, feminine care products, consumer tissue, away-from-home tissue, and products for wound care, compression therapy and orthopaedics. With a workforce of roughly 46,000 employees, Essity operates in about 150 countries worldwide under a number of well-recognised brands. Essity was formed in 2016 and spun off in June 2017 from Svenska Cellulosa Aktiebolaget (SCA). The company is listed on the Stockholm Stock Exchange, with a market capitalisation of around SEK178.5 billion as of 27 May 2022.

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 ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Oliver Giani
Vice President - Senior Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Christian Hendker, CFA
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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