Borregaard ASA
Norway, Specialty Chemicals

SCOPE A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	19.9x	21.6x	17.7x	17.7x
Scope-adjusted debt/EBITDA	1.0x	1.1x	1.1x	1.1x
Scope-adjusted funds from operations/debt	81%	75%	72%	69%
Scope-adjusted free operating cash flow/debt	47%	13%	22%	11%

Rating rationale

The rating reflects the issuer's efficient and unique production capabilities, strong positions in key chemicals segments and markets, strong profitability and low financial leverage.

Borregaard's business risk profile (assessed at BBB+) reflects its efficient and unique process to produce highly specialised chemicals using wood as raw material (positive ESG factor). It also reflects strong market positions in most of its business segments, the growing customer demand, and the favourable cost position. The latter provided a tailwind in 2022 amid surging European power and caustic soda prices, allowing the company to cover most of its energy consumption using favourable long-term contracts and to source 60-70% of its caustic soda needs internally. The strong market positions also enabled the company to impose surcharges to customers to compensate for cost inflation feeding through. Consequently, the company ended the FY 2022 with a strong Scope-adjusted EBITDA margin of 23.8%.

The financial risk profile (assessed at A) reflects the low financial leverage, with Scope-adjusted debt/EBITDA averaging 1.5x over the past five years. The low debt levels can be explained by strong cash flow generation, moderate capex, moderate M&A, and a prudent financial policy where the company tends towards the low end of its net interest bearing debt/EBITDA target range (1.0x-2.25x) in times of historically weak NOK and/or economic uncertainty. With the global economy facing a potential recession in 2023 and 2024, the company will likely maintain its strong leverage profile in the medium term as exemplified by a Scope-adjusted debt/EBITDA around 1.1x.

Outlook and rating-change drivers

The Stable Outlook reflects our belief that Borregaard's strong market positions will continue to shape its performance in the medium term. It also assumes that leverage will stay conservative despite the new higher-than-historical investment programme.

A rating upgrade may be warranted by a Scope-adjusted debt/EBITDA sustained below 1x, for example, due to lower-than-projected discretionary expenditure.

A rating downgrade could be warranted by a Scope-adjusted debt/EBITDA above 2x, possibly through lower-than-expected profitability or higher-than-expected debt-financed capital expenditure.

[1] The credit rating(s) and outlook(s) provided in this document may not be shared with any unauthorised third party.

Ratings & Outlook

Issuer	A-/Stable
Short-term debt	S-1
Senior unsecured debt	A-

Analyst

Michael-Marco Simonsen
+47 94 43 50 34
m.simonsen@scoperatings.com

Related Methodologies

General Corporate Rating Methodology, 15 July 2022;

Chemical Rating Methodology, 22 April 2022;

Scope Ratings GmbH

Karenslyst allé 53

0279 Oslo, Norway

Phone +47 944 35 034

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Operates one of the world's most advanced biorefineries, producing highly specialised chemicals and materials from wood (positive ESG factor) • Unique softwood sulphite pulping process • World leading supplier of lignin-based biopolymers (35-40% market share); leading positions in other segments • Market positions protected by high physical, financial and intellectual barriers to entry • Majority of key input factors either readily available (wood), on favourable long-term contracts (electricity), or self-supplied (caustic soda) • Business supported by megatrends and legislation promoting the use of sustainable, rather than fossil-based, products	• Exposed to high cyclicality in the construction sector; partly mitigated by low share of sales to concrete applications • Competition from low-cost, fossil-fuel-based alternative products • High portion of turnover derived from the European market • Execution risk in higher-than-historical investment forecast • Some supply-side concentration among largest suppliers • Loss-making cellulose fibrils segment • Operates in somewhat niche markets

Positive rating-change drivers	Negative rating-change drivers
• Lower-than-projected leverage, with Scope-adjusted debt/EBITDA sustained below 1.0x	• Higher-than-estimated leverage, with Scope-adjusted debt/EBITDA above 2.0x

Corporate profile

Borregaard ASA is a Norwegian chemicals company that produces advanced, sustainable, biochemicals and biomaterials to a global customer base. Its main products are lignin-based biopolymers and biovanillin, speciality cellulose, cellulose fibrils, fine chemical intermediates and advanced bioethanol.

Established in 1889, its main products were traditional pulp and paper. In 1986, Norwegian investment company Orkla Group acquired the company and incorporated it in its chemicals division. In 2012 the company was spun off and has been listed on the Oslo Stock Exchange since. The company's ownership is adequately dispersed, with the largest shareholder (Folketrygdfondet) holding 9.7%, and the top 20 accounting for 70%.

The year 1991 represented a fundamental shift in the company's history with the decision to transition from a commodity-based to a specialty chemicals company. In practice this meant a high focus on specialisation through innovation and market development. Today, the company is a leader within wood-based specialty chemicals and operates one of the world's most advanced biorefineries in its hometown of Sarpsborg, Norway. In addition, it has five other production facilities across Europe and North America and caters to customers in over 100 countries.

At year-end 2022, revenues were NOK 6,881m (EUR 630m) and EBITDA was NOK 1635m (EUR 150m) with a corresponding EBITDA margin of 23.8%.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	14.3x	19.9x	21.6x	17.7x	17.7x	19.8
Scope-adjusted debt/EBITDA	1.6x	1.0x	1.1x	1.1x	1.1x	1.1x
Scope-adjusted funds from operations/debt	55%	81%	75%	72%	69%	69%
Scope-adjusted free operating cash flow/debt	23%	47%	13%	22%	11%	18%
Scope-adjusted EBITDA in NOK m						
EBITDA	1,016	1,372	1,635	1,641	1,698	1,777
Operating lease payments	-	-	-	-	-	-
Other items[2]	116	-	8	16	16	16
Scope-adjusted EBITDA	**1,132**	**1,372**	**1,643**	**1,657**	**1,713**	**1,792**
Funds from operations in NOK m						
Scope-adjusted EBITDA	1,132	1,372	1,643	1,657	1,713	1,792
less: (net) cash interest paid	-76	-59	-76	-88	-91	-84
less: cash tax paid per cash flow statement	-89	-124	-208	-265	-272	-286
less: pension interest	-3	-10	-	-6	-6	-6
add: dividends from associates	51	6	34	-	-	-
Other items	5	-20	-	-16	-16	-16
Funds from operations (FFO)	**1,020**	**1,165**	**1,393**	**1,283**	**1,329**	**1,400**
Free operating cash flow in NOK m						
Funds from operations	1,020	1,165	1,396	1,283	1,329	1,400
Change in working capital	-21	256	-658	-97	-41	-90
Non-operating cash flow	13	-129	37	13	13	13
less: capital expenditure (net)	-503	-556	-464	-750	-1,030	-900
less: lease amortisation	-77	-62	-64	-62	-62	-62
Free operating cash flow (FOCF)	**432**	**674**	**244**	**387**	**209**	**361**
Net cash interest paid in NOK m						
Net interest paid	76	59	76	88	91	84
add: interest expense pensions	3	10	0	6	6	6
Net cash interest paid	**79**	**69**	**76**	**94**	**97**	**90**
Scope-adjusted debt in NOK m						
Reported gross financial debt	2,004	1,544	2,072	2,045	2,117	2,217
less: unrestricted cash and cash equivalents	-207	-124	-234	-276	-214	-207
add: pension adjustment	45	15	15	15	15	15
Asset retirement obligation	3	-	-	-	-	-
Scope-adjusted debt (SaD)	**1,845**	**1,435**	**1,853**	**1,784**	**1,918**	**2,025**

[2] Other items include one offs like impairments, restructuring costs, provisions etc.

Table of Content|

Environmental, social and governance (ESG) profile[3]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Supportive ESG profile

We consider Borregaard's business model and efficient production (using wood as raw material) as well as its sustainable product offering as supportive of its current and future market positions (positive ESG factor). As the population grows and urbanisation increases, the need for circular and sustainable solutions is rapidly growing. This is becoming more evident through sentiment expressed in mainstream media and in national and regional legislation, both of which are promoting sustainable products and corporations as opposed to their fossil-fuel-based counterparts. These matters are also becoming increasingly measurable as shown by the EU's taxonomy. These factors will impact not only consumer demand but also capital allocation decisions among investors and corporations in the medium to long term. Borregaard, as one of the world's largest producers of sustainable, wood-based alternatives to fossil-fuel-based products, will benefit from these megatrends.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB+

Industry risk profile: A

Following Scope's Chemicals Rating Methodology, we define Borregaard as a specialty chemicals company. Consequently, we consider the relevant industry risk to have medium (GDP-driven) cyclicality and high barriers to entry and therefore assign an industry risk profile of A.

The business risk profile is highlighted by Borregaard's unique and sustainable production process (positive ESG factor), supported by strong market positions in most of its segments, a satisfactory level of research and development, a favourable cost position; good diversification, and sustainability-driven outlook.

Wood-based chemicals production process

The production of wood-based chemicals and materials commonly involves the processing of wood, together with a catalyst and energy, into two parts: the fibres and lignin. Both components can be further processed and specialised to fit a wide array of applications. In its simplest and most recognisable form, the fibre can be used to produce paper. Lignin, on the other hand, is commonly burned to create energy, which reduces the overall energy cost of the process.

However, the quality of these end-products depend on the type of wood, the type of catalyst and the production facilities used. These factors also determines the scale at which a company can produce without compromising on the purity and/or the modification properties of the end-products.

Unique softwood sulphite pulping process

Borregaard uses a combination of mainly softwood and the sulphite pulping process. This combination enables the production of high volumes of fibres and lignin while maintaining superior purity and more favourable properties than through other methods. This distinct competitive advantage is the foundation to many of Borregaard's strong market positions, which the company has reinforced with the active pursuit of innovation in products, applications, as well as market and industry research..

Process protected by high physical, financial and intangible barriers…

This process is also hard to replicate, protected by physical barriers like access to the correct raw materials, by financial barriers like the cost it would entail to replicate an advanced biorefinery, and by intangible barriers like patent protection. Finally, even if an entrant were able to replicate both the refinery and the process, it would face fierce competition from Borregaard, which through its strong cost base could significantly reduce prices without incurring losses.

.. as well as Borregaard's strong cost base

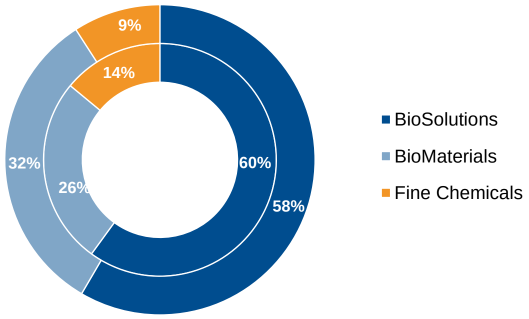
As mentioned, the three main ingredients in Borregaard's production process at the site in Norway is wood, energy and caustic soda. Borregaard purchases its wood raw material partly as pulpwood from forest owners and partly as side-stream chips from Nordic sawmills. Caustic soda can be relatively expensive and the market price depends on energy costs, among other things. Borregaard can cover 60-70% of its caustic soda needs through own production, using hydro-based electricity under favourable long-term contracts. Lastly, two-thirds of Borregaard's total energy consumption are either covered through own production or long-term contracts. In sum, this creates a cost base that is very hard to compete against.

Three business segments: BioSolutions, BioMaterials and Fine Chemicals

Internally, the company operates with three business segments: BioSolutions, BioMaterials, and Fine Chemicals.

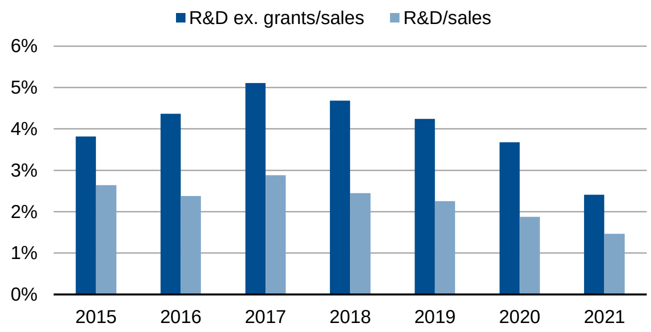
BioSolutions involves the further processing and sale of lignin produced in the pulping process. As mentioned, most pulp companies burn the lignin they produce to reduce the overall energy cost of the pulping process. However, lignin is Borregaard's biggest segment in terms of both turnover and profitability (figure 1). This difference highlights Borregaard's competitive advantage created from its highly specialised product offering.

Figure 1: Revenue contribution (outer ring, %) and EBITDA contribution (inner ring, %) per segment, 2022



Sources: Borregaard, Scope

Figure 2: Research and development expenses relative to sales (%), with and without grants



Sources: Borregaard, Scope

BioSolutions can be further broken down into the production and sale of sustainable, lignin-based biopolymers and biovanillin.

Leading producer of lignin-based biopolymers

Borregaard is the leading producer of lignin-based biopolymers, with an estimated 35-40%[4] of the volume in the global market. Here, the company offers over 600 unique products for applications within agrochemicals, battery production, industrial binders, construction and more. The world's second largest is Swedish Domsjö Fabriker AB, though far behind Borregaard in terms of both turnover and production capabilities. Further, Domsjö produces less specialised, commodity-like biopolymers for textile applications. In fact, most other suppliers of lignin-based biopolymers have a commodity-like product offering. Consequently, few other suppliers of lignin-based biopolymers can provide direct competition, which leads to stability and predictability in Borregaard's cash flows.

World's largest producer of plant-based vanillin

For biovanillin, Borregaard is the world's largest producer of plant-based vanillin, with an estimated 59% of 2022 global sales volumes[5]. This stems from its unique pulping process, which enables it to produce high volumes whilst maintaining the quality and purity required by the food, beverage and fragrance industries. Still, this activity only translates to an estimated 4% of global vanillin production capacity[6], a market dominated by low-cost producers of fossil-fuel-based synthetic vanillin and ethyl vanillin. We favourably note that the company's position is advantageous and its sustainable product offering mitigates direct competition from fossil-fuel-based producers, but still acknowledge the relevant threat these competitors pose to the company's vanillin market position.

Estimated 10% global market share for specialty cellulose

BioMaterials involves the further processing and sale of fibre produced in the pulping process. Here, the company offers specialty cellulose for use as a raw material in the production of cellulose ethers, acetates and other products. Examples of products here include cigarette filters[7], plastics, LCD, yarn, construction materials and casings. This market is more concentrated, with the top five producers having an estimated 80% of the global market, whereas Borregaard is estimated to have 10%[8].

Patented Exilvia fibrillation technology

This segment also includes the company's cellulose fibrils operations. Here, the company applies its patented Exilva fibrillation technology to the cellulose, giving them advanced,

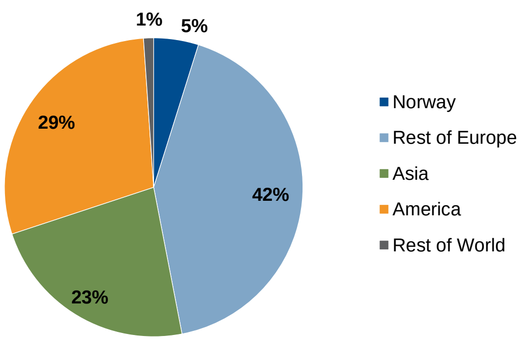
[4] Scope estimates
[5] Scope estimates
[6] Scope estimates
[7] Borregaard has a long-term target of reducing cigarette filter applications to below 5% (currently between 5-10%)
[8] Celco Cellulose Consulting market report

three-dimensional networks of fibrils on a micro- or nano-scale. This gives the fibrils a much higher surface area than regular cellulose fibres, which makes it a more potent additive in many applications (e.g. cosmetics, construction). As of FY 2022 this business area is still in a commercialisation phase and making a loss. However, we favourably note how the company is a leader within fibrils as well as the potential upside of this patented technology.

Leading producer of second-generation bioethanol and contrasting agents

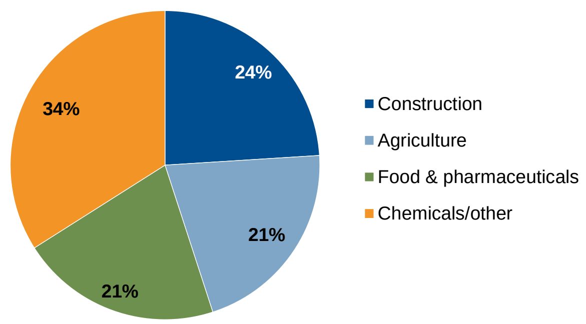
The last segment, Fine Chemicals, is the company's smallest in terms of turnover but also its most profitable, with EBITDA margins of around 30% historically. Here, the company processes and sells bioethanol for use in biofuels, as well as intermediates for contrasting agents and other fine chemical intermediates for the pharmaceuticals industry. The company's unique production process allows it to produce water-free ethanol on a large scale. With an annual production capacity of 20m litres, it is a leading producer of second-generation bioethanol. This environmentally friendly quality makes it particularly attractive for biofuel applications, a segment experiencing ESG-driven tailwinds.

Figure 3: Geographical revenue overview, 2022 (%)



Sources: Borregaard, Scope

Figure 4: Group end-market revenue overview, 2022 (%)



Sources: Borregaard, Scope

Over 600 specialised products, over 3,000 customers, over 100 countries

With a wide product offering consisting of over 600 specialised and sustainable products, the company can spread sales across various industries to an excess of 3,000 customers in over 100 countries. The company's overall diversification is therefore good.

Satisfactory geographical diversification

In terms of geographical risk, Europe accounted for most of the company's 2022 sales, whilst the rest was split between America (north and south) and Asia (figure 3). In Asia, the company's sales to China may be impacted by sanctions should geopolitical tensions between China and the West increase. However, we estimate that the overall impact on the company's performance will be moderate. In terms of the Americas, the company has local production facilities through its joint operation with RYAM in Florida, where input factors are also sourced locally. This reduces risk of increased import tariffs or sanctions. Lastly, the company's reliance on Europe is moderately negative for its geographical diversification. However, we favourably note how the company has shifted a great deal of its turnover from Europe to Asia by using cheap return-freighters during the 2009 financial crisis.

High exposure towards construction a limiting factor

End-industry risk is, however, a limiting factor for the overall business risk assessment. The company derived 24% of its 2022 turnover from the construction industry, which has above-average cyclicality. However, several factors mitigate this risk. Firstly, the remaining revenues are derived from industries which produce non-discretionary products and therefore have lower cyclicality (agriculture, food, pharma). Secondly, the company's high specialisation and wide product offering allow it to skew its focus on less cyclical products in times of economic uncertainty. This is not possible for less specialised cellulose-chemical companies as increasing specialisation takes years and significant investment. Lastly, the company has an active strategy of reducing its sales towards low-margin, cyclical applications, which is also believed to reduce the impact of a potential downturn.

BioSolutions; low customer concentration, biggest exposure towards low cyclicality agriculture industry

In BioSolutions, the company caters to over 2,800 customers across various industries and countries. At year-end 2022, the agricultural industry was the largest contributor to the segment's revenues with 36%. The agricultural industry has low cyclicality due to the non-discretionary nature of the goods it produces (food). In addition, BioSolutions also includes the biovanillin business, which caters to low-cyclicality industries like food and beverage. Both of which makes the BioSolutions segment performance more stable. However, this segment is exposed to the cyclicality of the construction sector, with 19% of segment revenues derived from the sector in 2022.

BioMaterials; 'solution provider' approach partly mitigates concentration risk

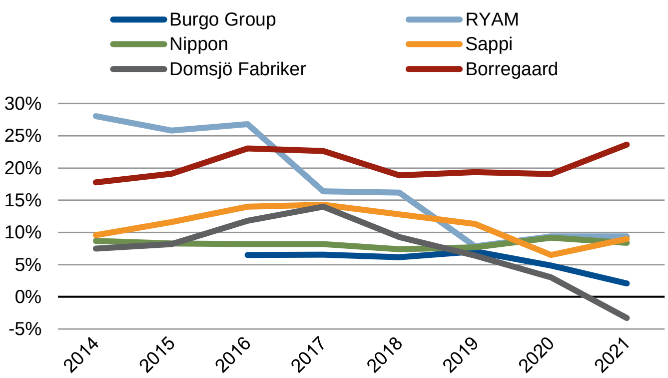
In BioMaterials, the clients are fewer and larger than in the other two segments. Customer concentration is therefore high. The main reason is that specialty cellulose products are often one of few key input factors for the company's customers, if not the only one. Consequently, customers tend to purchase larger volumes. This concentration risk is mitigated partly by the company's 'solution provider' approach to offer highly specialised products tailored to the production infrastructure of its customers. This results in more sticky customer base than in the company's other segments. In terms of industry concentration, BioMaterials also derives a substantial portion of revenues from the construction industry, which is again considered a limiting factor to the company's diversification.

FineChemicals; primarily caters to low-cyclicality industries

In Fine Chemicals, the company primarily caters to low-cyclicality sectors like biofuels and pharmaceutical, which is credit-positive. However, there is some concentration risk with the large customers, but these sales tend to be on longer-term contracts.

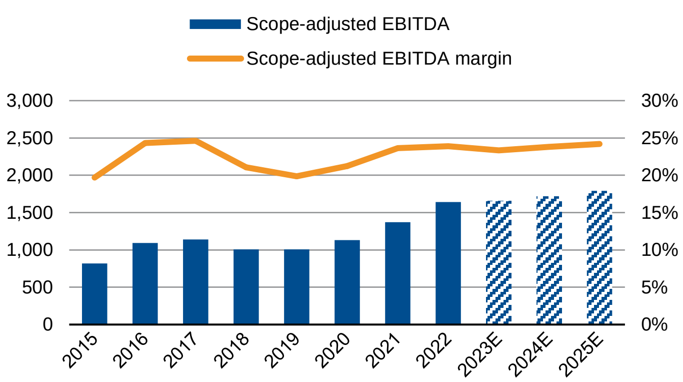
The company's supply side concentration is moderate as purchases are spread across categories, vendors, and regions.

Figure 5: Profitability peer comparison (%)



Sources: Borregaard, Scope

Figure 6: Group EBITDA (NOK m) and EBITDA margins (%)



Sources: Borregaard, Scope (estimates)

Operating profitability reflects strong business risk profile

Profitability, as measured by the Scope-adjusted EBITDA margin, has ranged from a low of 19.7% in 2015 to a high of 23.8% in 2022. These strong margins are a result of the company's long-term strategy to pursue highly specialised products and target industries where its unique (and barrier-protected) production process would give a competitive advantage.

The company's strong market position and highly specialised product offering also strengthen bargaining power towards customers. Consequently, it can transfer most inflationary pressures to customers to preserve profitability. This was particularly evident in 2022 when it applied substantial price increases and surcharges towards end customers.

The operating performance is also very stable, partly due the aforementioned bargaining power but also because the demand for the company's products is mainly GDP-driven. This is further supported by the widely diversified product portfolio, large number of customers and the global reach. These factors enable the company to shift its sales towards industries or geographies with more favourable outlooks.

Because the company derives the majority of its income from the EU and US, the largest threat to the company's operating performance is changes in the Norwegian krona against either the euro or US dollar. To reduce this risk, the company is actively hedging both cash flows and net investments in its subsidiaries.

Financial risk profile: A

Strong financial flexibility, a result of the disciplined financial policy

The company has a history of pursuing a disciplined financial policy despite strong cash flow generation, particularly in periods of historically weak NOK and/or economic uncertainty. Consequently, its financial flexibility has been strong. This was reinforced at year-end 2022 by the record-high earnings and its impact on Scope-adjusted metrics. Our medium-term rating case projects slightly lower profitability but continued strong cash flows as well as leverage towards the lower end of the company's stated net interest-bearing debt/EBITDA range of 1.0x-2.25x.

Key assumptions

Our base-case is based on the following key assumptions:

- Medium-term top line driven by inflation passed on in higher sales prices as well as moderate capacity increases
- Lower profitability in 2023 due the downturn in construction, elevated costs, and expectations that the company will skew production towards less cyclical but less profitable products
- Improved performance towards end of forecast as economic conditions normalise
- Higher-than-historical capital expenditure as communicated by the company during its September 2022 presentation
- Dividends to follow precedent set by the company, with an annual increase of NOK 0.25-0.5 a share
- Leverage to follow precedent set by the company, with net interest-bearing debt/EBITDA generally at the low end of the 1.0x-2.25x target in times of historically weak NOK and/or economic uncertainty

Key adjustments

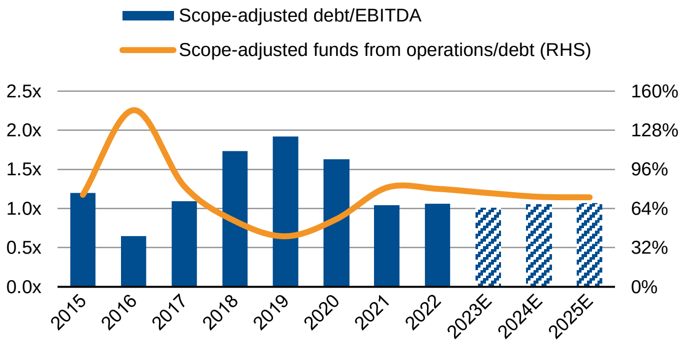
And the following key adjustments:

- Historical Scope-adjusted EBITDA adjusted for non-recurring items including restructuring costs and fair value changes of tangible and intangible assets
- Net present value of operating lease obligations added to Scope-adjusted debt (pre-2019 as the company implemented IFRS 16 on 1 January 2019)
- Scope-adjusted debt including provisions for site restoration and environmental measures (contingent liabilities) in relevant years
- Scope-adjusted debt including 50% of net pension liabilities
- Interest adjusted for interest expenses related to pension liabilities

Leverage to remain very strong into the medium term

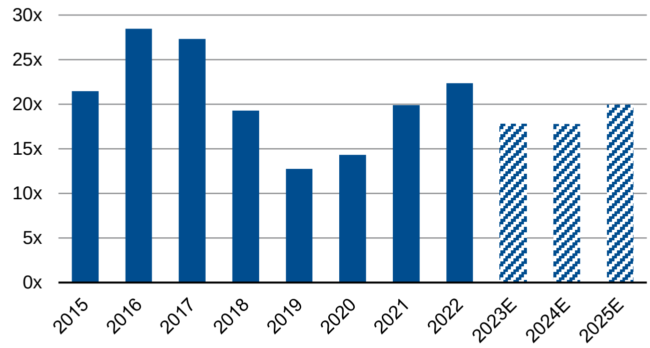
Leverage is strong, with Scope-adjusted debt/EBITDA ranging from 1.0x to 1.9x over the past five years (figure 7). The low debt levels can be explained by strong cash flow generation, moderate capex, moderate M&A, and the prudent financial policy. The company has been able to fund research and development, capital investments and shareholder distributions entirely through operating cash flow, negating the need to raise external capital. The company has remained at the low end of its leverage target (net interest-bearing debt/EBITDA of 1.0x-2.25x), particularly in times of historically weak NOK and/or economic uncertainty, like in 2015-2018 and from 2020. We believe the company will do the same going into 2023 as inflationary pressures remain and economic conditions in the company's end-markets are unstable. Further, we expect the company to implement the higher-than-historical investment programme announced in February 2022 and pay dividends in line with precedent. We also expect the company's performance to remain strong, with Scope-adjusted EBITDA margins of 23-24% and operating cash flows covering most expenses. Consequently, we project medium-term Scope-adjusted debt/EBITDA around 1.1x, which is very strong.

Figure 7: Scope-adjusted leverage (x)



Sources: Borregaard, Scope (estimates)

Figure 8: Scope-adjusted interest cover (x)



Sources: Company name, Scope (estimates)

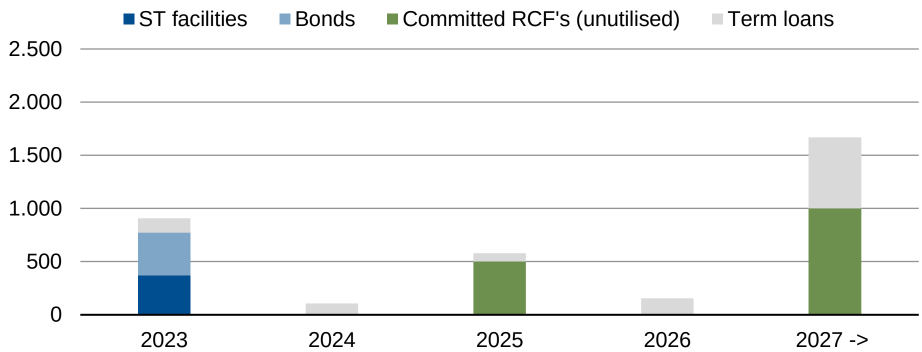
Interest cover to remain strong, despite increasing interest expense

The company's historical interest coverage is also strong with EBITDA/interest expense comfortably above 10.0x in recent years (figure 8). This is a result of the company's strong operating performance, low debt levels, and favourable financing terms on account of its strong credit quality. As most of the company's debt is floating rate, we expect interest expense to increase going forward. However, interest coverage will remain strong thanks to robust performance and moderate debt levels, staying above 10.0x in the medium term.

High investment to put pressure on free operating cash flow

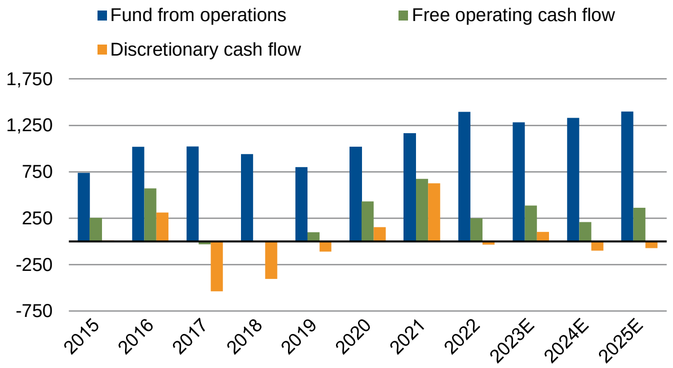
Free operating cash flow has historically been strong but did break even and even turned negative during 2017-2020 when investment was high. However, those years did not have the same inflationary pressures and economic uncertainty as there are today and were therefore exceptional years despite the high investment. We therefore project free operating cash flows to decline but remain good in the medium term (figure 10).

Figure 9: Maturity profile, year-end 2022



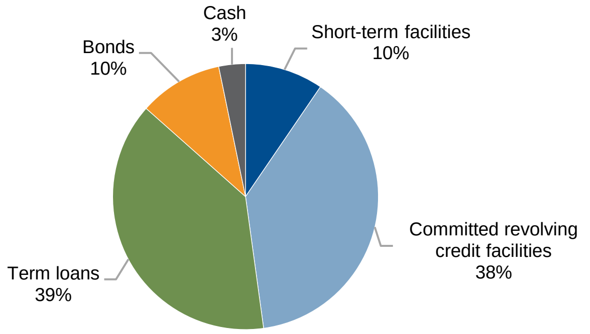
Sources: Borregaard, Scope

Figure 10: Scope-adjusted cash flows (NOK m)



Sources: Borregaard, Scope (estimates)

Figure 11: Funding sources, year-end 2022



Sources: Borregaard, Scope

Adequate liquidity

Liquidity is adequate. At year-end 2022 the company had NOK 234m in cash and equivalents and NOK 1.5bn in unused committed credit facilities against only NOK 590m in short-term interest-bearing liabilities. The company has a diverse funding mix consisting of three bilateral revolving credit facilities, three term loans, bonds, and three small short-term facilities (figure 11).

Balance in NOK m	2023E	2024E	2025E
Unrestricted cash (t-1)	234	276	214
Open committed credit lines (t-1)	1,500	1,500	1,500
Free operating cash flow	387	209	361
Short-term debt (t-1)	590	653	725
Coverage	**> 200%**	**> 200%**	**> 200%**

Even maturity profile

The company's maturity profile is even and reflective of its moderate debt levels. The company has one larger maturity in the medium term, a bond in 2023, which we expect to be comfortably refinanced when the time comes.

Supplementary rating drivers

No adjustment

Regarding supplementary rating drivers (financial policy, governance and parent support), our assessment has not resulted in any adjustments to the standalone rating.

Sound financial policy

Borregaard's financial policy remains prudent. The most important leverage ratio in the analysis, net interest-bearing debt/EBITDA, is forecast to remain low as the company has tended towards the low end of the targeted 1.0x-2.25x in times of historically weak NOK and/or economic uncertainty. Further, we expect dividend payouts to be in line with the company's stated increase of NOK 0.25 per share a year going forward.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

The senior unsecured rating is in line with the issuer rating, with Borregaard ASA also being the bond-issuing entity.

Short-term debt rating: S-1

The S-1 short-term rating reflects the company's supportive internal and external sources of liquidity (NOK 1.5bn in unused facilities and NOK 234m in cash reserves at year-end 2022), positive cash flow generation and adequate access to bank and capital markets.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer