Schouw & Co.
Denmark, Industrial Conglomerate

STABLE
BBB

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	27.9x	14.1x	7.9	8.7x
Scope-adjusted debt/EBITDA	1.4x	2.6x	2.3x	2.0x
Scope-adjusted funds from operations/debt	61%	31%	33%	38%
Scope-adjusted free operating cash flow (FOCF)/debt	-14%	-16%	11%	18%

Rating rationale

Schouw's BBB issuer rating is based on its BBB- business risk profile and BBB+ financial risk profile. The following factors support the rating: a good financial risk profile; a diversified service and product offering ranging from fish feed and shrimp farming to electronic manufacturing services, automotive remanufacturing as well as non-woven and hydraulic components; and the large business of Schouw's biggest portfolio company, BioMar, and its strong position in the global market for fish feed. The following factors constrain the rating: relatively low overall profitability in a peer group context due to low profitability at BioMar; the high exposure to the fish feed business and in particular to salmon feed (around 40% of 2022 revenue); and volatile and in some years negative free operating cash flow (FOCF), resulting in low and volatile cash flow cover.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that consolidated Scope-adjusted free operating cash flow will improve in 2023-2024 after being negative in 2021-2022, supported by the normalisation of supply chains as well as of consolidated capex following the investment programme's completion in 2023. The Outlook also takes into account our forecast of improving leverage, as measured by Scope-adjusted debt/EBITDA, based on our expectation of no material acquisitions in 2023-2024 after the peak in M&A in 2022.

We might consider a positive rating action if Schouw sustained its Scope-adjusted debt/EBITDA ratio at around 1.5x, e.g. through improved profitability or a return to significantly positive and steady FOCF.

We may consider a negative rating action if Scope-adjusted debt/EBITDA were sustained at around 2.5x, which could result from lower profitability or from the aggressive use of liquidity for M&A transactions.

Rating history

Date	Rating action	Issuer rating & Outlook
5 Sep 2023	New	BBB/Stable

Ratings & Outlook

Issuer	BBB/Stable
Senior unsecured debt	BBB
Short-term debt	S-2

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Related Methodology and Related Research

General Corporate Rating Methodology; July 2022

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Good financial risk profile with leverage of below 2.5x and strong EBITDA interest coverage • Diversified service and product offering • Strong position in the global salmon feed market of Schouw's largest portfolio company, BioMar • Low volatility of EBITDA margin, which we attribute to the diversified portfolio with offsetting effects between its individual segments • Around 70% of 2022 revenue and around 65% of 2022 EBITDA from businesses with low cyclicality	• Low operating profitability in a peer group context, due to low profitability at largest portfolio company BioMar • High exposure to the fish feed business and in particular to salmon feed (around 40% of 2022 revenue) • Quite volatile and in some years negative FOCF, resulting in low and volatile cash flow cover • Significant EBITDA contribution of companies that are more or less regional players with relatively weaker market power • Strategic challenges at BioMar and the risk for BioMar of losing customers due to backward integration of customers

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA improving to around 1.5x on a sustained basis e.g. through improved profitability or a sustained return to significantly positive FOCF	• Scope-adjusted debt/EBITDA sustained at around 2.5x, which could result from lower profitability or the aggressive use of liquidity for M&A transactions

Corporate profile

Schouw & Co. was established in 1878 and is headquartered in Aarhus, Denmark. Schouw is a listed industrial conglomerate with a 100% shareholding in six companies:

1) **BioMar**: Founded in 1962 by a group of Danish fish farmers, BioMar is one of the world's largest manufacturers of feed for all stages of fish and shrimp farming, with an annual capacity of 2.1m tonnes in 2021. Schouw took an initial ownership interest in BioMar in 2005 and the company became a wholly owned subsidiary through a merger in 2008.

2) **GPV International**: Founded in 1961 and acquired by Schouw in 2016, GPV provides contract manufacturing services for electronic components and assemblies for original equipment manufacturers.

3) **Borg Automotive**: Founded in 1975 and part of the Schouw group since April 2017, Borg Automotive is Europe's largest independent automotive remanufacturing company.

4) **Fibertex Personal Care**: The company was founded in 1968 and acquired by Schouw in 2002. The personal care activities were carved out as an independent portfolio business directly under Schouw in 2011. Fibertex produces spunbond/spunmelt non-woven fabrics for hygiene applications. The products are sold to large international companies such as Proctor & Gamble, SCA, Kimberly Clark, Ontex and Abena and are mainly used in baby nappies but also in period care and incontinence products.

5) **Fibertex Nonwovens**: The company produces fabrics/non-woven materials in particular for the European car industry for motor insulation, seating, wheel and underbody, furniture, mattress, carpet and medical technology companies.

6) **HydraSpecma**: The company is a combination of two former companies: i) Hydra-Grene A/S, founded as an independent company in 1974 and part of the Schouw group since 1988; and ii) Specma AB, founded in 1918 and acquired by Hydra in January 2016. HydraSpecma produces hydraulic components, including pumps, motors, valves, fittings, pipes and hoses. These products are used in the vehicles segment, for example for lorries, buses, construction equipment, wind turbines and other stationary equipment.

Schouw has a very long investment horizon. In 2022, Schouw had a consolidated revenue of DKK 32.6bn and a consolidated EBITDA of DKK 2.3bn. Givesco is the main shareholder with 28% and is controlled by the Eskildsen family.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	22.5x	27.9x	14.1x	7.9x	8.7x	12.0x
Scope-adjusted debt/EBITDA	0.9x	1.4x	2.6x	2.3x	2.0x	1.6x
Scope-adjusted funds from operations/debt	90%	61%	31%	33%	38%	47%
Scope-adjusted FOCF/debt	79%	-14%	-16%	11%	18%	24%
Scope-adjusted EBITDA in DKK m						
EBITDA	2,210	2,206	2,282	2,648	2,762	2,958
add: share-based compensation expense	19	27	32	32	32	32
Scope-adjusted EBITDA	**2,229**	**2,233**	**2,314**	**2,680**	**2,794**	**2,990**
Funds from operations in DKK m						
EBITDA	2,229	2,233	2,314	2,680	2,794	2,990
less: (net) cash interest paid	-94	-78	-136	-340	-320	-250
less: cash tax paid per cash flow statement	-309	-381	-269	-311	-346	-418
add: dividends received from equity			10	21	5	5
Other[1]	19	59	-10			
Funds from operations	**1,845**	**1,833**	**1,909**	**2,049**	**2,132**	**2,327**
Free operating cash flow in DKK m						
Funds from operations	1,845	1,833	1,909	2,049	2,132	2,327
Change in working capital	471	-1,277	-1,548	-50	-100	-100
Non-operating cash flow						
less: capital expenditure (net)	-493	-745	-1,101	-1,050	-790	-790
less: amortisation of leases	-196	-220	-240	-240	-240	-240
Free operating cash flow	**1,627**	**-409**	**-980**	**709**	**1,002**	**1,197**
Net cash interest paid in DKK m						
Net cash interest per cash flow statement	94	78	136	340	320	250
Other[2]	5	2	28			
Net cash interest paid	**99**	**80**	**164**	**340**	**320**	**250**
Scope-adjusted debt in DKK m						
Reported gross financial debt	2,600	3,453	6,679	6,699	5,899	4,949
less: cash and cash equivalents	-635	-490	-712	-579	-348	-143
add: non-accessible cash			50	31	31	31
add: pensions	65	44	24	24	24	24
add: factoring[3]	20	20	70	70	70	70
Scope-adjusted debt	**2,050**	**3,027**	**6,111**	**6,245**	**5,676**	**4,931**

[1] Other items in the FFO include provisions and other non-cash operating items
[2] Capitalised borrowing costs
[3] Factoring exposure with recourse

Table of Content

Environmental, social and governance (ESG) profile[4]

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)

Schouw introduced an ESG strategy in 2021 related to i) efficient and responsible production; ii) workers' protection and workplace attractiveness; and iii) innovation and governance. However, no drivers of the credit rating are considered ESG-related factors with a substantial impact on the overall assessment of credit risk.

In 2019, the Chilean branches of BioMar and its competitors Skretting, EWOS and Salmofood were accused of setting the sale prices of salmonid food between at least 2003 and 2015. BioMar's management believes it is not likely that the company will be convicted of participating in concerted practices. Accordingly, no provisions have been recognised concerning claims submitted. We believe that this investigation has no immediate relevance to the credit rating as the outcome is unclear and the risk to the company is limited as all the big names in the industry are accused.

[4] 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.

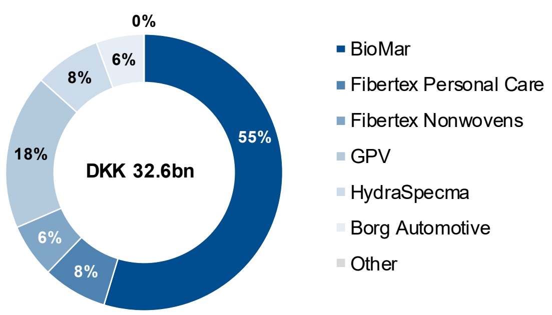
Business risk profile: BBB-

Schouw has a portfolio of six wholly controlled and fully consolidated companies with operational and financing integration.

Market position benefits from BioMar's size and its leading position in the global market for salmon feed

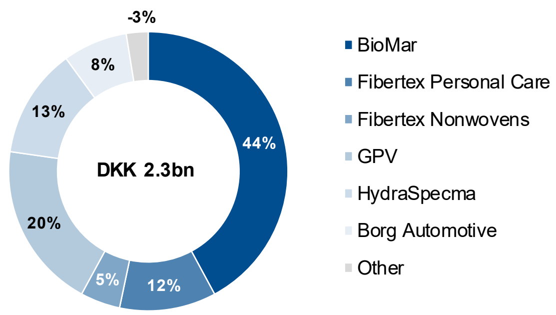
Schouw's overall market position benefits from the substantial size of its largest subsidiary, BioMar. Schouw also benefits from GPV's more than doubled size since its acquisition of Enics in 2022. However, Schouw's overall market position is weakened by i) strategic challenges at BioMar and the risk for BioMar of losing customers, in case some of them start or continue backward integration, as happened in 2014 when its former Norwegian customer, Marine Harvest, one of the world's largest fish farming companies, started its own fish feed production; and ii) the significant EBITDA contribution of companies that are more or less regional players with relatively weaker market power.

Figure 1: 2022 revenue split by subsidiary



Sources: Schouw, Scope

Figure 2: 2022 EBITDA split by subsidiary



Sources: Schouw, Scope

Diversified service and product offering

Schouw's business risk profile is supported by a diversified service and product offering ranging from fish feed and shrimp farming to electronic manufacturing services, automotive remanufacturing as well as non-woven materials and hydraulic components.

BioMar is Schouw's largest subsidiary

BioMar is Schouw's largest portfolio company, accounting for 55% of the group's total revenue (DKK 32.6bn) and around 45% of group's EBITDA (DKK 2.3bn) in 2022. BioMar sold 1.5m tonnes of fish feed in 2022, amounting to a global market share of 5%-6% with an estimated global fish feed market sales volume of approximately 25m tonnes. Fish feed varies significantly from species to species, so there are many different submarkets in the global fish feed industry. Around 70% of volumes sold by BioMar (about 1m tonnes) consist of fish feed for salmon, which are mainly farmed in Norway, Scotland and Chile. Salmon is also farmed in Australia, where BioMar recently built a feed factory. The global market for salmon feed is estimated at around 4m tonnes per year, which gives BioMar a global market share of around 25%. The salmon feed market is essentially a triopoly as the largest three manufacturers account for around 90% of the market. BioMar is smaller than its main competitors Skretting (a subsidiary of Nutreco) and EWOS (a subsidiary of Cargill). Fish feed is voluminous and therefore has to be produced regionally/locally to limit transport costs and maintain profit for fish feed manufacturers. As the fish feed industry operates primarily on a local/regional basis, the competitive situation varies significantly from market to market. Schouw has a leading market position in the Chilean and UK salmon feed market.

The salmon fish feed market is a triopoly and BioMar is the third largest player

BioMar's strategic challenges

BioMar faces some strategic challenges. The salmon feed business is a relatively low-margin business in general and compared to other fish feed markets. Furthermore, BioMar has only limited exposure to the faster-growing shrimp and prawn feed segments and the large Asian market. In 2015, BioMar and Chinese company Tongwei established a joint venture in China. With about 30m tonnes of fish and shellfish produced yearly, China is the biggest aquaculture country in the world. We also highlight the risk that BioMar's customers could start their own fish feed production, as happened in 2014 when one of the world's largest fish farming companies, Marine Harvest, started its own fish feed production in Norway. In 2021, Marine Harvest completed the construction of its second site in Scotland, achieving self-sufficiency in fish feed.

GPV: contract manufacturing services in a B2B market

GPV is involved in advanced high-mix/low-to-mid volume electronic manufacturing services (EMSs) for original equipment manufacturers (OEMs). Mix refers to the complexity of different models of the printed circuit board assembly. Volume refers to the number of units built, with products like consumer electronics on the high end and prototypes, medical electronics or machinery on the low end. High complexity and low volumes are usually associated with higher margins compared to low complexity and high volume services, as the complexity allows for more customer stickiness and hence better bargaining power. The global EMS market is estimated at EUR 480bn in 2021[5]. As GPV is not exposed to the mass markets of automotive and 3C (computer, communications and consumer electronics), its addressable market represents EUR 200bn. GPV has gained market share through bolt-on acquisitions in recent years. For example, in 2018, GPV acquired the Swiss electronics manufacturer CCS, which had a revenue of DKK 1.6bn. That lifted GPV into the top 10 EMS companies in Europe. The recent merger of GPV and Enics has created the second largest EMS group headquartered in Europe, with around DKK 10bn (around EUR 1.3m) of revenue expected for 2023. Although the market share of the combined company has increased to around 0.7%, it remains a relatively small company in the global EMS market.

GPV is large in Europe, but with a small global market share

Borg Automotive: automotive remanufacturing services

Borg Automotive offers automotive remanufacturing services in the European B2B market. Companies that perform remanufacturing can be divided according to their relationship to the OEM:

- OEMs/original equipment remanufacturers: remanufacture their own products arriving from service centres, trade-ins from retailers or end-of-lease contracts.
- Contracted remanufacturers: contracted to remanufacture products on behalf of other OEMs). This means that the OEM normally maintains ownership of the products but does not perform the actual remanufacturing itself.
- Independent remanufacturers: remanufacture products in which the OEM has little or no contact with the product; independent remanufacturers buy or collect components for their processes.

Relatively small player in the European automotive remanufacturing market

The European automotive parts remanufacturing market is highly competitive and fragmented at the regional level. With a revenue of DKK 1.8bn in 2022, Borg Automotive is Europe's largest independent automotive remanufacturing company, with a market share of around 1.5%. Top suppliers in the European automotive parts remanufacturing market include Robert Bosch GmbH, Caterpillar Inc., ZF Friedrichshafen AG, and Valeo SA.

Fibertex Personal Care and Fibertex Nonwovens produce non-woven materials for various applications

Fibertex Personal Care and Fibertex Nonwovens were part of the same company until 2011, when Schouw decided to split them into two. Although both companies produce non-woven materials from similar raw materials, their technologies (needlepunch technology at Fibertex Nonwovens and spunbond/spunmelt technology at Fibertex Personal Care), customers and markets are different. The spunbonded fabric from Personal Care is much lighter and higher quality than spunbond/spunmelt fabrics from

[5] Source: Fortune Business Insights

Fibertex Nonwovens and is used for hygiene applications such as baby nappies, period care and incontinence products. Lower-quality non-woven materials from Fibertex Nonwovens are used in cars, construction and filtration, often to replace heavier and more environmentally harmful alternatives. The spunbonded fabrics are sold to large international companies such as Proctor & Gamble and Kimberly Clark. Quality, adherence to deadlines and support for customers with special needs are of great importance in this market and make customers very sticky. By contrast, Fibertex Nonwoven's customers are much smaller and more fragmented, which, combined with relatively cheaper production lines, leads to greater competition and ultimately lower profitability compared to the spunbond market. Fibertex Personal Care is one of the world's 10 leading manufacturers of hygiene spunbonded fabrics. The competitive structure in Fibertex Nonwovens' market differs depending on the end-market.

Hydra-Specma is a regional hydraulic player

Hydra-Specma is a regional hydraulic player in the Nordic region. It supplies all types of hydraulic components used in the vehicles segment, for example for lorries, buses, construction equipment, wind turbines and other stationary equipment. Customers include major Nordic-based OEM manufacturers and the aftermarket. Own production is limited, as HydraSpecma only produces manifolds and some individual fittings. HydraSpecma primarily adds value through assembly. Assembly makes up 65%-70% of Hydra-Specma's business. The remaining part is wholesale and makes up 30%-35%.

Granular customer structure

Schouw's customer structure is granular. While there is a high dependence on single customers at the level of the individual companies, no single customer accounts for more than 5% of the group's consolidated revenue.

Customers come from a wide range of sectors

High exposure to salmon feed restrains diversification

Low cyclicality at BioMar, Fibertex Personal Care and Borg Automotive

Schouw's customers come from a wide range of sectors such as fish farming; automotive; period and incontinence care; wind power; building and construction; agriculture; mining; marine; defence; furniture; mattresses; carpets; and medicine. However, diversification is constrained by the relatively high exposure to the fish feed business (around 55% of consolidated revenue and around 45% of consolidated EBITDA) and in particular to salmon feed (around 40% of the group's total revenue in 2022). Further, around 9% of revenue comes from customers from the personal care and automotive industries (Borg Automotive, Fibertex Nonwovens and HydraSpecma). However, this negative factor is mitigated by the relatively low cyclicality of fish farming and the fact that Borg Automotive is a pure aftermarket business. Demand for fabrics from Personal Care also has low cyclicality as it is driven by the demand for period and incontinence care and is only influenced by GDP to a very limited extent. BioMar, Fibertex Personal Care and Borg Automotive accounted for around 70% of Schouw's consolidated revenue in 2022.

Adequate international presence

Schouw has an adequate international presence. Schouw sells its products in more than 100 countries and has 60 production facilities across 30 countries. However, around 50% of its revenue is generated in only five countries and 22% in Norway, Schouw's most important country in terms of revenues. Another 12% is generated in Chile, Schouw's second largest country in terms of sales. The relatively high exposure in these two countries is mainly due to BioMar. Other portfolio companies are better diversified geographically.

Profitability in a peer group context is a constraint

With a Scope-adjusted EBITDA margin of 7%-11% in 2007-2022, Schouw's moderate operating profitability in a peer group context restrains its business risk profile. BioMar is so large relative to other subsidiaries and to Schouw itself that Schouw's overall profitability is mainly determined by that of BioMar. With a reported EBITDA margin of 6%-9%, BioMar has the lowest profitability among Schouw's companies. GPV is the second largest EBITDA contributor, which is also a result of GPV's relative size as it is the second largest portfolio company in terms of revenue.

Fibertex Personal Care has the highest EBITDA margin

Fibertex Personal Care has the highest EBITDA margin among all portfolio companies. Although Fibertex Personal Care and Fibertex Nonwovens both produce non-woven materials from similar raw materials, Fibertex Personal Care's margins are consistently higher. Fibertex Personal Care's superior margins are attributable to the higher quality of personal care fabrics compared to Fibertex Nonwovens fabrics as well as the more favourable structure of the personal care market, i.e. higher barriers to entry due to more expensive production lines and very sticky customers. The profitability of both companies depends largely on capacity utilisation and the prices of energy and raw materials. The most important raw material is polypropylene, which correlates to some extent with oil prices. Rising costs have put pressure on the margins at Fibertex Personal Care and Nonwovens in 2021 and 2022. The margin at Fibertex Personal Care was additionally burdened by fierce competition in Asia due to overcapacity.

Rising costs and overcapacity in Asia caused margin pressure at Fibertex Personal Care and Nonwovens in 2021-2022

Relatively low volatility of EBITDA margin

On a positive note, Schouw's consolidated EBITDA margin has shown relatively low volatility, which we attribute to the diversified portfolio with offsetting effects between the individual segments.

Figure 3: Revenue and reported EBITDA, 2017 to 2025E by segment

DKK m	2017	2018	2019	2020	2021	2022	H1 2023	2023E	2024E	2025E
Consolidated revenue	**17,032**	**18,253**	**20,946**	**21,273**	**24,219**	**32,637**	**17,844**	**38,490**	**39,200**	**40,350**
YoY	*18.5%*	*7.2%*	*14.8%*	*1.6%%*	*13.8%*	*34.8%*	*29.6%*	*17.9%*	*1.8%*	*2.9%*
Consolidated EBITDA	**1,568**	**1,579**	**1,951**	**2,210**	**2,206**	**2,282**	**1,177**	**2,648**	**2,762**	**2,958**
margin	*9.2%*	*8.7%*	*9.3%*	*10.4%*	*9.1%*	*7.0%*	*6.6%*	*6.9%*	*7.0%*	*7.3%*
Revenue, BioMar	**9,955**	**10,328**	**11,180**	**11,649**	**13,300**	**17,861**	**7,851**	**19,450**	**19,750**	**20,400**
YoY	*12.3%*	*3.7%*	*8.2%*	*4.2%*	*14.2%*	*34.3%*	*10.8%*	*8.9%*	*1.5%*	*3.3%*
***EBITDA,* BioMar**	***712***	***713***	***966***	***972***	***911***	***1,013***	***383***	***1,145***	***1,179***	***1,270***
Margin	*7.2%*	*6.9%*	*8.6%*	*8.3%*	*6.8%*	*5.7%*	*4.9%*	*5.9%*	*6.0%*	*6.2%*
Revenue, GPV	**1,148**	**1,218**	**2,856**	**2,887**	**3,191**	**5,923**	**5,373**	**10,100**	**10,300**	**10,550**
YoY	*71.9%*	*6.1%*	*134.5%*	*1.1%*	*10.5%*	*85.6%*	*150.7%*	*70.5%*	*2.0%*	*2.4%*
***EBITDA,* GPV**	***107***	***115***	***196***	***271***	***342***	***465***	***368***	***690***	***720***	***760***
Margin	*9.3%*	*9.4%*	*6.9%*	*9.4%*	*10.7%*	*7.9%*	*6.8%*	*6.8%*	*7.0%*	*7.2%*
Revenue, Borg Automotive	**709**	**958**	**918**	**871**	**1,368**	**1,815**	**967**	**1,820**	**1,850**	**1,900**
YoY		*35.1%*	*-4.2%*	*-5.1%*	*57.1%*	*32.7%*	*1.3%*	*0.3%*	*1.6%*	*2.7%*
***EBITDA,* Borg Automotive**	***89***	***131***	***110***	***108***	***162***	***180***	***73***	***139***	***160***	***175***
Margin	*12.6%*	*13.7%*	*12.0%*	*12.4%*	*11.8%*	*9.9%*	*7.6%*	*7.6%*	*8.6%*	*9.2%*
Revenue, Fibertex Personal Care	**2,016**	**2,187**	**2,183**	**2,118**	**2,249**	**2,454**	**968**	**1,930**	**1,900**	**1,950**
YoY	*12.5%*	*8.5%*	*-0.2%*	*-3.0%*	*6.2%*	*9.1%*	*-20.4%*	*-21.4%*	*-1.6%*	*2.6%*
***EBITDA,* Fibertex Personal Care**	***365***	***315***	***352***	***406***	***315***	***269***	***129***	***255***	***250***	***260***
Margin	*18.1%*	*14.4%*	*16.1%*	*19.2%*	*14.0%*	*11.0%*	*13.3%*	*13.2%*	*13.2%*	*13.3%*
Revenue, Fibertex Nonwovens	**1,422**	**1,574**	**1,705**	**1,791**	**1,814**	**2,060**	**1,132**	**2,150**	**2,200**	**2,250**
YoY	*9.3%*	*10.7%*	*8.3%*	*5.0%*	*1.3%*	*13.6%*	*5.0%*	*4.4%*	*2.3%*	*2.3%*
***EBITDA,* Fibertex Nonwovens**	***179***	***160***	***141***	***270***	***230***	***111***	***80***	***150***	***160***	***180***
Margin	*12.6%*	*10.2%*	*8.3%*	*15.1%*	*12.7%*	*5.4%*	*7.1%*	*7.0%*	*7.3%*	*8.0%*
Revenue, HydraSpecma	**1,805**	**2,005**	**2,123**	**1,977**	**2,315**	**2,536**	**1,560**	**3,040**	**3,200**	**3,300**
YoY	*3.3%*	*11.1%*	*5.9%*	*-6.9%*	*17.1%*	*9.5%*	*20.5%*	*19.9%*	*5.3%*	*3.1%*
***EBITDA,* HydraSpecma**	***148***	***175***	***215***	***211***	***286***	***306***	***169***	***325***	***350***	***370***
Margin	*8.2%*	*8.7%*	*10.1%*	*10.7%*	*12.4%*	*12.1%*	*10.8%*	*10.7%*	*10.9%*	*11.2%*

Sources: Schouw, Scope (estimates)

Consolidated revenue largely driven by capacity expansion and acquisitions

Capacity expansion and acquisitions have been the main growth drivers of consolidated revenue in recent years. Acquiring new businesses is an intrinsic part of Schouw's business strategy. Schouw's main focus is on bolt-on acquisitions for its existing businesses. More rarely, Schouw also acquires companies to expand its portfolio, as occurred in 2016 with the acquisition of GPV and in 2017 with the acquisition of Borg Automotive. Schouw could further expand its portfolio in the future through an acquisition.

Raw material prices impact revenue

Raw material prices also affect revenue of BioMar and Fibertex Personal Care, as these companies apply automatic price adjustment mechanisms for their main raw materials.

Very limited direct exposure to Russia and Ukraine

In the context of the current geopolitical tensions, Russia and Ukraine are not among the group's most important markets. BioMar, Fibertex Personal Care and Borg Automotive reported total revenue from these two countries of DKK 338m in 2021, corresponding to 1.4% of group revenue. The group does not have production facilities in the area.

Strong YoY revenue growth after H1 2023

Revenues after six months of 2023 of DKK 17.8bn were around 30% above the previous year's level of DKK 13.8bn. The increase was mainly derived from GPV, following its combination with Enics in October 2022 (+DKK 2,997m), HydraSpecma and its combination with Ymer Technology in February 2023 (+DKK 220m), and BioMar, which saw strong effects from increased selling prices. Revenues at Fibertex Personal Care were around 20% lower YoY driven by lower prices of raw materials, which triggered lower selling prices in addition to a year-on-year decline in sales volumes.

Higher expected revenue in 2023

We expect consolidated revenue to continue to increase in 2023 to end the year at around DKK 38.5bn. This will be driven by consolidation effects and higher revenues at BioMar due to inflation. For 2024, we expect a slight rise in revenues to DKK 39.2bn.

For now, limited risk of a 40% tax on Norwegian salmon

Risks arising from a proposed 40% tax on Norwegian salmon farming companies are rather limited in the short term, as the production cycle for salmon is several years and any fish in production will continue to eat fish feed. Main risks are the reduction of new capacity investments in Norway and the risk of relocation of the production from Norway to other countries.

Slightly lower EBITDA margin after H1 2023

While reported EBITDA increased by around DKK 250m due to the acquisition of Enics and higher EBITDA at BioMar, the reported EBITDA margin of 6.6% in H1 2023 was slightly lower than the 6.7% reported in H1 2022. Adjusted for around DKK 50m of provisions raised for losses on Russia-related assets in H1 2022, the reported EBITDA margin was 7.1% in H1 2022, implying an even steeper decline in H1 2023. We attribute this decline to the margin-dilutive effect of the Enics and Ymer acquisitions. The lower margin at Borg Automotive due to higher cost prices of goods for resale also had a negative impact. In contrast, BioMar and Fibertex Personal Care showed improved profitability in H1 2023. The improved profitability at Fibertex Personal Care reflects lower energy costs, positive foreign exchange effects and higher discounts on the supplier side.

Scope-adjusted EBITDA expected at around DKK 2.6bn in 2023 and DKK 2.8bn in 2024

With the publication of H1 2023 figures, Schouw has revised its full-year 2023 EBITDA guidance slightly upwards compared to that in the Q1 2023 report and now expects DKK 2,480m-2,730m (previous guidance: DKK 2,400m-2,650m). We expect Scope-adjusted EBITDA of around DKK 2.7bn in 2023 (7.0% margin) and DKK 2.8bn in 2024 (7.1% margin).

Financial risk profile: BBB+

Consolidated financial debt of DKK 6.7bn at end-2022

Schouw's consolidated financial debt was DKK 6.7bn as at 31 December 2022 and consisted of the following debt instruments:

- Schuldschein issued in April 2019 for a total of EUR 136m (DKK 1.0bn) maturing in 2024 (80%) and 2026 (20%).
- Syndicated bank facility with a total facility line of DKK 3,275m. DKK 1.5bn were drawn under this facility at end-2022. This facility was refinanced in December 2020 and has a three-year term, with no extension options. DKK 47m of this facility are not accessible due to guarantee commitments in Australia.
- Term-loans of DKK 2,312m maturing in 2024 (50%) and 2025 (50%).
- DKK 400 seven-year loan with the Nordic Investment Bank raised in December 2021 for specific Danish capacity-expanding investments and development costs.
- DKK 480m of money market loans and other credit facilities.
- DKK 255m of mortgages.
- Leases (mainly property and ships) of DKK 748m issued at subsidiary level.

Cross-guarantees among Schouw and its six subsidiaries

The group's debt is managed centrally apart from leasing debt and other credit lines. Subsidiaries are mostly financed at holding company level by way of a structure of intra-group loans through cash pools. There are cross-guarantees (Schouw and six companies) for the centrally managed debt.

Most of the group's debt is in Danish krone (56% at year-end 2022) and in euro (22%). The currency risk is managed with financial derivatives.

Adjustments to calculate Scope-adjusted debt

Scope-adjusted debt of DKK 6.1bn at year-end 2022

In order to calculate Scope-adjusted debt, we have made adjustments of DKK 24m for pensions, DKK 70m for non-recourse factoring, and DKK 31m of trapped cash. Based on these adjustments, we calculate Scope-adjusted debt of DKK 6.1bn at end-December 2022. The increase from DKK 3.0bn at end-December 2021 was due to the higher debt, mainly driven by negative Scope-adjusted FOCF due to increased working capital and higher capex. Cash outflow of DKK 374m for dividend payments, DKK 292m for share buybacks and DKK 414m for acquisitions also had a negative impact.

In 2022, bolt-on acquisitions included Australian company AQ1 Systems Pty (AQ1) by BioMar for DKK 211m in cash and 80% of Enics from Ahlström Capital B.V. (which in return received EUR 60m and a 20% stake in GPV). Ahlström also has a put option to sell the shares in 2025-2026 and a call option for Schouw to buy the shares in 2026-2027. The refinancing of Enics required additional funds of EUR 112m (DKK 830m). The refinancing has been transformed into intercompany debt via cashpools and paid to Ahlström.

DKK 529m M&A-related cash outflow expected for 2023

In 2023, HydraSpecma paid DKK 379m for its 2022 acquisition of Swedish industrial group Ymer Technology. Schouw also recognised DKK 247m of contingent consideration for the acquisitions of Viet-Uc Aqua Feed Company Limited and SBS Automotive A/S, of which around DKK 150m will fall due in 2023. All in all, we expect cash outflow for acquisitions in 2023 of around DKK 529m.

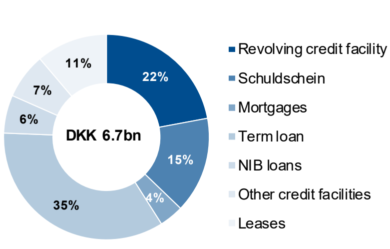
While not assumed, further M&A transactions are possible

Schouw's M&A pipeline is thin after the 2022 deals. We therefore expect a much quieter 2023. We have assumed no further material acquisitions in 2023-2024 but cannot rule it out entirely as acquiring businesses is an intrinsic part of Schouw's growth ambitions.

Relatively stable Scope-adjusted debt in 2023 and a slight decline in 2024

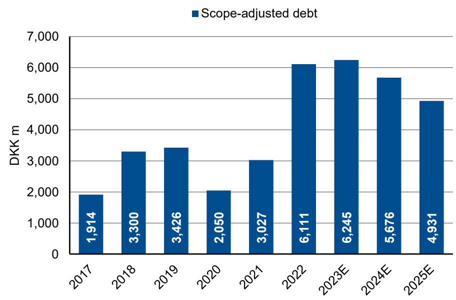
Going forward, we expect Scope-adjusted debt to reach around DKK 6.2bn at year-end 2023 before declining slightly to DKK 5.7bn at year-end 2024. In relation to this, we expect Scope-adjusted FOCF of DKK 710m in 2023 and DKK 1.0bn in 2024, which will be enough to cover acquisitions (around DKK 530m and DKK 50m) and dividend payments (DKK 356m and DKK 356m). We also expect no further share repurchases in that period.

Figure 4: Funding structure at FY-end 2022



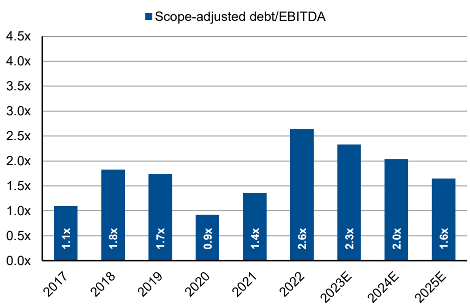
Sources: Schouw, Scope

Figure 5: Scope-adjusted debt, 2017 to 2025E



Sources: Schouw, Scope (estimates)

Figure 6: Scope-adjusted debt/EBITDA, 2017 to 2025E



Sources: Schouw, Scope (estimates)

After an M&A-driven peak in 2022, deleveraging expected in 2023-24

The increase in Scope-adjusted debt raised Scope-adjusted debt/EBITDA to 2.6x in 2022 from 1.4x in 2021. However, this figure is somewhat distorted by the only partial inclusion of the results of companies acquired in 2022. From 2023, with the full effects of the consolidation of companies acquired and Scope-adjusted FOCF expected to return to positive territory, we anticipate that Scope-adjusted debt/EBITDA will improve to 2.3x. In 2024, our base case foresees this ratio at around 2.0x.

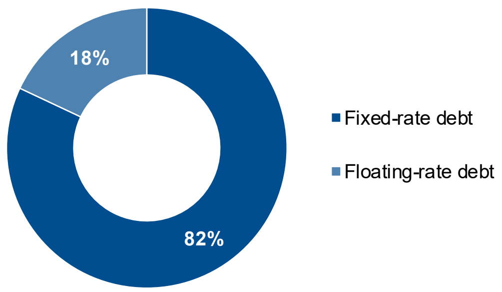
Two financial covenants in place

There are two covenants in place. The first requires Schouw to have a net debt/EBITDA of below 3.25x (+0.5x M&A step-up). This covenant is reviewed quarterly and applies to all debt instruments except the 2019 Schuldschein. The second covenant relates to the Schuldschein and requires a net debt/EBITDA (excl. leases) of less than 3x. Leases are taken into account in the first covenant but not the second. Although the margin narrowed in 2022 due to high disbursements, Schouw has remained below the covenant thresholds and our base case foresees this to continue.

As most debt is at variable rate, increasing interest costs to weigh on interest cover

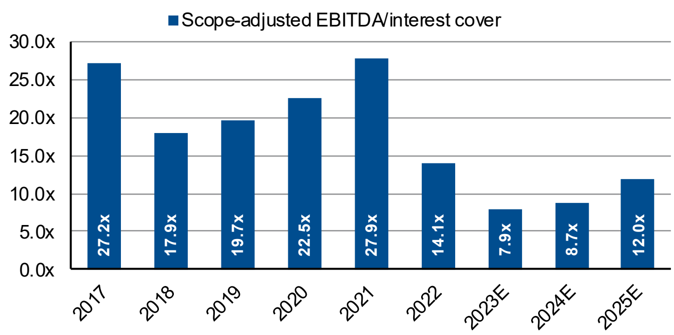
Interest cover was around 14x in 2022, down from around 28x in 2021 due to increased interest costs. All debt is at floating rate except leases and part of the Schuldschein (it has 36% fixed and 64% floating interest rate). As a result, 82% of Schouw's consolidated interest-bearing debt was variable rate at year-end 2022.

Figure 7: Interest profile of interest-being debt at year-end 2022



Sources: Schouw, Scope

Figure 8: Scope-adjusted EBITDA/interest cover, 2017 to 2025E



Sources: Schouw, Scope (estimates)

Schouw does not use interest rate hedging; instead, the company rolls over its financing costs to its pricing over time. Due to the higher expected interest expense, we see the interest coverage ratio to decrease to around 8x in 2023. In 2024, the anticipated higher Scope-adjusted EBITDA will likely help maintaining the ratio at around 9x.

Volatile cash flow due to net working capital-intensive business models at BioMar and GPV

Schouw's cash flow has proven to be quite volatile and has been negative in some years. Indeed, Schouw has seen fluctuations in net working capital due to GPV's and BioMar's business models, which require high inventory levels (components and raw materials). In 2020, an increase in net working capital in addition to the higher Scope-adjusted EBITDA led Scope-adjusted FOCF to increase to an all-time high of DKK 1.6bn. In contrast, the sharp increase in net working capital and higher capex weighed on Scope-adjusted FOCF in 2021 and 2022, resulting in a negative Scope-adjusted FOCF of DKK 409m in 2021 and DKK 980m in 2022. The strong increase in net working capital was largely due to the rise in prices for raw materials and components, but also to the strategic decision to secure adequate supply during the turbulent market conditions. BioMar and GPV were particularly responsible for this increase given their net working capital-intensive business models. We also note that Schouw has acquired another net working capital-intensive company, Enics, which will not help to stabilise net working capital.

Acquisition of Enics will not help to stabilise net working capital

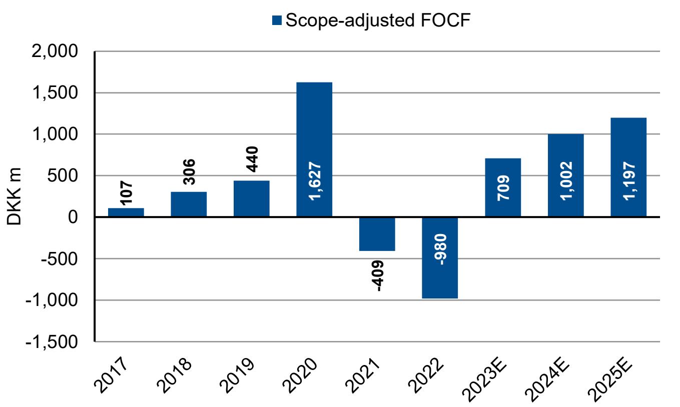
Expected Scope-adjusted FOCF of around DKK 1.6bn in 2023

Reported FOCF of negative DKK 258m in H1 2023 was an improvement compared to the negative DKK 731m in H1 2022 due to the lower working capital impact, in particular the significantly lower inventory burden. For full-year 2023, we expect Scope-adjusted FOCF of around DKK 710m, which factors in gross capex of around DKK 1.0bn.

Normalised investments in 2024

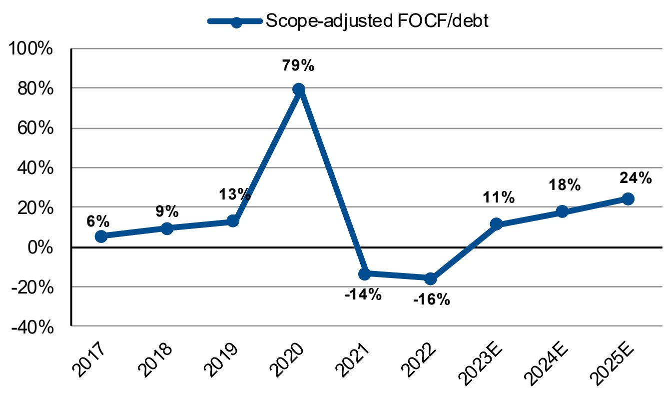
The significant investment programme started in 2021 is expected to end in 2023. This has involved investment in new capacity in BioMar Ecuador, a new line at Fibertex Personal Care in Malaysia, a new line at Fibertex Nonwovens in the USA and the Czech Republic, a factory upgrade in GPV Thailand and new factory in GPV Sri Lanka. Therefore, we expect consolidated capex to normalise in 2024 at around DKK 800m, slightly above maintenance capex of around DKK 700m. Given this backdrop, we expect Scope-adjusted FOCF to increase to around DKK 1.0bn in 2024.

Figure 9: Scope-adjusted FOCF, 2017 to 2025E



Sources: Schouw, Scope (estimates)

Figure 10: Scope-adjusted FOCF/debt, 2017 to 2025E



Sources: Schouw, Scope (estimates)

Volatile cash flow cover

In line with cash flow, cash flow cover proved volatile and is Schouw's weakest credit metric. After increasing to 79% in 2020 due to the all-time high Scope-adjusted FOCF, cash flow cover turned negative in 2021 and 2022. As we expect Scope-adjusted FOCF to turn positive in 2023, we expect Scope-adjusted FOCF/debt to improve to around 10% in 2023 and around 20% in 2024.

Neutral view on financial policy

In view of the relatively disciplined capital allocation as reflected in the solid balance sheet in the past, we have a neutral view on Schouw's capital allocation policy for the following reasons:

- Acquiring new businesses is an intrinsic part of Schouw's growth strategy, with a focus on bolt-on acquisitions for existing businesses. Schouw might also expand its portfolio by one acquisition in the future.
- The group aims to have a net debt/EBITDA in the range of 1.0x to 2.5x. Immediately after a (major) acquisition, however, gearing may exceed 2.5x. At 31 December 2022, net debt/EBITDA stood at 2.4x
- Schouw aims to pay stable or growing dividends, always with due consideration for the company's earnings and any potential major investments or acquisitions. In recent years, the payout ratio has been 35%-40%.
- From time to time, Schouw makes use of share buybacks to distribute cash to its shareholders. The programmes have been small, which is in particular due to the relatively low free-float. Three share buybacks have been initiated since 2013: DKK 138m of shares were repurchased in 2014, then a further DKK 200m in 2018. The last share buyback programme of DKK 350m was completed in 2022, resulting in DKK 292m in purchased shares. We expect no further share repurchases in 2023-2024.

Adequate liquidity

We consider Schouw's liquidity profile to be solid, supported by available cash sources and the expected recovery in Scope-adjusted FOCF in 2023. It is also supported by the planned Schuldschein issue in October 2023 in the amount of at least EUR 100m.

Balance in DKK m	2022	2023E	2024E
Unrestricted cash (t-1)	490	662	548
Open committed credit lines (t-1)	2,672	1,754	1,754
Free operating cash flow (t)	-980	709	1,002
Short-term debt (t-1)	1,912	1,565	2,156
Coverage	**>100%**	**~200%**	**>100%**

To quantify the liquidity risk, we consider Schouw's use of reverse factoring. BioMar has reverse factoring debt of DKK 980m, which is recognised in the balance sheet under trade payables (2021: DKK 1,058m).

Cash sources

Schouw's principal cash sources at end-December 2022 comprised:

- DKK 712m of cash on balance sheet (end-June 2023: DKK 603m). Of this cash, of around DKK 31m is trapped in Russia.
- Schouw has a syndicated bank facility, which in December 2020 was refinanced with a total facility line of DKK 3,275m. DKK 1.5bn were drawn under this facility at end-2022. DKK 47m of this facility are not accessible due to guarantee commitments in Australia.
- Expected Scope-adjusted FOCF of around DKK 710m in 2023 and around DKK 1.0bn in 2024.

Schuldschein issuance planned in September 2023

In addition, Schouw plans to issue a Schuldschein with a volume of up to EUR 200m (around DKK 1.5bn) in September.

Cash uses

We expect the following cash uses:

- Already distributed dividends of DKK 355m in 2023 and DKK 352m expected in 2024
- M&A-related payouts of DKK 530m in 2023 and DKK 50m in 2024

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB

In line with the issuer rating, we have assigned a BBB rating to the issuer's senior unsecured debt.

Schouw issued Schuldschein debt in April 2019. The transaction represented the first Schuldschein in its company history. The Schuldschein has a volume of EUR 136m (DKK 1.0bn at end-2022). It is senior unsecured and maturing in 2024 (80%) and 2026 (20%). Most of the proceeds used to reduce bridge financing were set up in connection with GPV's acquisition of CCS. There are cross-guarantees in place for the Schuldschein (Schouw as well as six other companies).

In addition to Schuldschein, senior unsecured debt at end-2022 comprises a syndicated bank facility with a total facility line of DKK 3,275m, of which DKK 1.5bn was drawn, term-loans of DKK 2,312m, a DKK 400m seven-year loan with the Nordic Investment Bank raised in December 2021 for specific Danish capacity-expanding investments and development costs and money market loans and other credit facilities in the amount of DKK 480m.

Short-term debt rating: S-2

We have also assigned a S-2 short-term debt rating based on Schouw's liquidity being deemed adequate and the issuer rating of BBB/Stable.

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