Schouw & Co.
Denmark, Industrial Conglomerates

STABLE
BBB

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA/interest cover	14.1x	6.8x	5.6x	7.9x
Scope-adjusted debt/EBITDA	2.6x	2.3x	2.2x	2.0x
Scope-adjusted funds from operations/debt	31%	33%	32%	38%
Scope-adjusted free operating cash flow (FOCF)/debt	-17%	10%	15%	14%

Rating rationale

Schouw's BBB issuer rating is based on its BBB- business risk profile and BBB+ financial risk profile. The rating is supported by: i) a strong position in the global fish feed market for of its largest subsidiary, BioMar; ii) a good financial risk profile; iii) Schouw's proven track record of balance sheet recovery following the acquisition of companies; iv) 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 v) around 60% of 2023 EBITDA coming from businesses with low cyclicality. The rating is constrained by: i) relatively low overall profitability in a peer group context due to low profitability at BioMar; ii) high exposure to the fish feed business, in particular to salmon feed (around 35% of 2022 EBITDA); iii) a significant EBITDA contribution from companies that are largely regional players with weaker market power; and iv) volatile and in some years negative free operating cash flow (FOCF), resulting in low and fluctuating cash flow cover.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that pressure from lower revenue and increased interest costs, particularly in 2024, will be offset by higher profitability, lower net working capital (NWC) and lower capex. As a result, consolidated Scope-adjusted FOCF in 2024-25 should be higher than in 2023. We also expect Scope-adjusted debt/EBITDA to further improve to around 2.2x in 2024 and 2.0x in 2025. The Outlook further reflects the full execution of the recently launched share buyback programme in 2024 and no further share buybacks in 2025. We have not included M&A in our forecast due to a lack of information.

We may consider a positive rating action if Schouw sustains 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 is sustained at around 2.5x, which could result from lower profitability or from the aggressive use of liquidity e.g. for share buybacks or M&A transactions.

Rating history

Date	Rating action	Issuer rating & Outlook
5 Sep 2024	Affirmation	BBB/Stable
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; October 2023

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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 2.3x and 2.2x expected for 2024 • Diversified service and product offering • Strong position in the global salmon feed market of Schouw's largest portfolio company, BioMar • Relatively limited volatility of EBITDA margin, which we attribute to the diversified portfolio with offsetting effects between its individual segments • Around 60% of 2023 EBITDA from businesses with low cyclicality • Proven track record of balance sheet recovery following the acquisition of companies	• Low operating profitability in a peer group context due to low profitability at largest portfolio company BioMar, and BioMar's limited exposure to the faster-growing shrimp and prawns feed segment • High overall portfolio exposure to the fish feed business, in particular to salmon feed (around 30% of 2023 EBITDA) • FOCF is quite volatile and in some years negative, resulting in low and fluctuating cash flow cover • Significant EBITDA contribution of companies that are largely regional players with weaker market power • High exposure to floating rate debt and no interest hedging

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. This could be due to lower profitability or the aggressive use of liquidity e.g. for share buybacks or M&A transactions

Corporate profile

Schouw & Co. was established in 1878 and is headquartered in Aarhus, Denmark. It is a listed industrial conglomerate with 100% shareholdings in five companies – BioMar, Fibertex Personal Care, Fibertex Nonwovens, HydraSpecma and Borg Automotive – and an 80% shareholding in GPV.

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 and Kimberly Clark 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 2023, the group had a consolidated revenue of DKK 37.2bn and a consolidated EBITDA of DKK 2.8bn. Givesco is the main shareholder with 28% and is controlled by the Eskildsen family.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	27.9x	14.1x	6.8x	5.6x	7.9x	11.2x
Scope-adjusted debt/EBITDA	1.4x	2.6x	2.3x	2.2x	2.0x	1.9x
Scope-adjusted funds from operations/debt	61%	31%	33%	32%	38%	40%
Scope-adjusted FOCF/debt	-14%	-17%	10%	15%	14%	17%
Scope-adjusted EBITDA in DKK m						
EBITDA	2,206	2,282	2,848	2,880	2,950	3,160
add: share-based compensation expense	27	32	38	38	38	38
Scope-adjusted EBITDA	**2,233**	**2,314**	**2,886**	**2,918**	**2,988**	**3,198**
Funds from operations in DKK m						
EBITDA	2,233	2,314	2,886	2,918	2,988	3,198
less: (net) cash interest paid	-78	-136	-389	-523	-380	-286
less: capitalised borrowing costs	-2	-28	-34	-	-	-
less: cash tax paid per cash flow statement	-381	-269	-452	-437	-400	-487
add: dividends received from equity	-	10	29	27	20	20
Other[1]	59	-10	147	-	-	-
Funds from operations	**1,831**	**1,881**	**2,187**	**1,985**	**2,229**	**2,446**
Free operating cash flow in DKK m						
Funds from operations	1,831	1,881	2,187	1,985	2,229	2,446
Change in working capital	-1,277	-1,548	-377	-51	-228	-220
Non-operating cash flow	-	-	-	-	-	-
less: capital expenditure (net)	-745	-1,101	-859	-710	-860	-890
less: amortisation of leases	-220	-240	-289	-289	-289	-289
Free operating cash flow	**-411**	**-1,008**	**662**	**935**	**852**	**1,047**
Net cash interest paid in DKK m						
Net cash interest per cash flow statement	78	136	389	523	380	286
Other[2]	2	28	34	-	-	-
Net cash interest paid	**80**	**164**	**423**	**523**	**380**	**286**
Scope-adjusted debt in DKK m						
Reported gross financial debt	3,453	6,679	7,108	7,304	6,954	6,799
less: cash and cash equivalents	-490	-712	-584	-1,083	-1,149	-782
add: non-accessible cash	-	31	31	31	31	31
add: pensions	44	24	39	39	39	39
add: factoring[3]	20	70	-	-	-	-
Scope-adjusted debt	**3,027**	**6,092**	**6,594**	**6,291**	**5,875**	**6,087**

[1] Other items included in FFO are 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)	Grey leaf
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)	Grey leaf
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)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

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 ESG-related factors have a substantial impact on our overall assessment of credit risk.

We see moderate governance risk arising from the management of a very diverse portfolio of companies. This risk is mitigated by the fact that the day-to-day business of each portfolio company is not managed centrally, but at the level of the individual company. Schouw's Board of Directors consists of six directors elected by the shareholders. Three of the directors cannot be considered independent: Kenneth Skov Eskildsen and Søren Stæhr are affiliated with the main shareholder Givesco A/S; in addition, Søren Stæhr has an affiliation with a law firm that acts as an advisor to Schouw.

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 unlikely that the company will be convicted of participating in concerted practices. Accordingly, no provisions have been recognised concerning claims submitted. We do not believe that this investigation has any immediate relevance for the credit rating. This is because the outcome is unclear and the risk to the company is limited, as all the major players in the industry stand accused.

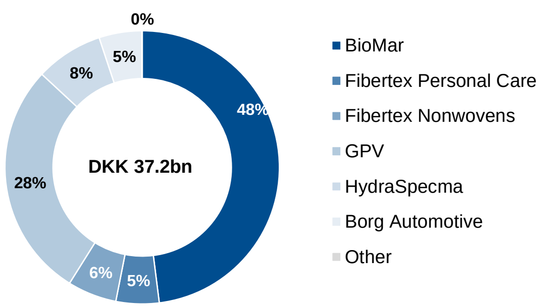
[4] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB-

Schouw's business risk profile, consisting of its industry risk profile, competitive position, diversification and profitability assessment, remains unchanged at BBB-.

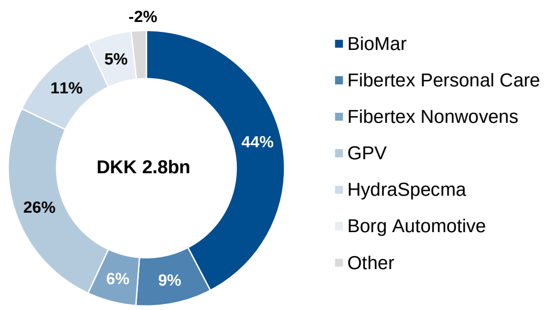
We consider Schouw to be an industrial conglomerate with a portfolio of six wholly controlled and fully consolidated companies with operational and financing integration.

Figure 1: 2023 revenue split by subsidiary



Sources: Schouw, Scope

Figure 2: 2023 EBITDA split by subsidiary



Sources: Schouw, Scope

Schouw's overall market position benefits from the strong position of its largest subsidiary, BioMar, in the global market for fish feed.

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

BioMar is Schouw's largest portfolio company, accounting for around 44% of the group's EBITDA in 2023. 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. The salmon feed market, estimated at around 4m tonnes per year, is essentially a triopoly, as the largest three players account for around 90% of the market. BioMar has a global market share of around 25%, making it the third largest player behind 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. As a result, the competitive situation varies significantly from market to market. BioMar has a leading market position in the Chilean and UK salmon feed markets. The company's market position is only weakened by its limited exposure to the faster-growing shrimp and prawn feed segment as well as its still low presence in the large Asian market.

Significant EBITDA contribution from weaker companies constrains market position

Schouw's second largest portfolio company is GPV, Denmark's largest electronics manufacturer. GPV has more than doubled in size following the acquisition of Enics in 2022, becoming one of the world's top 25. Although the combined company's market share has increased, it remains a relatively small player in the global EMS market with a market share of less than 1.0%. Schouw's overall market position is also weakened by the significant EBITDA contribution of companies that are largely regional players with weaker market power.

Diversified service and product offering

The main support for Schouw's business risk profile is the highly diversified service and product offering of its six portfolio companies. This ranges from fish feed and shrimp farming to electronic manufacturing services, automotive remanufacturing as well as non-woven materials and hydraulic components.

High exposure to just two portfolio companies, BioMar and GPV

Diversification is somewhat restrained by the exposure to just two portfolio companies, BioMar and GPV, which together account for around 70% of Schouw's consolidated EBITDA. Exposure to the fish feed business (around 44% of EBITDA) and in particular to salmon feed (around 30% of EBITDA) is relatively high.

The heavy dependency on BioMar is somewhat offset by the low cyclicality of the fish feed business as historically, cycles in the salmon market have been driven by supply/demand rather than by GDP. However, risks can arise from biological factors such as algal blooms and the backward integration of BioMar's customers, as was the case in 2014 when former Norwegian customer Marine Harvest started its own fish feed production.

Around 60% of EBITDA from businesses with low cyclicality

In addition to BioMax, Fibertex Personal Care and Borg Automotive are also businesses with low cyclicality: demand for personal care fabrics is driven by the demand for period and incontinence care, and Borg Automotive primarily serves the aftermarket. BioMar, Fibertex Personal Care and Borg Automotive accounted for around 60% of Schouw's consolidated EBITDA in 2023. In contrast, revenues from GPV, Fibertex Nonwovens and HydraSpecma show more cyclicality and the acquisition of Enics has slightly increased the overall cyclicality of Schouw's portfolio.

Sufficiently granular customer structure on a consolidated basis

Schouw's customer structure is sufficiently granular. All portfolio companies operate in B2B markets and have customers in a wide range of sectors including fish farming, automotive, period and incontinence care, wind power, construction, mining, marine, defence, furniture, mattresses, carpets and medical. Although there is a certain degree of dependence on single customers at the company level, no single customer accounts for more than 5% of the group's consolidated revenue.

Adequate international presence

Schouw has an adequate international presence in its individual businesses. BioMar is focussed on Norway and Chile because salmon are mainly farmed in Norway, Scotland and Chile. The low presence in the large-volume Asian market is negative. Other holdings are more broadly diversified geographically.

Despite a slight improvement in 2023, Schouw's moderate operating profitability (Scope-adjusted EBITDA margins of 7%-11% in 2007-2023) in a peer group context still restrains its business risk profile.

Higher Scope-adjusted EBITDA in 2023 thanks to enhanced revenue and profitability

In 2023, Scope-adjusted EBITDA increased from DKK 2.3bn in 2022 to a record DKK 2.9bn in 2023. This was driven by a consolidated revenue rise of 14% YoY to an all-time high of DKK 37.2bn in 2023, up from DKK 32.6bn in 2022. The rise was, in turn, thanks to acquired revenue of DKK 4.9bn, mainly due to GPV's acquisition of Enics and a slight improvement in the Scope-adjusted EBITDA margin from 7.1% in 2022 to 7.8% in 2023, largely on the back of BioMar's higher profitability.

Schouw's overall profitability is still largely determined by BioMar

Schouw's overall profitability continues to be largely determined by the profitability of BioMar, due to its relative size (around 44% EBITDA share in 2023). With a reported EBITDA margin of 6%-9%, BioMar has been the least profitable of the Schouw companies. The low profitability is due to the fact that most of BioMar's revenue comes from the relatively low-margin salmon business.

Recently launched commercial excellence programme reduces volumes but improves margins

BioMar's improved profitability in 2023 is due to its commercial excellence programme, launched in 2023. The programme aims to improve margins, particularly in the salmon division, by reviewing each contract and exiting unattractive tenders and contracts. While salmon volumes were down by around 4% YoY in 2023, reported EBITDA was up by around 26% YoY.

GPV's importance for Schouw's profitability has increased post Enics acquisition

With an EBITDA share of around 26% in 2023, GPV's importance for Schouw's overall profitability has increased following the acquisition of Enics. Although GPV has historically been a higher-margin business than BioMar, its profitability has suffered in recent years from integration costs for the combined activities of Enics, increases in component and material prices, and lower capacity utilisation, narrowing that of BioMar in 2023. We assume that GPV will prove to be the least profitable business in 2024.

Figure 3: Revenue and reported EBITDA, 2017 to LTM H1 2024 by segment

DKK m	2017	2018	2019	2020	2021	2022	H1 2023	2023	H1 2024	LTM H1 2024
Consolidated revenue	**17,032**	**18,253**	**20,946**	**21,273**	**24,219**	**32,637**	**17,844**	**37,210**	**16,576**	**35,942**
YoY	*18.5%*	*7.2%*	*14.8%*	*1.6%%*	*13.8%*	*34.8%*	*29.6%*	*14.0%*	*-7.1%*	*-3.4%*
Consolidated EBITDA	**1,568**	**1,579**	**1,951**	**2,210**	**2,206**	**2,282**	**1,177**	**2,848**	**1,389**	**3,060**
margin	*9.2%*	*8.7%*	*9.3%*	*10.4%*	*9.1%*	*7.0%*	*6.6%*	*7.7%*	*8.4%*	*8.5%*
Revenue, BioMar	**9,955**	**10,328**	**11,180**	**11,649**	**13,300**	**17,861**	**7,851**	**17,878**	**7,238**	**17,265**
YoY	*12.3%*	*3.7%*	*8.2%*	*4.2%*	*14.2%*	*34.3%*	*10.8%*	*0.1%*	*-7.8%*	*-3.4%*
***EBITDA*, BioMar**	***712***	***713***	***966***	***972***	***911***	***1,013***	***383***	***1,250***	***631***	***1,498***
Margin	*7.2%*	*6.9%*	*8.6%*	*8.3%*	*6.8%*	*5.7%*	*4.9%*	*7.0%*	*8.7%*	*8.7%*
Revenue, GPV	**1,148**	**1,218**	**2,856**	**2,887**	**3,191**	**5,923**	**5,373**	**10,450**	**4,599**	**9,676**
YoY	*71.9%*	*6.1%*	*134.5%*	*1.1%*	*10.5%*	*85.6%*	*150.7%*	*76.4%*	*-14.4%*	*-7.4%*
***EBITDA*, GPV**	***107***	***115***	***196***	***271***	***342***	***465***	***368***	***743***	***300***	***675***
Margin	*9.3%*	*9.4%*	*6.9%*	*9.4%*	*10.7%*	*7.9%*	*6.8%*	*7.1%*	*6.5%*	*7.0%*
Revenue, Borg Automotive	**709**	**958**	**918**	**871**	**1,368**	**1,815**	**967**	**1,876**	**1,049**	**1,958**
YoY		*35.1%*	*-4.2%*	*-5.1%*	*57.1%*	*32.7%*	*1.3%*	*3.4%*	*8.5%*	*4.4%*
***EBITDA*, Borg Automotive**	***89***	***131***	***110***	***108***	***162***	***180***	***73***	***153***	***104***	***184***
Margin	*12.6%*	*13.7%*	*12.0%*	*12.4%*	*11.8%*	*9.9%*	*7.6%*	*8.2%*	*9.9%*	*9.4%*
Revenue, Fibertex Personal Care	**2,016**	**2,187**	**2,183**	**2,118**	**2,249**	**2,454**	**968**	**1,891**	**953**	**1,876**
YoY	*12.5%*	*8.5%*	*-0.2%*	*-3.0%*	*6.2%*	*9.1%*	*-20.4%*	*-22.9%*	*-1.6%*	*-0.8%*
***EBITDA*, Fibertex Personal Care**	***365***	***315***	***352***	***406***	***315***	***269***	***129***	***262***	***94***	***227***
Margin	*18.1%*	*14.4%*	*16.1%*	*19.2%*	*14.0%*	*11.0%*	*13.3%*	*13.9%*	*9.9%*	*12.1%*
Revenue, Fibertex Nonwovens	**1,422**	**1,574**	**1,705**	**1,791**	**1,814**	**2,060**	**1,132**	**2,158**	**1,180**	**2,206**
YoY	*9.3%*	*10.7%*	*8.3%*	*5.0%*	*1.3%*	*13.6%*	*5.0%*	*4.8%*	*4.2%*	*2.2%*
***EBITDA*, Fibertex Nonwovens**	***179***	***160***	***141***	***270***	***230***	***111***	***80***	***169***	***117***	***206***
Margin	*12.6%*	*10.2%*	*8.3%*	*15.1%*	*12.7%*	*5.4%*	*7.1%*	*7.8%*	*9.9%*	*9.3%*
Revenue, HydraSpecma	**1,805**	**2,005**	**2,123**	**1,977**	**2,315**	**2,536**	**1,560**	**2,972**	**1,562**	**2,974**
YoY	*3.3%*	*11.1%*	*5.9%*	*-6.9%*	*17.1%*	*9.5%*	*20.5%*	*17.2%*	*0.1%*	*0.1%*
***EBITDA*, HydraSpecma**	***148***	***175***	***215***	***211***	***286***	***306***	***169***	***323***	***173***	***327***
Margin	*8.2%*	*8.7%*	*10.1%*	*10.7%*	*12.4%*	*12.1%*	*10.8%*	*10.9%*	*11.1%*	*11.0%*

Sources: Schouw, Scope

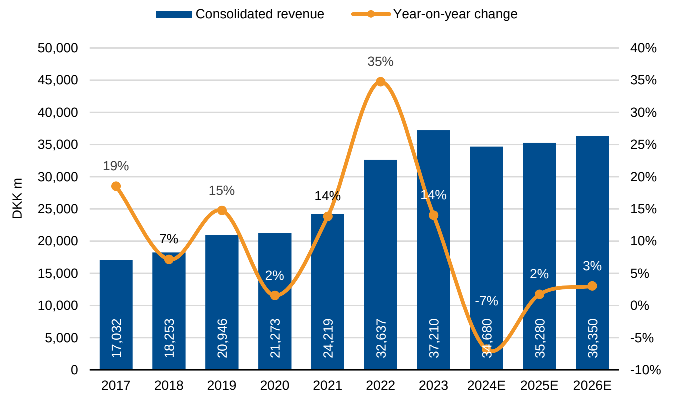
Assumed revenue of around DKK 34.7bn in 2024

Consolidated revenue after H1 2024 decreased by 7.1% YoY to DKK 16.6bn, mainly reflecting lower revenues from BioMar and GPV, Schouw's largest portfolio companies. BioMar's revenue decreased by 7.8% YoY as a result of lower sales volumes in the salmon business (down 13% YoY). These were impacted by the commercial excellence programme, a reduction in biomass due to biological factors such as algae blooms, and lower prices for a number of raw materials. GPV's revenue decreased by 14.4% YoY, mainly as a result of customers adjusting their inventory levels following the normalisation of the difficult supply situation in recent years. After the release of the H1 2024 figures, Schouw has lowered its full year 2024 revenue guidance from DKK 34.8-37.3bn to DKK 34.2-36.4bn. We have factored in revenue of around DKK 34.7bn in 2024 (down 6.8% YoY), at the lower end of the guidance range.

Assumed revenue of around DKK 34.7bn in 2025

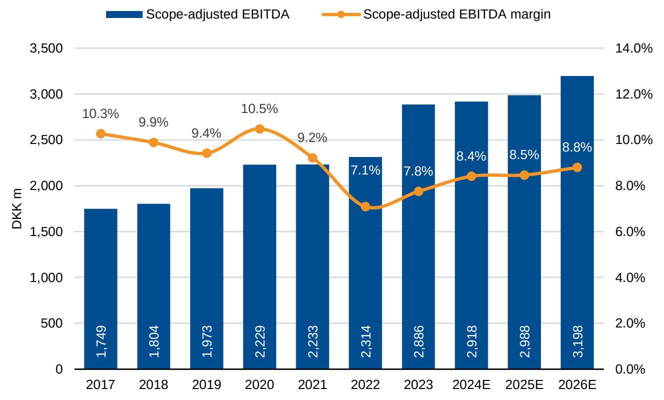
For 2025, we have assumed a slight increase in revenue to around DKK 35.3bn (up 1.7%), mainly based on our assumption that BioMar's volumes will stabilise during 2024 and that GPV will return to growth. We also note that BioMar, Fibertex Personal Care and Borg Automotive, which together accounted for around 60% of Schouw's consolidated EBITDA in 2023, are less cyclical businesses.

Figure 4: Trend in consolidated revenue, 2017 to 2026E



Sources: Schouw, Scope (estimates)

Figure 5: Trend in Scope-adjusted EBITDA, 2017 to 2026E



Sources: Schouw, Scope (estimates)

Assumed Scope-adjusted EBITDA of around DKK 2.9bn in 2024

In contrast to revenues, Schouw has raised its 2024 EBITDA guidance for the second consecutive quarter to DKK 2,810-3,060m (previously DKK 2,740-3,040m), mainly due to stronger profitability at BioMar – up from 4.9% in H1 2023 to 8.7% in H1 2024. In addition to the commercial excellence measures, BioMar benefited from some tailwind from decreasing raw material prices and a positive one-off effect of approx. DKK 65m from the reimbursement of an insurance claim and some bonuses related to raw material sourcing. GPV's reported EBITDA margin decreased slightly from 6.8% in H1 2023 to 6.5% in H1 2024 due to lower capacity utilisation and increased prices for a number of components and materials, which increased revenues but had a negative impact on margins. We have assumed a Scope-adjusted EBITDA of around DKK 2.9bn in 2024 (margin: 8.4%).

Assumed Scope-adjusted EBITDA of around DKK 3.0bn in 2025

We have factored in a slightly improved Scope-adjusted EBITDA of around DKK 3.0bn in 2025 (margin: 8.5%). This is based on our expectation of: i) modest top-line growth; ii) higher profitability at GPV due to the realisation of synergies from the integration of Enics; and ii) BioMar's ability to broadly maintain the level of profitability achieved in 2024. Fibertex Personal Care is currently the portfolio company with the greatest difficulties, as record low margins have come under pressure from increased competition and low volumes in Asia. In contrast, business in Europe is developing quite well. We expect Fibertex Personal Care's profitability to stabilise at this very low level, supported by some restructuring.

Financial risk profile: BBB+

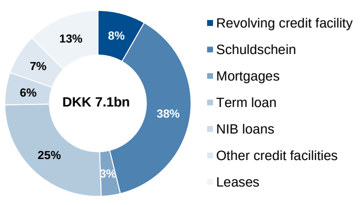
Schouw's issuer rating continues to be supported by its financial risk profile of BBB+.

Our assessment mainly reflects the group's disciplined capital allocation. This is reflected in a strong balance sheet despite significant M&A activity, as evidenced by leverage of 2.3x in 2023. Schouw also has a proven track record of balance sheet recovery following the acquisition of companies. We expect leverage to improve further in 2024-25 on the back of the anticipated improvement in FOCF.

Higher Scope-adjusted debt in 2023, but slightly improved net leverage

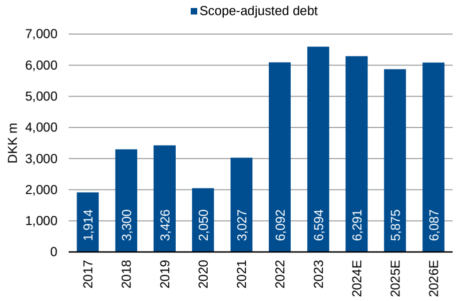
As expected, Scope-adjusted debt increased from DKK 6.1bn at YE 2022 to DKK 6.6bn at YE 2023. This was due to an increase in working capital, dividend payments (including payments to non-controlling interests and adjustment for treasury shares) of DKK 377m and cashouts for acquisitions of DKK 685m. Nevertheless, in line with our expectations, Scope-adjusted debt/EBITDA improved slightly from a peak of 2.6x in 2022, following the acquisition of Enics, to 2.3x in 2023, thanks to higher Scope-adjusted EBITDA.

Figure 6: Debt structure at FY-end 2023



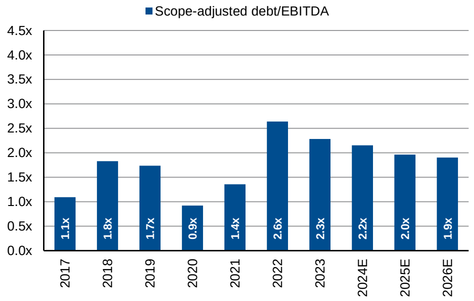
Sources: Schouw, Scope

Figure 7: Scope-adjusted debt, 2017 to 2026E



Sources: Schouw, Scope (estimates)

Figure 8: Scope-adjusted debt/EBITDA, 2017 to 2026E



Sources: Schouw, Scope (estimates)

We expect further deleveraging in 2024-25

We continue to expect Schouw to reduce its debt level in 2024-25, supported by the anticipated improvement in cash flow generation. In this context, we expect Scope-adjusted FOCF of DKK 935m in 2024 and DKK 852m in 2025, which is sufficient to cover dividend payments (DKK 398m per year) and share buybacks (around DKK 196m in 2024). Overall, we expect Scope-adjusted debt to decrease to around DKK 6.3bn at YE 2024 and to about DKK 5.9bn at YE 2025, improving Scope-adjusted debt/EBITDA to around 2.2x in 2024 and 2.0x in 2025.

Stronger deleveraging prevented by new share buyback programme

No change in Schouw's capital allocation strategy

Stronger deleveraging will be prevented by the new share buyback programme of up to DKK 200m in the period from 4 March 2024 to 31 December 2024. The new programme was initiated in March 2024 subsequent to the share buyback programme for a total amount of up to DKK 75m in the period from 15 November 2023 to 1 March 2024. We understand that this new share buyback programme does not represent a change in Schouw's capital allocation strategy and that decisions on further share buybacks will be made depending on cash flow. We have not factored in any further share repurchases in 2025.

Further M&A transactions are possible but not factored into our assessment

Acquisitions are an integral part of Schouw's growth ambitions. Our discussions with the company indicated that M&A are possible in the medium term, but no details were provided. We have therefore not included M&A in our forecast due to a lack of information. Schouw has a proven track record of balance sheet recovery following the acquisition of companies.

We expect Schouw to acquire the 20% stake in GPV from Ahlström Capital B.V.

Schouw might exercise its buy option and acquire the 20% stake in GPV from Ahlström Capital B.V. in 2026 or 2027. We have factored in the acquisition of this stake in 2026, which we expect to be at least partly financed by new debt. We therefore see Scope-adjusted debt at around DKK 6.1bn at YE-2026.

Interest cover continuing to deteriorate in 2024 before improving in 2025.

Weaker interest cover in 2023

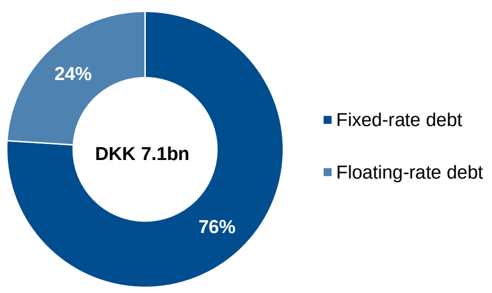
As expected, the interest coverage ratio has deteriorated from around 14x in 2022 to around 7x in 2023 (our expectation was about 8x). This is because cash interest of DKK 389m was up by DKK 253m YoY, partly due to higher interest rates and partly due to higher debt. We note that all debt is floating rate except for leases and part of the 2019 Schuldschein (with a 36% fixed and 64% floating interest rate).

Schouw does not use interest rate hedging; instead, the company rolls over its financing costs to its pricing over time.

We expect improvement only after 2024

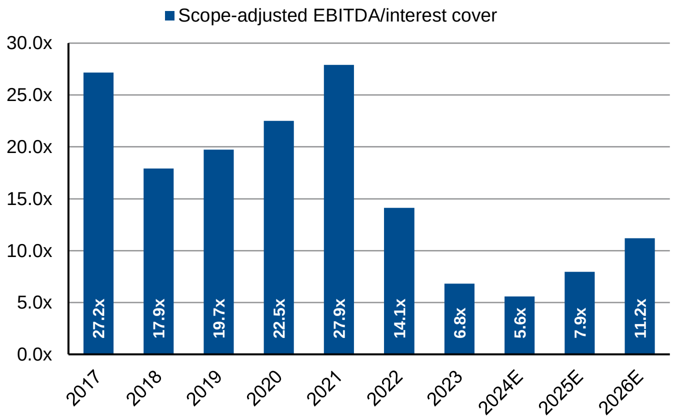
We expect cash interest rates to rise further in 2024 due to higher debt levels during the year and anticipate that interest cover will reach a low of around 5.5x in 2024. After the completion of the refinancing in 2024, we expect a reduction in cash interest and an improvement in interest cover to around 8x in 2025.

Figure 9: Interest profile of interest-bearing debt at year-end 2023



Sources: Schouw, Scope

Figure 10: Scope-adjusted EBITDA/interest cover, 2017 to 2026E



Sources: Schouw, Scope (estimates)

We expect further improvement in Scope-adjusted FOCF in 2024-25 vs. 2023 on the back of lower NWC and capex.

Scope-adjusted FFO on a growth trend over 2013-23

Scope-adjusted funds from operations (FFO) were positive over 2013-23, with a growth trend in line with increasing Scope-adjusted EBITDA. The metric improved from DKK 1.9bn in 2022 to DKK 2.2bn in 2023 thanks to a higher Scope-adjusted EBITDA. A stronger improvement was hindered by the increases in cash taxes and cast interest. We expect the pressure from cast interest and cash taxes to continue in 2024 and, despite the anticipated slight increase in Scope-adjusted EBITDA, we project somewhat lower Scope-adjusted FFO of around DKK 2.0bn in 2024. In 2025, we anticipate Scope-adjusted FFO of about DKK 2.2bn.

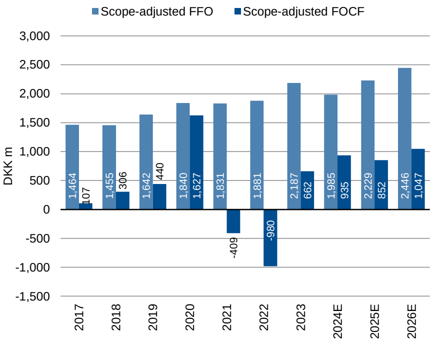
Scope-adjusted FOCF quite volatile

Unlike Scope-adjusted FFO, Schouw's Scope-adjusted FOCF has proved to be quite volatile and has been negative in some years, mainly due to fluctuations in NWC. BioMar and GPV were particularly responsible for this increase due to their relatively high level of NWC. In 2023, Scope-adjusted FOCF turned positive at DKK 662m, as expected, mainly due to a much lower burden from NWC (negative DKK 377m compared to negative DKK 1,548m in 2022) on the normalisation of supply chains. Higher Scope-adjusted FFO and lower net capex were also supportive.

Fibertex Personal Care still a solid cash flow generator in Schouw's portfolio

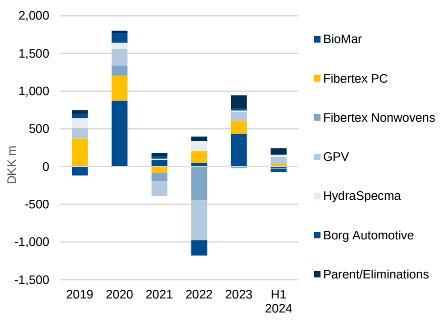
On a positive note, Fibertex Personal Care remains one of the most solid cash flow generators in Schouw's portfolio. This is despite operational difficulties, with record low margins being squeezed by increased competition in Asia and low volumes.

Figure 11: Scope-adjusted FFO and FOCF, 2017 to 2026E



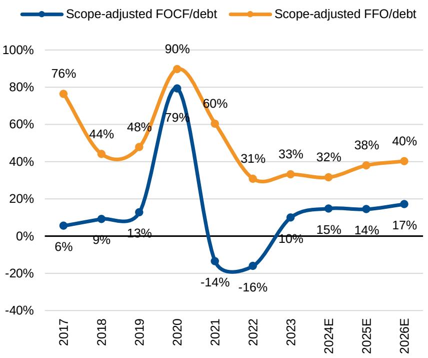
Sources: Schouw, Scope (estimates)

Figure 12: Reported FOCF by business, 2019 to H1 2024



Sources: Schouw, Scope

Figure 13: Scope-adjusted FFO and FOCF/debt, 2017 to 2026E



Sources: Schouw, Scope (estimates)

Lower NWC and capex to support Scope-adjusted FOCF in 2024-25

In H1 2024, reported FOCF was DKK 171m versus DKK -258m in H1 2023. We therefore expect an improvement in Scope-adjusted FOCF in 2024 due to lower NWC and lower capex. We expect GPV's inventories to decline as the components market returns to normal and GPV's sales develop at a weaker pace. It is, however, not clear how much Schouw's overall NWC will fall. This is because we expect trade receivables at BioMar to increase as a result of the lower business volume in Norway, where customers generally pay in cash, and the higher business volume in Ecuador, where customers demand longer payment terms. Following the recent investments in capacity expansions, Schouw has indicated that capex will be lower in 2024. We have factored in net capex of approx. DKK 710m for 2024. Overall, we expect Scope-adjusted FOCF to increase to around DKK 935m in 2024 from DKK 696m in 2023. We have factored in a slightly lower Scope-adjusted FOCF of around DKK 852m in 2025, mainly due to expected increases in NWC and capex in line with the anticipated upturn in operations.

Schouw's relatively low and volatile cash flow cover is the weakest credit metric

At 33% in 2023, Scope-adjusted FFO/debt remained significantly below 45% for the second year in a row (31% in 2022) amid higher cash taxes and cast interest and higher Scope-adjusted debt. In 2024-25, we expect Scope-adjusted FFO/debt to remain in the 30%-40% range. Cash flow cover proved volatile due to the significant fluctuations in NWC and is still the weakest credit metric. In 2023, cash flow coverage increased to 10% on the back of positive Scope-adjusted FOCF. We see cash flow cover at around 15% in 2024-25, based on our expectation for Scope-adjusted FOCF in 2024-25.

Adequate liquidity

We consider Schouw's liquidity and financial flexibility to be adequate. It is supported by available cash sources, such as cash on the balance sheet and funds available under the syndicated bank facility, as well as the expected positive Scope-adjusted FOCF in 2024-25. It is also supported by the completed refinancing of around DKK 2.3bn in debt in H1 2024, party using a new five-year bond of NOK 1.3bn (DKK 850m) issued in June 2024 and tapped by NOK 500m (DKK 315m) in early September, and the syndicated bank facility.

We have quantified liquidity risk by looking at Schouw's use of reverse factoring. BioMar has reverse factoring debt of DKK 764m (2022: DKK 980m), which is recognised in the balance sheet under trade payables.

Balance in DKK m	2023	2024E	2025E
Unrestricted cash (t-1)	681	553	1,052
Open committed credit lines (t-1)	1,754	2,624	1,539
Free operating cash flow (t)	662	935	852
Short-term debt (t-1)	1,565	2,509	2,751
Coverage	**~200%**	**>100%**	**>100%**

Cash sources

<u>Principal cash sources comprise:</u>

- DKK 777m of cash on the balance sheet at end-June 2024. Of this cash, around DKK 31m is trapped in Russia. Full access to consolidated cash is available to the holding company.
- Schouw has a syndicated bank facility, which was refinanced with a total facility line of DKK 3,275m in December 2020. DKK 855m were still available under this facility at end-June 2024. DKK 47m of this facility are not accessible due to guarantee commitments in Australia.
- Expected Scope-adjusted FOCF of around DKK 935m in 2024 and DKK 852m in 2025

In June 2024, Schouw issued a new bond of NOK 1.3bn (DKK 850m) in the Norwegian market. The bond has a maturity of five years and has a floating rate.

Cash uses

Expected cash uses comprise:

- Dividends (including payments to non-controlling interests and adjustment for treasury shares) of DKK 398m yearly in 2024-25
- Share repurchases (adjusted for the sales of treasury shares of DKK 46m) of around DKK 196m in 2024, no share repurchases in 2025
- In H1 2024, Schouw repaid EUR 109m (DKK 815m) of Schuldschein debt and DKK 1.45bn of term loans (a higher amount was repaid to save interest costs), partly through a new NOK 1.3bn (DKK 850m) five-year bond issued in June 2024 and the syndicated bank facility. We expect Schouw to repay approx. DKK 685m of the syndicated bank facility from cash flow in H2 2024. Term loans of DKK 350m will mature in January 2025.

A further DKK 3.4bn, a syndicated bank facility (DKK 2.4bn) and Schuldschein debt (approx. DKK 955m) are due in 2026. Schouw has already started negotiations to extend the syndicated bank facility. We expect the group to tap the capital market to finance at least part of the Schuldschein debt.

In 2023, Schouw remained below the covenant thresholds; our base case foresees this continuing

Three financial covenants in place

There are three covenants in place. The first requires Schouw to have 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 net debt/EBITDA (excluding leases) of less than 3x. Leases are taken into account in the first covenant but not the second. A further covenant was agreed for the new NOK 1.3bn Norwegian bond, which requires the group to maintain an equity ratio of at least 30% on a consolidated basis at each quarterly reporting date.

Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers are credit-neutral

Supplementary rating drivers are credit-neutral. We assess peer context and governance as neutral. Capital allocation is relatively disciplined, as reflected in Schouw's historically solid balance sheet. We therefore also have a neutral view of the group's capital allocation policy, which is as follows:

- Acquiring new businesses is an intrinsic part of Schouw's growth strategy, with a focus on bolt-on acquisitions for existing businesses. The group may also expand its portfolio by one acquisition in the future.
- The group aims to have net debt/EBITDA in the range of 1.0x to 2.5x (Schouw's calculation). Immediately after a (major) acquisition, however, gearing may exceed 2.5x. At 31 December 2023, net debt/EBITDA stood at 2.2x.
- Schouw aims to pay stable or growing dividends, always with due consideration for the group'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 especially due to the relatively low free-float. Five share buybacks have been initiated since 2013. The last share buyback programme of DKK 75m was completed in Q1 2024. In March 2024, Schouw initiated a new share buy-back programme for up to DKK 200m for the period from 4 March 2024 to 31 December 2024.

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB

We affirm Schouw's rating for senior unsecured debt at BBB, in line with the issuer rating.

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.

Schouw's senior unsecured debt at end-June 2024 comprises:

- Syndicated bank facility with a total facility line of DKK 3,275m. DKK 2.4bn were drawn under this facility at end-June 2024. This facility expires in January 2026.
- Schuldschein debt issued in April 2019 for EUR 27m (DKK 202m) maturing in 2026 and in November 2023 for EUR 225m (DKK 1,677m) maturing in November 2026, November 2028 and November 2030.
- In June 2024, Schouw issued a new bond of NOK 1.3bn (DKK 850m) in the Norwegian market, which was tapped by NOK 500m (DKK 315m) in early September. The bond has a maturity of five years and has a floating rate. This bond is also cross-guaranteed (Schouw and six other companies).
- Term loans of DKK 350m maturing in January 2025.
- DKK 400 seven-year loan with the Nordic Investment Bank raised in December 2021 for specific Danish capacity-expanding investments and development costs.
- DKK 927m of money market loans and other credit facilities.

Short-term debt rating: S-2

We have also affirmed the S-2 short-term debt rating, based on adequate liquidity and the issuer rating of BBB/Stable. We consider Schouw's standing, particularly in the Nordic capital market, to be adequate given its long-term presence on the capital market. We also view Schouw's banking relationships as adequate. Schouw raises funds mainly from four major banks, Danske Bank, DNB, Nordea, and the Nordic Investment Bank.

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