Borregaard ASA
Norway, Specialty Chemicals

A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA/interest cover	21.6x	12.6x	11.6x	14.2x
Scope-adjusted debt/EBITDA	1.1x	1.0x	1.0x	1.1x
Scope-adjusted funds from operations/debt	75%	76%	74%	72%
Scope-adjusted free operating cash flow/debt	13%	46%	27%	19%

Rating rationale

The rating affirmation reflects Borregaard's resilient operating results and stable credit metrics despite challenging market conditions with slowdown in some end-markets (e.g. construction) as well as destocking hitting the chemicals industry. The rating continues to reflect the company's good competitive positioning, supported by its unique and proven business model within wood-based specialty chemicals, solid market positions, good diversification, and high profitability margins. The rating also remains supported by the company's strong financial risk profile.

Outlook and rating-change drivers

The Stable Outlook reflects our belief that Borregaard's solid market positions and diverse product portfolio of specialty wood-based chemicals will continue to drive its operating results. It also reflects the good headroom in credit metrics in the medium-term, as illustrated by forecasted Scope-adjusted debt/EBITDA of slightly above 1.0x in 2024-2026. This helps to offset heightened FX risk with NOK currently being historically weak against EUR and USD. The Outlook also assumes no change in financial policy.

A rating upgrade could be warranted by a sustained Scope-adjusted debt/EBITDA below 1.0x, which would likely require a change in financial policy given the company's target range for net debt/EBITDA of between 1.0x and 2.25x.

A rating downgrade could be triggered if Scope-adjusted debt/EBITDA remained at 2.0x or above, possibly due to lower-than-expected profitability, significant debt-financed investments and/or a change in financial policy.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
2 Apr 2024	Affirmation	A-/Stable
23 Mar 2023	New	A-/Stable

Ratings & Outlook

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

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Related Methodologies

General Corporate Rating Methodology; October 2023

Chemicals Rating Methodology; April 2023

Related research

Chemicals sector outlook shifts to negative from stable: cost control, cash preservation in focus; February 2024

ESG considerations for rating chemicals companies: stakes are particularly high for pivotal sector; July 2023

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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 • Leading supplier of lignin-based biopolymers (35-40% market share); strong positions in other niche markets • 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 promoting the use of sustainable, rather than fossil-based, products • Strong financial risk profile supported by low leverage, good cash generation, and a prudent financial policy	• Exposure to FX risk as the majority of sales are in USD and EUR while costs are mainly in NOK • Competition from low-cost, fossil-based substitutes • Exposed to high cyclicality in the construction sector (20% of revenues in 2023) but partly mitigated by low share of sales to concrete applications • High portion of revenues derived in Europe • Execution risk in higher-than-historical investment forecast • Loss-making cellulose fibrils segment

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA sustained below 1.0x	• Scope-adjusted debt/EBITDA remained at 2.0x or above

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. The company was acquired by Orkla Group in 1986 and incorporated into Orkla's chemicals division. The year 1991 represented a fundamental shift in Borregaard's history with the decision to transition from a commodity-based to a specialty chemicals company, and in 2012, it was spun-off from Orkla and listed on the Oslo Stock Exchange. Today, Borregaard is a leader within wood-based specialty chemicals and operates one of the world's most advanced biorefineries in its hometown of Sarpsborg, Norway. It also has five other production facilities across Europe and North America and caters to customers in more than 100 countries

The company employs over 1,100 people and generated revenues of NOK 7.1bn and EBITDA of NOK 1.8bn in 2023. Its largest shareholder is Folketrygdfondet with an ownership of 10.1% while the top 20 largest shareholders owns on aggregate 51.1%.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	23.3x	21.6x	12.6x	11.6x	14.2x	16.5x
Scope-adjusted debt/EBITDA	1.0x	1.1x	1.0x	1.0x	1.1x	1.1x
Scope-adjusted funds from operations/debt	82%	75%	76%	74%	72%	75%
Scope-adjusted free operating cash flow/debt	58%	13%	46%	27%	19%	22%
Scope-adjusted EBITDA in NOK m						
EBITDA	1,372	1,635	1,781	1,732	1,772	1,892
Operating lease payments	-	-	-	-	-	-
Other items[1]	-	8	-	-	-	-
Scope-adjusted EBITDA	**1,372**	**1,643**	**1,781**	**1,732**	**1,772**	**1,892**
Funds from operations in NOK m						
Scope-adjusted EBITDA	1,372	1,643	1,781	1,732	1,772	1,892
less: (net) cash interest paid	(59)	(76)	(141)	(150)	(125)	(114)
less: cash tax paid per cash flow statement	(124)	(208)	(265)	(268)	(253)	(258)
Other items	(14)	34	(17)	5	5	5
Funds from operations (FFO)	**1,175**	**1,393**	**1,358**	**1,319**	**1,399**	**1,525**
Free operating cash flow in NOK m						
Funds from operations	1,175	1,393	1,358	1,319	1,399	1,525
Change in working capital	256	(658)	205	148	(49)	(84)
Non-operating cash flow	16	37	8	-	-	-
less: capital expenditure (net)	(556)	(464)	(667)	(900)	(900)	(900)
less: lease amortisation	(62)	(64)	(84)	(84)	(84)	(84)
Free operating cash flow (FOCF)	**829**	**244**	**820**	**483**	**366**	**457**
Net cash interest paid in NOK m						
Interest received	(3)	(12)	(30)	(14)	(11)	(9)
Interest paid	62	88	171	164	136	124
Net cash interest paid	**59**	**76**	**141**	**150**	**125**	**114**
Scope-adjusted debt in NOK m						
Reported gross financial debt	1,544	2,072	2,262	2,111	2,230	2,270
less: cash and cash equivalents	(124)	(234)	(469)	(333)	(301)	(230)
add: restricted cash	3	9	5	5	5	5
add: pension adjustment	15	9	-	-	-	-
Asset retirement obligation	-	-	-	-	-	-
Scope-adjusted debt (SaD)	**1,438**	**1,856**	**1,798**	**1,783**	**1,934**	**2,045**

[1] Other items include one-offs such as impairments, restructuring costs and provisions.

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Environmental, social and governance (ESG) profile[2]

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 a producer of sustainable, wood-based alternatives to fossil-fuel-based products, is well positioned to benefit from these megatrends.

[2] 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, largely 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; strong profitability; and a 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

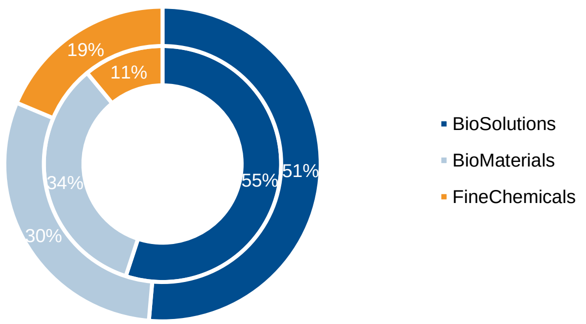
As mentioned, the three main ingredients in Borregaard's production process at the site in Norway is wood, energy and caustic soda. Borregaard purchases its wood raw material partly as pulpwood from forest owners and partly as side-stream chips from Nordic sawmills. Caustic soda can be relatively expensive, 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.

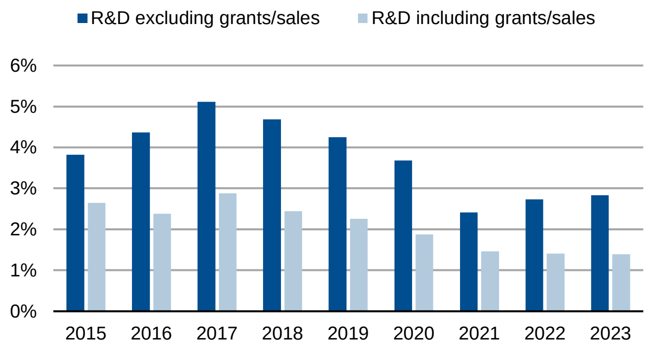
BioSolutions involves the further processing and sale of lignin produced in the pulping process. As mentioned, most pulp companies burn the lignin they produce to reduce the overall energy cost of the pulping process. However, lignin is Borregaard's biggest segment in terms of both revenues and EBITDA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

Figure 1: Contribution to revenues (inner circle) and EBITDA (outer circle) of segments, 2023



Sources: Borregaard, Scope

Figure 2: R&D costs relative to sales (%), including and excluding 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%[3] 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 mainly construction 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[4]. This stems from its unique pulping process, which enables it to produce high volumes while 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[5], a market dominated by low-cost producers of fossil-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-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[6], 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%[7]. However, the second largest producer of specialty cellulose, Georgia-Pacific, recently announced plans to permanently close its Foley facility, which likely can benefit Borregaard's position in this market.

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

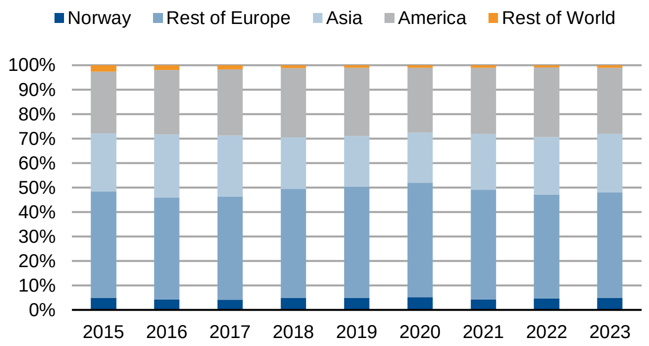
Patented Exilvia fibrillation technology

BioMaterials also includes the company's cellulose fibrils operations. Here, the company applies its patented Exilva fibrillation technology to the cellulose, giving them advanced, 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). While this business area is still in a commercialisation phase, and currently is making a loss, we favourably note how the company is a leader within fibrils and the potential upside of this patented technology.

Leading producer of second-generation bioethanol and contrasting agents

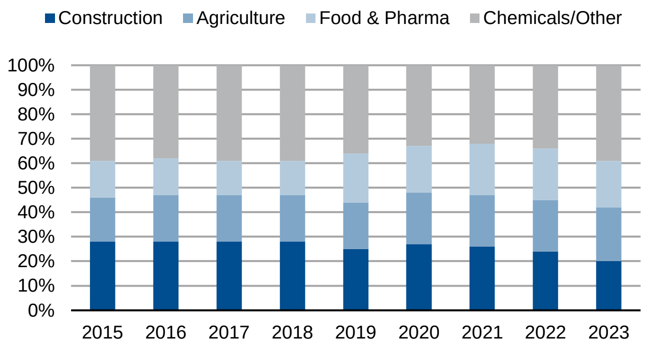
The last segment, Fine Chemicals is the company's smallest in terms of revenues but also its most profitable, with EBITDA margins of around 30% historically. Here, the company processes and sells bioethanol for use in biofuels, as well as intermediates for contrasting agents and other fine chemical intermediates 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 attractive for biofuel applications, a segment experiencing ESG-driven tailwinds.

Figure 3: Geographical exposure of group revenues



Sources: Borregaard, Scope

Figure 4: End-market exposure of group revenues



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 almost half of revenues, while the rest is split between America (north and south) and Asia. In Asia, the company's sales to China may be impacted by sanctions should geopolitical tensions between China and the West increase. However, this is estimated to have relatively modest impact on Borregaard's results. In 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 shifted parts of its revenues from Europe to Asia by using cheap return-freighters during the 2009 financial crisis.

Exposure towards the construction industry a limiting factor

End-industry risk is, however, a limiting factor for the overall business risk assessment. The company derived about 20% of its 2023 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 increased specialisation takes years and significant investment. Lastly, the company has an active strategy of reducing its sales towards low-margin applications which can reduce the impact of economic downturns.

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. In 2023, the agriculture industry was the largest contributor to the segment's revenues with 39%. Agriculture has low cyclicality due to the non-discretionary nature of the goods it produces (i.e. food). In addition, BioSolutions also includes the biovanillin business, which caters to low-cyclicality industries like food and beverages. This supports the stability of BioSolutions' performance and helps to offset the exposure to the more cyclical construction sector, which accounted for 18% of segment's revenues in 2023.

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 exposure, BioMaterials also derives a substantial portion of revenues from the construction industry.

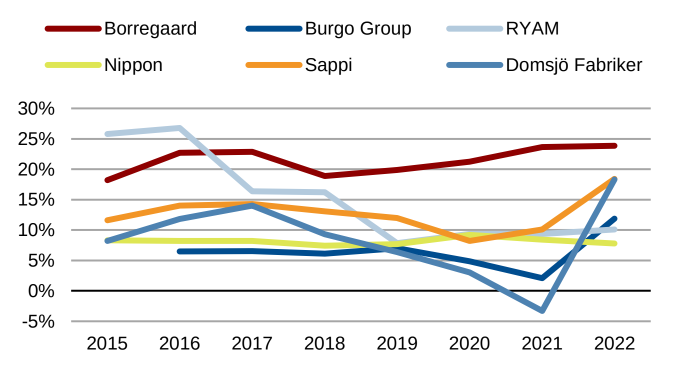
FineChemicals; primarily caters to low-cyclicality industries

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

Moderate supply-side risk

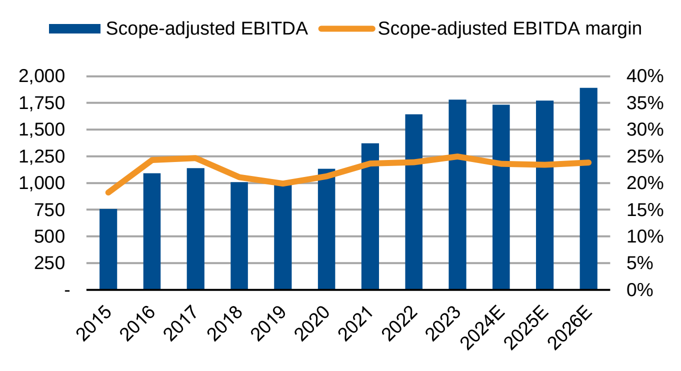
The company's supply side concentration is moderate as purchases are spread across categories, vendors, and regions.

Figure 5: Profitability (EBITDA margin) of selected peers



Sources: Borregaard, Scope

Figure 6: Group EBITDA (NOK m, LHS) and EBITDA margin (RHS)



Sources: Borregaard, Scope (estimates)

Strong profitability

Profitability, as measured by the Scope-adjusted EBITDA margin, has ranged from a low of 19.7% in 2015 to a high of 25.0% in 2023. 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 gives a competitive advantage.

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

The operating performance is relatively stable due to the aforementioned bargaining power and as demand for the company's products is mainly GDP-driven. Stability is also supported by the diversified product portfolio, large number of customers and the global sales exposure. 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 NOK against either the EUR or USD. To reduce this risk, the company is actively hedging both cash flows and net investments in its subsidiaries.

Financial risk profile: A

Good financial flexibility; a result of the prudent financial policy

The financial risk profile is supported by Borregaard's history of pursuing a prudent financial policy with low leverage despite solid cash flow generation. Typically, the company aims to reduce its leverage towards the lower end of its target range (net debt/EBITDA of 1.0x-2.25x) during periods of macroeconomic uncertainty and/or heightened FX risk (i.e. weak NOK against EUR and USD). This has led to good financial flexibility in past years which continued in 2023 with leverage ending largely in line with the 2021-2022 levels of close to 1.0x.

Increased EBITDA in 2023

Borregaard reported EBITDA in 2023 of NOK 1.8bn, about NOK 0.1bn higher than in 2022. The good EBITDA performance was achieved despite a slowdown in some end-markets (e.g. construction) and ongoing customer destocking hitting the chemicals industry.

Updated forecast

Our updated medium-term forecast shows an overall stable development in operating results and credit metrics in 2024-2026.

Key assumptions

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

- Medium-term top line driven by inflation and moderate capacity increases.
- EBITDA margin close to the level achieved in recent years of 23%-25%.
- Improved performance towards end of forecast as economic conditions normalise.
- Capital expenditure of NOK 900m per year, in line with the range guided by the company in its January 2024 presentation.
- Progressive dividends with annual increase of NOK 0.25-0.50/share, but subject to financial policy targets
- Net debt/EBITDA (company definition) in the low end of the 1.0x-2.25x target range during times of historically weak NOK and/or macroeconomic uncertainty.

Adjustments

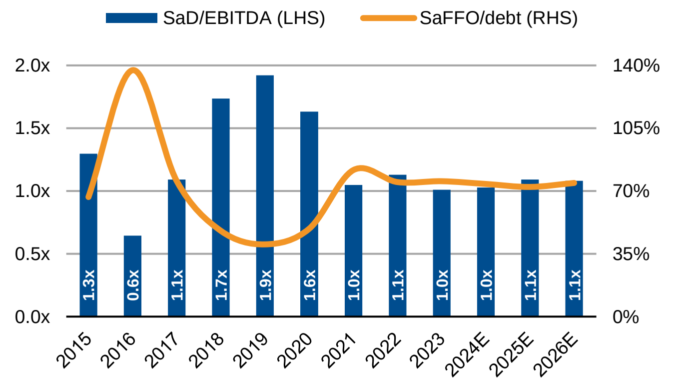
In terms of adjustments:

- Scope-adjusted EBITDA is adjusted for non-recurring items including restructuring costs and fair value changes of tangible and intangible assets
- Scope-adjusted debt takes into account provisions for site restoration and environmental measures (contingent liabilities) in relevant years

Low financial leverage

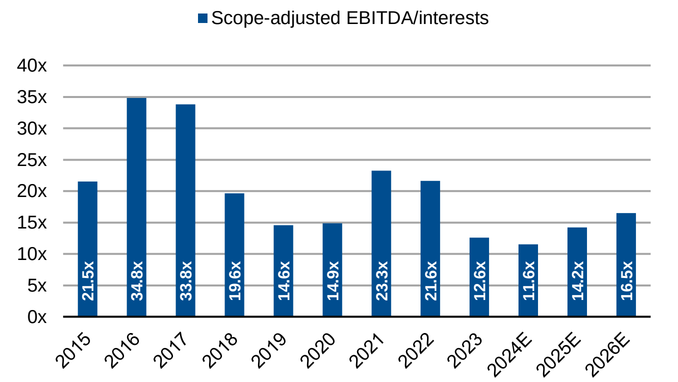
Scope-adjusted debt/EBITDA has stayed between 1.0x and 1.9x over the past five years (figure 7). The low debt levels can be explained by strong cash flow generation, moderate capex, moderate M&A, and the prudent financial policy. We believe the company will maintain a financial leverage towards the lower end of its target range going into 2024 given unstable conditions in some of its end-markets, but also due to the currently weak NOK. Our base case therefore projects Scope-adjusted debt/EBITDA of 1.0x-1.1x in the medium-term.

Figure 7: Scope-adjusted leverage



Sources: Borregaard, Scope (estimates)

Figure 8: Interest cover



Sources: Borregaard, Scope (estimates)

Increasing investments

Our base case includes higher-than-historical capex of NOK 0.9bn per annum, including a large share of discretionary capex. It is expected to be used for further specialisation, increased flexibility and debottlenecking at the Sarpsborg-site, initiatives for reducing carbon emissions, as well as ordinary maintenance.

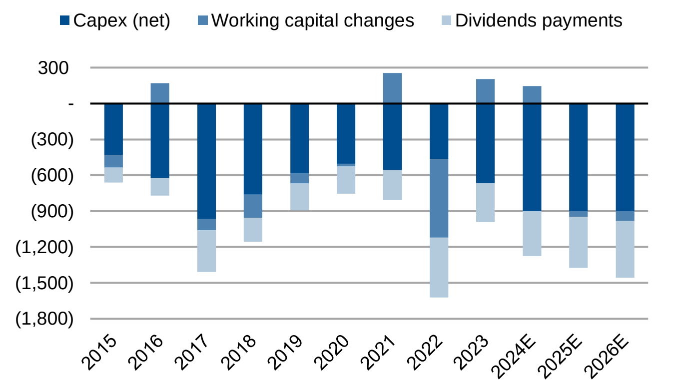
Good cash flow generation

Despite a higher investment level, Scope-adjusted free operating cash flow/debt of 19%-27% is expected throughout 2024-2026. As a result, Borregaard is assessed to have good cash flow generation.

Very strong interest cover

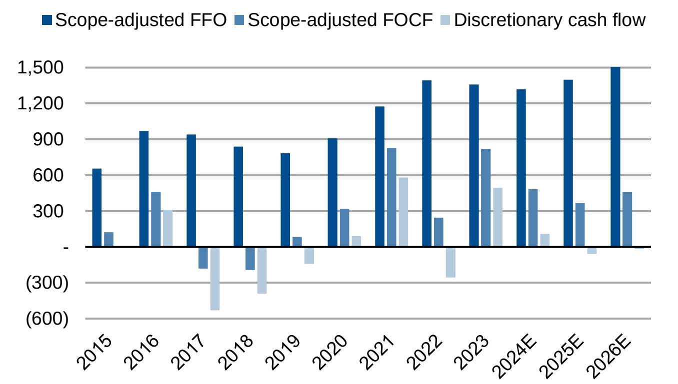
Interest coverage is expected to remain at a very strong level of above 10.0x in 2024-2026. After a peak in 2024, the interest cost is forecasted to improve in 2025 and 2026 supported by falling interest rates and amortisation of the more expensive term loan for LignoTech Florida.

Figure 9: Development in capex, working capital changes and dividend payments, NOK m



Sources: Borregaard, Scope (estimates)

Figure 10: Cash flows, NOK m

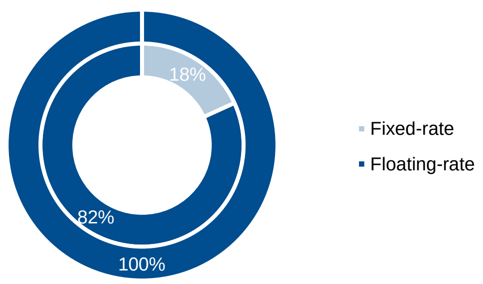


Sources: Borregaard, Scope (estimates)

Adequate liquidity

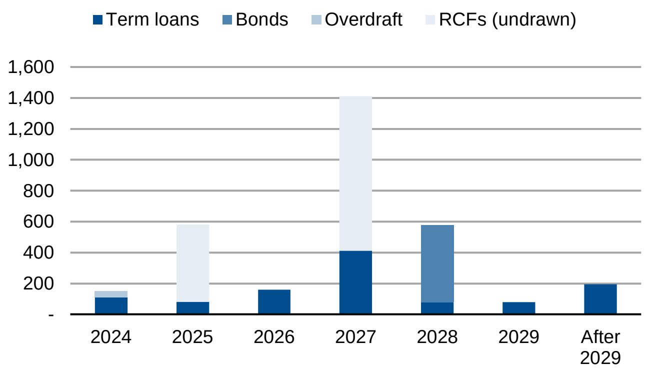
Liquidity is adequate. At end-2023, the company had available cash and cash equivalents of NOK 464m and committed undrawn credit lines of NOK 1.5bn. This compares to maturities of financial debt (excluding lease amortisation) in 2024 and 2025 of NOK 151m and NOK 81m respectively. Liquidity is further supported by forecasted positive annual free operating cash flow of between NOK 360m-490m per year.

Figure 11: Interest exposure of gross financial debt at end-2022 (inner circle) and end-2023 (outer circle), NOK m



Sources: Borregaard, Scope

Figure 12: Maturity profile of financial debt and committed revolving credit facilities (RCFs) at year-end 2023, NOK m



Sources: Borregaard, Scope

Balance in NOK m	2023	2024E	2025E
Unrestricted cash (t-1)	225	464	328
Open committed credit lines (t-1)	1,500	1,500	1,500
Free operating cash flow	813	476	359
Short-term debt (t-1)	658	151	81
Coverage	**> 200%**	**> 200%**	**> 200%**

Supplementary rating drivers

No adjustment

No explicit adjustment for supplementary rating drivers.

Sound financial policy

Borregaard's financial policy is neutral for the issuer rating assessment. The company is committed to an investment-grade credit rating and operates with a target range for leverage (net debt/EBITDA) of 1.0x-2.25x. We note favourably Borregaard's track record of steering leverage towards the low end of its target range during times of economic uncertainty and/or heightened FX risk (i.e. weak NOK against USD and EUR). For shareholder remuneration, the company seeks to pay annual dividends of between 30% and 50% of net profit for the preceding fiscal year.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

Senior unsecured debt is rated at the same level as the issuer, with Borregaard ASA also being the bond-issuing entity. Borregaard's senior unsecured bonds display standard bond documentation, including pari passu and negative pledge.

Short-term debt rating: S-1

The S-1 short-term rating reflects the underlying issuer rating of A-/Stable and robust short-term debt coverage, as well as good access to external funding from banks and debt capital markets.

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