

Rating Action: Moody's affirms Baa1 rating of SCA Hygiene; negative outlook

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Frankfurt am Main, December 20, 2016 -- Moody's Investors Service, ("Moody's") has today affirmed SCA Hygiene AB's (SCAH) long term issuer rating of Baa1, short-term issuer rating of Prime-2 (P-2), as well as the (P)Baa1 rating of its senior unsecured MTN programme and the Baa1 rating of senior unsecured bonds issued under the programme. Concurrently, Moody's has changed the outlook on all ratings to negative from stable.

"The change of outlook to negative on SCAH's ratings primarily reflects some deterioration of SCAH's leverage ratios following the debt financed acquisition of BSN Medical Luxembourg Group Holding S.a.r.l. (BSN, B2 stable as of 19 December 2016) announced yesterday, which will position SCAH initially weakly in the Baa1 rating category", says Martin Fajerik, lead analyst on SCAH.

RATINGS RATIONALE

SCAH announced yesterday that it would be buying BSN, one of the key players in a market for medical devices with its offering centered around wound care & vascular and orthopaedics products, for a purchase price of around EUR2.7 billion (on a debt and cash-free basis), implying a multiple of around 13x BSN's expected EBITDA for 2016. The transaction is subject to customary closing conditions, including approval from regulatory authorities. Closure is expected during Q2 2017.

As the acquisition will be debt-financed, it is likely to lead to some deterioration of SCAH's leverage metrics, but the rating agency expects that within 18-24 months after the closure of the transaction Moody's adjusted debt/EBITDA will return towards below 3.0x (around 2.5x for 12 months to September 2016 based on Moody's estimates). This is still commensurate with a Baa1 rating, but positions SCAH weakly in the category, providing fairly limited headroom for further debt-funded growth or weaker than expected operational performance, which is reflected in the negative outlook.

Despite increased leverage, Moody's believes that the acquisition of BSN will enhance the business profile of SCAH. BSN will provide SCA with a new platform for growth, increasing its exposure to the area of medical devices with lower technology content, which is adjacent to SCAH's existing incontinence offering and subject to similar underlying megatrends, such as aging population, increase disease prevalence, increasing living standards and hygiene awareness.

In addition, Moody's expects the acquisition to be earnings and cash flow accretive to SCAH from the first year, which partially offsets the, in the agency's view fairly high multiple SCAH is willing to pay for BSN. That is also reflective of BSN's strong product offering, with many market leading brands, such as Jobst or Leuko, as well its solid manufacturing footprint and global sales force.

WHAT COULD CHANGE RATINGS UP/DOWN

SCAHs' ratings could be downgraded if its financial profile weakens as indicated by a decline of EBIT margins to below 9%, RCF/Net Debt falling sustainably below 20%, debt to EBITDA moving towards 3x and free cash flow turning negative or an erosion of the company's solid liquidity profile.

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

The principal methodology used in these ratings was Global Packaged Goods published in June 2013. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Headquartered in Stockholm, Sweden, SCAH is an entity that will host the current Personal Care and Tissue operations of Svenska Cellulosa Aktiebolaget SCA (P-2, stable). In 2016 Moody's expects SCAH to generate sales of around SEK100 billion in more than 100 countries under regional and global brands, such as TENA and Tork.

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