

Credit Rating Announcement

26 March 2025

Scope affirms Norwegian specialty chemicals company Borregaard's A-/Stable issuer rating

Borregaard's affirmed rating reflects its good business risk profile and strong financial risk profile, though increased debt in 2024 and higher expected capex over the next few years have slightly weakened credit metrics.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has today affirmed the A-/Stable issuer rating on Norwegian specialty chemicals company Borregaard ASA (Borregaard). Concurrently, Scope has also affirmed the A- rating on senior unsecured debt and the short-term debt rating at S-1.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: BBB+ (unchanged). Borregaard's business risk profile continues to be supported by its business model within wood-based specialty chemicals (ESG: credit-positive environmental factor). Borregaard remains the world's largest supplier of lignin, with an estimated market share of 35%-40%, offering lignin-based biopolymers for advanced applications in various end markets, albeit with some bias towards the agricultural industry. In addition, the company is a significant player in the global specialty cellulose market and is established in the markets for biovanillin, cellulose fibrils, intermediates for contrast agents and advanced second-generation bioethanol. The business risk profile is also underpinned by Borregaard's continuous specialisation and innovation efforts, good sales diversification and strong profitability. Challenges include: i) competition from low-cost petrochemicals; ii) some, albeit decreasing, exposure to highly cyclical end markets such as construction; iii) vulnerability to geopolitical events due to reliance on production capacity in a single country (Norway); and iv) exposure to currency risk as sales are mainly in USD and EUR while costs are mainly in NOK.

Borregaard's business model is underpinned by strong profitability, with an EBITDA margin* of between 20% and 25% over the 2018-2024 period (2024: 24.6%). In Scope's view, the company's operating results should continue to be supported by its good overall sales diversification. This reflects over 800 products sold to around 3,000 customers globally, with a distribution of 46% in Europe (2023: 48%), 30% in the Americas (2023: 27%) and 23% in Asia (2023: 24%) in 2024. Scope notes that Borregaard could be vulnerable to an international trade war, with direct sales to both the US and EU from its main production facility in Norway, as

well as exposure to customers who export to the US. However, visibility on potential future tariffs remains limited at this point.

In 2024, Borregaard's EBITDA remained stable at around NOK 1.8bn. This was slightly above Scope's forecast of NOK 1.7bn and was mainly supported by higher sales volumes and an improved product mix in BioSolutions, with increased demand from agriculture. Looking ahead, Scope expects that Borregaard's EBITDA will be supported by reduced losses from currency hedging, continued product specialisation, and progress of capex projects to debottleneck the main production facility in Norway. This is likely to offset still modest operating results from BioSolutions' biovanillin amid ample global supply of synthetic vanillin and an expected drop in pricing for FineChemicals' bioethanol due to a recent increase in supply in Europe.

Financial risk profile: A (unchanged). Borregaard's financial risk profile remains supported by low leverage and very strong interest cover, while constrained by comparatively weak cash flow cover. However, Scope sees reduced headroom on all credit metrics due to increased debt in 2024 and the likelihood of high expansion capex in the next few years.

Leverage weakened in 2024 amid higher debt, which increased to NOK 2.3bn at end-2024 (2023: NOK 1.8bn), with debt/EBITDA rising to 1.2x at end-2024 (2023: 1.0x) and funds from operations/debt decreasing to 63% (2023: 76%). The higher-than-expected rise in debt was mainly driven by an increase in net working capital of NOK 0.3bn and currency effects of NOK 0.2bn.

Based on an expectation of still resilient operating results in the next few years, Scope expects Borregaard to maintain debt/EBITDA between 1.0x and 1.5x and funds from operations/debt at around 60% in 2025-2027. At the same time, Scope expects EBITDA/interest cover to remain above 10x. Cash flow cover, as measured by free operating cash flow/debt, is still good, although volatile due to working capital fluctuations, ranging from 9% to 57% over the 2020-2024 period. Scope projects that cash flow cover could temporarily fall below 15% in 2025-2026. This reflects the potential for high expansion capex given Borregaard's plans for continued specialisation, debottlenecking at the main production facility in Norway and carbon reduction initiatives.

Liquidity: adequate (unchanged). Borregaard's liquidity remains adequate, supported by available cash and cash equivalents of NOK 0.1bn at end-2024, committed undrawn credit lines of NOK 1.5bn (maturing in 2027) and expected positive free operating cash flow. This compares with debt maturities of less than NOK 0.2bn per annum in 2025 and 2026.

Supplementary rating drivers: credit-neutral (unchanged). Scope has made no rating adjustments related to financial policy, governance and structure, parent support, or peer group considerations.

One or more key rating factors are considered an ESG factor.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's expectation that Borregaard's solid market positions and diverse product portfolio will continue to drive its operating results, enabling the company to maintain debt/EBITDA between 1.0x and 1.5x and cash flow cover to oscillate around 15% over the next few years. At the same time, Scope notes that the current geopolitical uncertainties will remain a medium-term risk for Borregaard.

The **upside scenario** for the ratings and Outlook is:

1. Debt/EBITDA sustained below 1.0x. This is remote given Borregaard's leverage target (net interest-

bearing debt/EBITDA 1.0x-2.25x).

The **downside scenario** for the ratings and Outlook is:

1. Debt/EBITDA close to 2.0x.

Debt ratings

The senior unsecured debt rating has been affirmed at A-, in line with the issuer rating.

Scope has also affirmed the S-1 short-term debt rating. This is based on the underlying A-/Stable issuer rating and reflects the company's better-than-adequate short-term debt coverage and adequate banking relationships and standing in capital markets.

Environmental, social and governance (ESG) factors

Borregaard's efficient production process with high raw material utilisation (wood) and product portfolio of advanced biochemicals which can substitute petrochemicals is seen as a credit-positive ESG factor. In Scope view, this makes the company likely to benefit from stricter environmental regulations and shifting customer preferences towards sustainable and environmentally friendly products.

All rating actions and rated entities

Borregaard ASA

Issuer rating: A-/Stable, affirmation

Short-term debt rating: S-1, affirmation

Senior unsecured debt rating: A-, affirmation

**All credit metrics refer to Scope-adjusted figures.*

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 14 February 2025; Chemicals Rating Methodology, 16 April 2024), are available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>. Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

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These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

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The Credit Ratings/Outlook were first released by Scope Ratings on 23 March 2023. The Credit Ratings/Outlook were last updated on 2 April 2024.

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