MOODY'S INVESTORS SERVICE

CREDIT OPINION
14 June 2019

Update

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RATINGS

Essity Aktiebolag

Domicile	Sweden
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Essity Aktiebolag

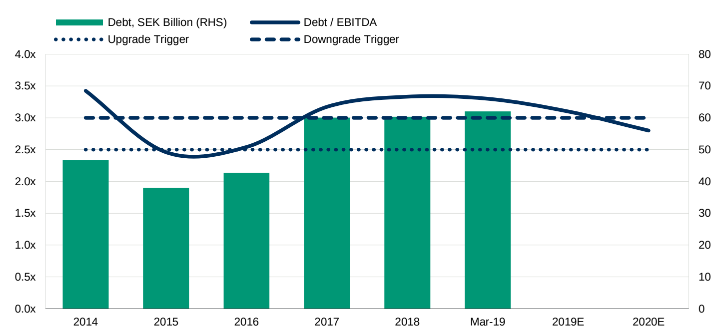
Update following the first-quarter 2019 results

Summary

The Baa1/P-2 ratings of Essity Aktiebolag (Essity) primarily reflect (1) the company's sizeable scale, with revenue of SEK121 billion during the last 12 months ended March 2019 (around $13 billion), and a broad product portfolio; (2) its leading market positions, with well-recognised brands and a good track record of innovation; (3) its global footprint, with faster-growing emerging markets representing roughly one-third of its revenue; (4) its fairly good underlying growth and stability in demand for its products; and (5) its financial policies aimed at protecting its solid investment-grade rating and a track record of material positive free cash flow (FCF) generation that the company can use for deleveraging, if needed.

Essity's ratings are primarily constrained by (1) the company's exposure to volatile input costs, pulp in particular, which can be passed through only with a material delay; (2) its somewhat below-average profitability compared with that of most of its similarly rated peers, such as Kimberly-Clark (K-C, A2 stable) or Procter & Gamble (P&G, Aa3 stable), with a Moody's-adjusted EBIT margin of 9.5% during the last 12 months ended March 2019; (3) some debt-funded M&A risk, which however falls within the company's commitment to maintaining a solid investment-grade rating; and (4) a still fairly high leverage, following the debt-funded acquisition of BSN Medical in April 2017, which positions Essity weakly in the Baa1 category.

Exhibit 1
We expect Essity to continue deleveraging following the acquisition of BSN Medical



All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Forward view represents Moody's view and does not incorporate any material divestments and acquisitions (following the integration of BSN Medical).
Source: Moody's Financial Metrics™

Credit strengths

» A strong business profile, with a broad portfolio of well-positioned global (Tork and Tena) and regional brands

» Fairly good underlying growth and stability of demand for most of its products

» Financial policy aimed at protecting its solid investment-grade rating

Credit challenges

» Exposure to volatile input costs such as pulp and recycled paper

» Ongoing need for innovation in the personal care and tissue business areas to preserve pricing levels

» Event risks, such as debt-funded M&A or shareholder-friendly actions

Rating outlook

The stable outlook reflects our expectation that Essity will continue deleveraging in the next 12-18 months, bringing its Moody's-adjusted debt/EBITDA to below 3.0x, both through EBITDA growth and debt repayments.

Factors that could lead to an upgrade

» EBIT margin consistently above 12% in the company's business areas

» Retained cash flow/net debt above 25%

» Debt/EBITDA well below 2.5x

» Continued positive FCF generation applied towards debt reduction

Factors that could lead to a downgrade

» A decline in the company's EBIT margin to below 9%

» Retained cash flow/net debt falling sustainably below 20%

» Failure to reduce Debt/EBITDA towards 3x by end of 2019

» FCF turning negative

» Erosion of the company's solid liquidity profile

Key indicators

Exhibit 2
Essity Aktiebolag

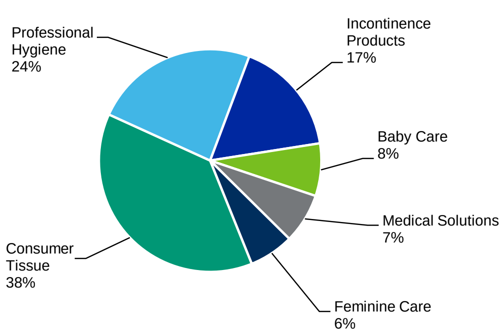
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	3/31/2019(L)	next 12 to 18 months
Total Sales (USD Billion)	$11.7	$11.8	$12.8	$13.6	$13.5	$13.5 - $14
EBIT Margin	10.2%	10.9%	11.4%	9.6%	9.5%	10% - 11%
Debt / EBITDA	2.5x	2.5x	3.2x	3.3x	3.3x	2.8x - 3.1x
RCF / Net Debt	35.7%	28.0%	25.1%	21.1%	22.6%	23% - 25%
EBIT / Interest Expense	7.8x	8.9x	8.5x	7.5x	7.5x	8x - 9x

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
This represents Moody's forward view, not the view of the issuer, and does not incorporate significant acquisitions and divestitures (other than BSN Medical).
Source: Moody's Financial Metrics™

Profile

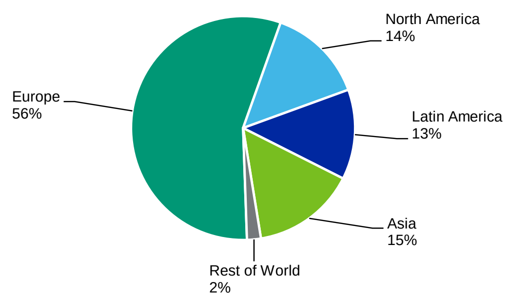
Headquartered in Stockholm, Sweden, Essity Aktiebolag (Essity) is one of the leading global hygiene and health companies, with sales of SEK121 billion during the last 12 months ended March 2019 (around $13 billion). The company develops, produces and sells a wide range of products, including incontinence products, baby diapers, feminine-care products, consumer tissue, away-from-home tissue, and products for wound care, compression therapy and orthopaedics. With a workforce of roughly 47,000 employees, Essity operates in about 150 countries worldwide under a number of well-recognised brands. Essity was formed in 2016 and spun off in June 2017 from Svenska Cellulosa Aktiebolaget (SCA). The company is listed on the Stockholm Stock Exchange, with a market capitalisation of around SEK196 billion as of 4 June 2019.

Exhibit 3
Revenue split by product
As of December 2018



Source: Essity reports

Exhibit 4
Revenue split by geography
As of December 2018



Source: Essity's annual report

Detailed credit considerations

Wide portfolio with a number of leading positions globally

Essity's Baa1/P-2 ratings recognise that with sales of over SEK120 billion, the company is one of the leading global hygiene and health companies, active in around 150 countries. Among others, the company is the global leader in incontinence products under the Tena brand and in professional hygiene under the Tork brand. In addition, the company has strong brands and market positions within the markets for baby diapers, feminine care and consumer tissue, as well as regional and global brands and leading market positions in wound care, compression therapy and orthopaedics, with brands such as Jobst and Leukoplast. Overall, the company holds the first or second position within at least one product segment in around 90 countries.

Exhibit 5
Overview of market positions and key brands

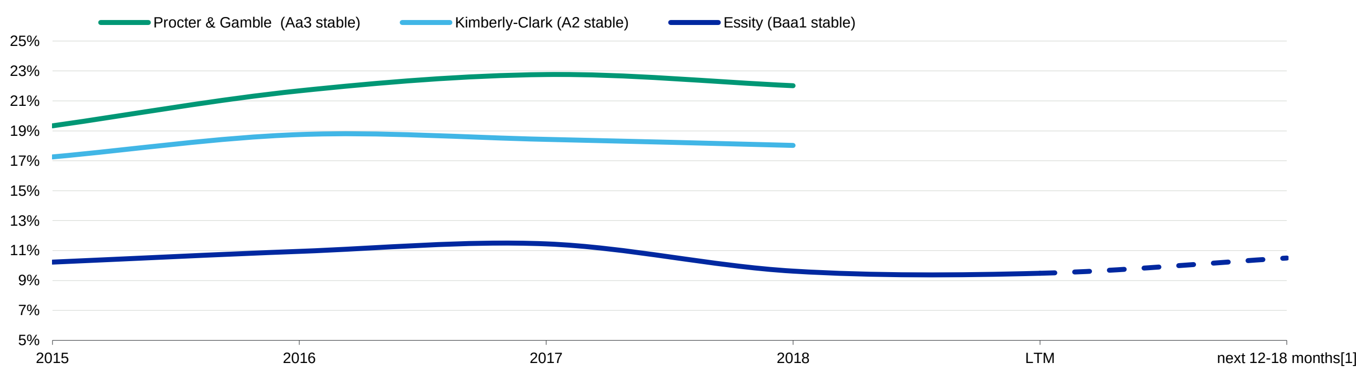
	Global	Europe	North America	Latin America	Asia	Key Brands
Incontinence Products	#1	#1	#4	#1	#3	Tena
Baby Care	#5	#2	n.a.	#6	#6	Drypers, Pequenín, Libero
Feminime Care	#6	#3	n.a.	#1	#10	Libresse, Saba, Nosotras, Bodyform
Medical Solutions	#4	#1	#12	#1	#2	Jobst, Leukoplast, Cutimed, Delta-Cast
Consumer Tissuer	#2	#1	n.a.	#3	#1	Edet, Lotus, Regio, Tempo, Vinda, Zewa
Professional Hygiene	#1	#1	#2	#4	#3	Tork

Source: Essity annual reports

The personal care and tissue markets are fairly competitive and subject to periods of temporary oversupply, which require producers to continuously focus on innovation to protect brand strength and optimise costs. In the tissue business, which is generally more competitive and less profitable, Essity competes primarily with Georgia-Pacific (A3 stable), Hengan, K-C and Sofidel. In the personal care business, Essity's key competitors are K-C, the P&G and Unicharm. In April 2017, following the debt-funded acquisition of BSN Medical for a purchase price of €2.7 billion, the company entered the market for medical devices with low technology content, such as wound care and compression therapy, which benefits from robust and stable demand and above-average profitability.

We expect Essity to focus on growing its personal care and medical devices product offerings while further increasing the efficiency of its tissue operations. This strategy will help narrow the profitability gap with the company's more profitable competitors, especially K-C and P&G, which benefit from a higher share of the more profitable personal care business and the generally more profitable US market.

Exhibit 6
Essity's margins have been below those of its main competitors, but the successful integration of BSN could somewhat help narrow that gap
Moody's-adjusted EBIT margin



All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Forward view represents Moody's view, not the view of the issuer.
Source: Moody's Financial Metrics™

Good underlying demand growth, especially in emerging markets

Essity benefits from the fact that the demand for its products has good underlying growth, supported by megatrends such as population growth and higher disposable income, as well as the increased prevalence of people with chronic diseases. While mature markets continue to experience modest annual growth in low single digits in percentage terms, the growth potential in emerging markets is substantial, and we estimate the annual growth rate in these markets to be in high single digits in percentage terms. This is because the per capita consumption of tissue and personal care products in emerging markets is significantly lower in an environment where living standards are rapidly improving.

To benefit from this development, Essity had focused on growing its presence in emerging markets over the past decade. This was done both organically and through M&A, most recently through an acquisition of a majority stake in Hong-Kong-based tissue company

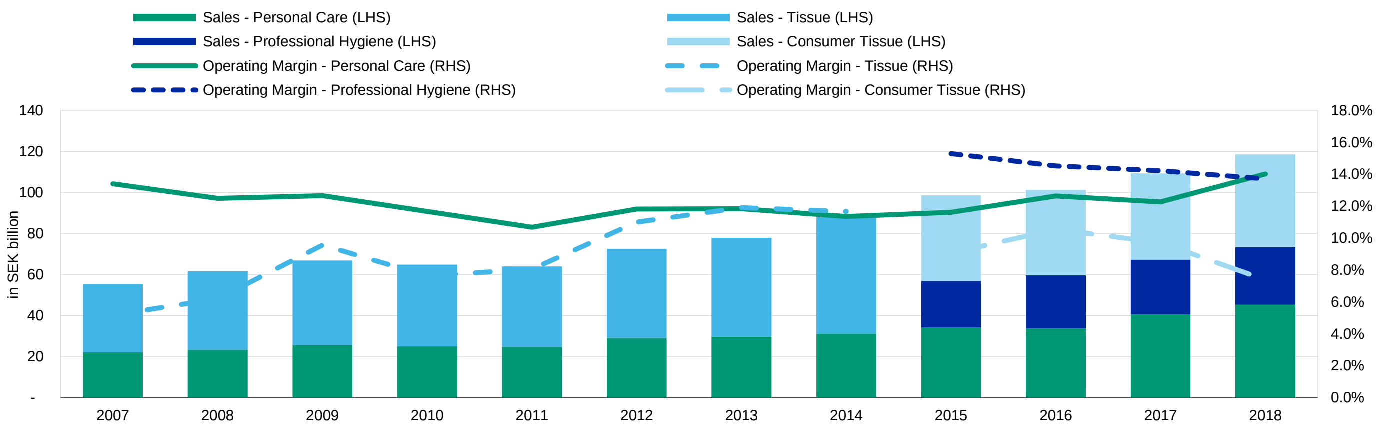
Vinda in November 2013. Currently, emerging markets represent roughly one-third of the revenue, and we expect this share to increase further.

Stable underlying demand, but exposure to volatile input costs

The demand for Essity products has historically exhibited fairly good stability through the cycle. Even during the 2008-09 global economic downturn, which was unprecedented in its magnitude, the company hardly faced any organic decline in sales, and margins for both the tissue and personal care businesses, the latter one in particular, remained robust. The profitability for both the tissue and personal care operations has been fairly stable over the last decade, which also indicates Essity's ability to manage its key input costs. Some of the input costs, such as pulp (18% of total operating expenses at the group level in 2018) and recycled paper (4%), exhibit fairly high volatility, and price increases can be typically passed to customers only with delays up to one year. Even in an environment of substantially rising pulp prices in 2017 and the first half of 2018, the company delivered a fairly robust performance, with less volatility than that of its key tissue peers in Europe.

Exhibit 7

Essity has exhibited fairly stable demand patterns and profitability through the cycle



Change in reporting segments in 2017 with retrospective changes until 2015: The previously named tissue segment is now split into professional hygiene and consumer tissue.
Data as reported by the company (that is, without Moody's adjustments).
Sources: Essity reports, former Svenska Cellulosa Aktiebolaget segmental reporting

M&A risk, but within the limits of Essity's financial policies, targeting a solid investment-grade rating

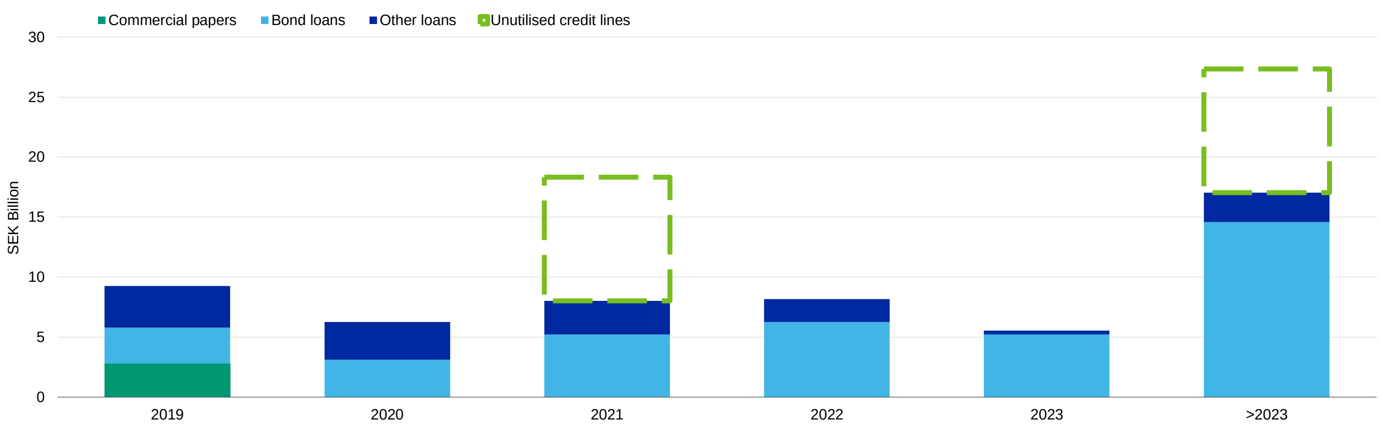
Essity's financial policies are centred around its commitment to retain a solid investment-grade rating, which drives its capital allocation priorities, including dividend payouts as well as M&A. Although we believe that in the medium term, the company will continue to complement organic growth with M&A, especially in the area of medical devices with low technology content where the market is still relatively fragmented, at this point, there is still limited capacity for debt-funded growth. We expect the company to refrain from any major M&A until it improves its credit metrics to the levels commensurate with a Baa1 rating.

Following the acquisition of BSN Medical in April 2017, Essity's leverage continues to be elevated, with Moody's-adjusted debt/EBITDA of 3.3x for the 12 months ended March 2019, which positions the company weakly in the Baa1 category. However, we believe that Essity will be willing and able to deleverage below 3.0x in the next 12-18 months, both through EBITDA growth, as the company continues to pass through high pulp prices to it customers, and through actual debt repayments. Considering capital spending of 5%-6% of sales and dividends typically of around 50% of net income, we expect the company to continue generating positive FCF in high single digits in percentage terms of Moody's-adjusted gross debt that could be used for debt repayments. We will consider further smaller acquisitions within the limits of the company's FCF generation on a case-by-case basis.

Liquidity analysis

We consider Essity's liquidity profile to be good, primarily based on our expectation of the company continuing to generate significant positive FCF over the next four to six quarters. As of the end of March 2019, the company reported around SEK3.6 billion of cash and cash equivalents, roughly one-third of those in countries with currency restrictions. In addition, the company has access to various largely undrawn credit facilities, totaling roughly SEK20.5 billion, consisting primarily of two syndicated facilities, each €1.0 billion, maturing in 2021 and 2024 (the latter one with one extension option). The facilities are of high quality, without material adverse change clauses and other conditionality language, and have also served as backstop facilities for the commercial paper programme, which has been a central source of the company's short-term funding needs. As of the end of March 2019, the company reported roughly SEK12.9 billion in short-term debt, which includes around SEK2.8 billion of issued commercial papers and SEK6 billion SEK and Euro bonds. The company's maturity profile is generally well spread, with an average maturity of around four years.

Exhibit 8
Essity's debt maturity profile is generally well spread
As of 31 March 2019



Source: Essity reports

Rating methodology and scorecard factors

The principal methodology used in rating Essity is the Global Packaged Goods rating methodology. The methodology grid indicates a weak A3 rating for the metrics achieved for the 12 months ended March 2019, as well as for our 12-18 month forward-looking view. The one-notch difference is mainly attributed to a weak positioning of Essity in the A category for the Geographic Diversification, Category Assessment, relatively low margin, elevated leverage and Financial Policy subfactors.

Exhibit 9

Rating factors

Consumer Packaged Goods Industry Grid [1][2]	Current LTM 3/31/2019		Moody's 12-18 Month Forward View As of 6/4/2019 [3]	
Factor 1 : Scale and Diversification (44%)	**Measure**	**Score**	**Measure**	**Score**
a) Total Sales (USD Billion)	$13.5	A	$13.5 - $14	A
b) Geographic Diversification	A	A	A	A
c) Segmental Diversification	Baa	Baa	Baa	Baa
Factor 2 : Franchise Strength and Potential (14%)				
a) Market Share	A	A	A	A
b) Category Assessment	A	A	A	A
Factor 3 : Profitability (7%)				
a) EBIT Margin	9.5%	B	10% - 11%	Ba
Factor 4 : Financial Policy (14%)				
a) Financial Policy	A	A	A	A
Factor 5 : Leverage and Coverage (21%)				
a) Debt / EBITDA	3.3x	Baa	2.8x - 3.1x	Baa
b) RCF / Net Debt	22.6%	Baa	23% - 25%	Baa
c) EBIT / Interest Expense	7.5x	A	8x - 9x	A
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Baa1

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Source: Moody's Financial Metrics™

Ratings

Exhibit 10

Category	Moody's Rating
ESSITY AKTIEBOLAG	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
ST Issuer Rating	P-2

Source: Moody's Investors Service

Exhibit 11
Peer comparison

	Essity Aktiebolag			Kimberly-Clark Corporation*			Procter & Gamble Company (The)		
	Baa1 Stable			A2 Stable			Aa3 Stable		
(in USD millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Jun-16	FYE Jun-17	FYE Dec-18
Revenue	$11,841	$12,808	$13,649	$18,202	$18,348	$18,486	$65,058	$66,832	$67,093
EBITDA	$1,968	$2,211	$2,121	$4,362	$4,342	$4,412	$17,944	$17,449	$17,054
Total Debt	$4,707	$7,336	$6,805	$9,035	$8,728	$8,648	$38,464	$40,156	$39,140
Cash & Cash Equiv.	$472	$533	$348	$923	$616	$539	$11,866	$8,113	$7,045
EBIT Margin	10.9%	11.4%	9.6%	18.8%	18.3%	17.8%	22.8%	21.4%	20.9%
EBIT / Int. Exp.	8.9x	8.5x	7.5x	9.4x	9.2x	10.5x	21.1x	19.2x	18.5x
Debt / EBITDA	2.5x	3.2x	3.3x	2.1x	2.0x	2.0x	2.1x	2.3x	2.3x
RCF / Net Debt	28.0%	25.1%	21.1%	23.5%	24.5%	16.9%	23.6%	13.7%	22.1%
FCF / Debt	14.6%	10.5%	3.0%	13.5%	9.1%	9.7%	6.0%	9.9%	11.6%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Exhibit 12
Reconciliation of debt

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	3/31/2019
As Reported Debt	**34,008**	**36,149**	**54,124**	**53,742**	**58,162**
Pensions	2,917	4,662	3,804	3,830	3,830
Operating Leases	2,043	2,626	2,328	3,334	0
Non-Standard Adjustments	-977	-673	-195	-570	47
Moody's-Adjusted Debt	**37,991**	**42,764**	**60,061**	**60,336**	**62,039**

Source: Moody's Financial Metrics™

Exhibit 13
Reconciliation of EBITDA

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	3/31/2019
As Reported EBITDA	**15,552**	**14,809**	**18,036**	**17,500**	**17,788**
Pensions	149	134	-14	10	10
Operating Leases	681	696	776	980	735
Unusual Items and Non-Standard Adjustments	-934	1,189	133	-78	102
Moody's-Adjusted EBITDA	**15,448**	**16,828**	**18,931**	**18,412**	**18,635**

Moody's defines EBITDA as pretax income + gross interest expense + depreciation and amortization.
Source: Moody's Financial Metrics™

Exhibit 14

Overview of key metrics

(in USD millions)	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Mar-19
INCOME STATEMENT					
Revenue	$11,688.2	$11,841.1	$12,807.6	$13,648.5	$13,528.4
EBITDA	$1,832.7	$1,968.2	$2,210.6	$2,120.6	$2,081.1
EBIT	$1,195.4	$1,296.2	$1,457.6	$1,313.9	$1,282.8
Interest Expense	$152.4	$145.6	$172.1	$175.4	$171.8
BALANCE SHEET					
Cash & Cash Equivalents	$577.7	$471.8	$532.8	$347.5	$393.9
Total Debt	$4,506.4	$4,707.3	$7,335.6	$6,805.5	$6,688.6
Net Debt	$3,928.7	$4,235.5	$6,802.9	$6,457.9	$6,294.7
CASH FLOW					
CAPEX	$740.3	$806.0	$799.2	$888.2	$881.9
FFO	$1,430.0	$1,283.6	$1,674.3	$1,902.7	$1,964.5
Dividends	$25.6	$22.2	$33.4	$34.2	$34.2
Retained Cash Flow	$1,404.3	$1,261.4	$1,640.9	$1,391.9	$1,470.8
RCF / Net Debt	35.7%	28.0%	25.1%	21.1%	22.6%
Free Cash Flow (FCF)	$579.6	$730.9	$736.6	$209.5	$327.9
FCF / Debt	12.9%	14.6%	10.5%	3.0%	4.7%
PROFITABILITY					
% Change in Sales (YoY)	12.0%	2.8%	7.9%	8.5%	8.1%
EBIT Margin %	10.2%	10.9%	11.4%	9.6%	9.5%
EBITDA Margin %	15.7%	16.6%	17.3%	15.5%	15.4%
INTEREST COVERAGE					
EBIT / Interest Expense	7.8x	8.9x	8.5x	7.5x	7.5x
EBITDA / Interest Expense	12.0x	13.5x	12.8x	12.1x	12.1x
(EBITDA - CAPEX) / Interest Expense	7.2x	8.0x	8.2x	7.0x	7.0x
LEVERAGE					
Debt / EBITDA	2.5x	2.5x	3.2x	3.3x	3.3x
Debt / (EBITDA - CAPEX)	4.1x	4.3x	5.0x	5.6x	5.8x
Net Debt / EBITDA	2.1x	2.2x	3.1x	3.0x	3.0x

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Source: Moody's Financial Metrics™

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