

## ISSUER COMMENT

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### Contacts

**Oliver Giani** +49.69.70730.722  
 VP-Senior Analyst  
 oliver.giani@moody's.com

**Vasileios Lagoutis** +49.69.70730.958  
 Associate Analyst  
 vasileios.lagoutis@moody's.com

**Christian Hendker,** +49.69.70730.735  
 CFA  
 Associate Managing Director  
 christian.hendker@moody's.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

## Essity Aktiebolag

### Impact from potential disposal of Vinda and Consumer Tissue Private Label Europe will depend on use of proceeds

On 26 April, [Essity Aktiebolag](#) (Essity, Baa1 stable), one of the leading global hygiene and health companies, announced its decision to initiate a strategic review of the company's majority ownership of the Asian hygiene company Vinda International Holdings Ltd (Vinda) and the Consumer Tissue Private Label Europe business with the aim of reducing the Consumer Tissue's share of the company's total sales. The strategic review includes exploring different options and may result in divestments, although no such decisions have yet been taken.

The potential disposal will marginally weaken Essity's strong business profile initially because it will reduce its geographic diversification. However, the ultimate effect on Essity's credit profile depends on management's decision regarding the allocation of the divestment proceeds which we estimate could reach up to around SEK25 billion. A potential disposal could be beneficial to Essity's business profile in a scenario where the proceeds from the divestment were deployed towards value-accretive investments and acquisitions in the higher margin Health & Medical and Professional Hygiene business segments which would potentially indicate further diversification in Essity's product portfolio.

Vinda accounted for approximately 16% and the Consumer Tissue Private Label Europe business accounted for approximately 6% of Essity's sales in 2022, which amounted to SEK156 billion. Essity owns 51.59% of Vinda, which is fully consolidated into Essity's accounts. Vinda is listed on the Hong Kong Stock Exchange and had a market capitalization of approximately HKD24.6 billion (approximately SEK32.5 billion) as of 27 April 2023. Vinda generated sales of SEK25.1 billion while Consumer Tissue Private Label Europe business generated sales of around SEK9.8 billion in 2022.

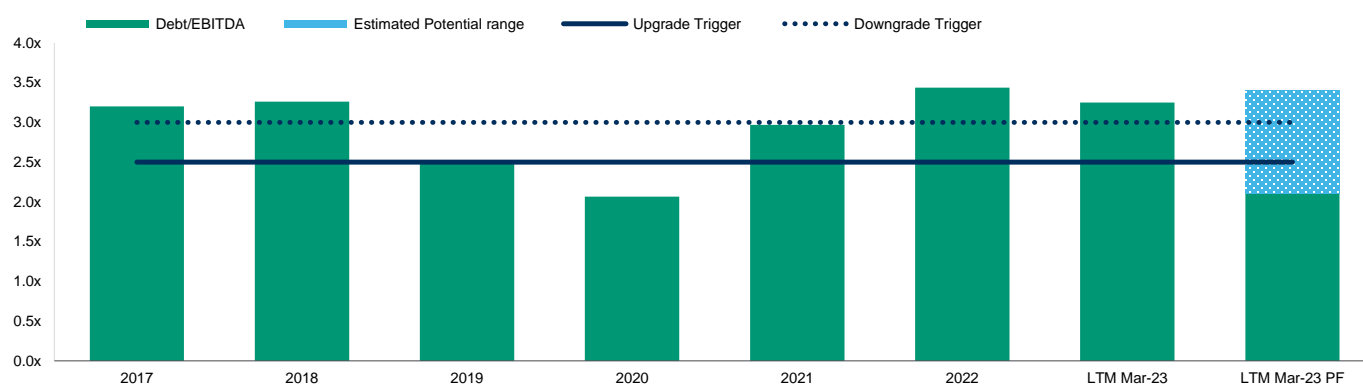
Essity's credit profile is currently weakly positioned in its Baa1 rating category as a result of fierce cost inflation and acquisitions in 2022. Its Moody's adjusted Debt/EBITDA ratio improved to 3.2x for the 12 months that ended March 2023 from 3.4x in 2022, while its Moody's adjusted retained cash flow/net debt improved to 26.7% (18.8% adjusted for timing of dividend payments) from 16% for the same period.

Taking into account the reduced EBITDA after the potential disposal of the two business segments and the deconsolidation of Vinda's debt, Moody's adjusted gross leverage would rise to 3.4x on a pro forma basis for the 12 months that ended March 2023 (see exhibit) in case a significant part of the proceeds were to be used for shareholder distributions. Gross leverage could go down to 2.1x on a pro forma basis for the 12 months that ended March 2023 in case sales proceeds were deployed towards value-accretive investments and debt repayments. Therefore, Essity's rating positioning would be strongly dependent on the capital allocation decision for the sale proceeds from a potential disposal.

Exhibit 1

### Future leverage will depend on the use of proceeds from the potential disposal of Vinda and the Consumer Tissue Private Label Europe business

#### Moody's adjusted gross debt/ EBITDA



PF: Pro forma for Vinda and Consumer Tissue Private Label Europe business potential disposal

Source: Moody's Financial Metrics™

Headquartered in Stockholm, Sweden, Essity is one of the leading global hygiene and health companies, with sales of SEK165 billion for the 12 months that ended March 2023 (around \$16 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 48,000 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). Essity is listed on the Stockholm Stock Exchange, with a market capitalisation of around SEK215 billion as of 27 April 2023.

### Moody's related publications

[Essity Aktiebolag: Moody's affirms Essity's Baa1/P-2 ratings; outlook stable](#)

[Essity Aktiebolag: Update following rating affirmation](#)

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