

ISSUER COMMENT

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 Rate this Research

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Essity Aktiebolag

Acquisition of additional shares in Productos Familia is credit negative

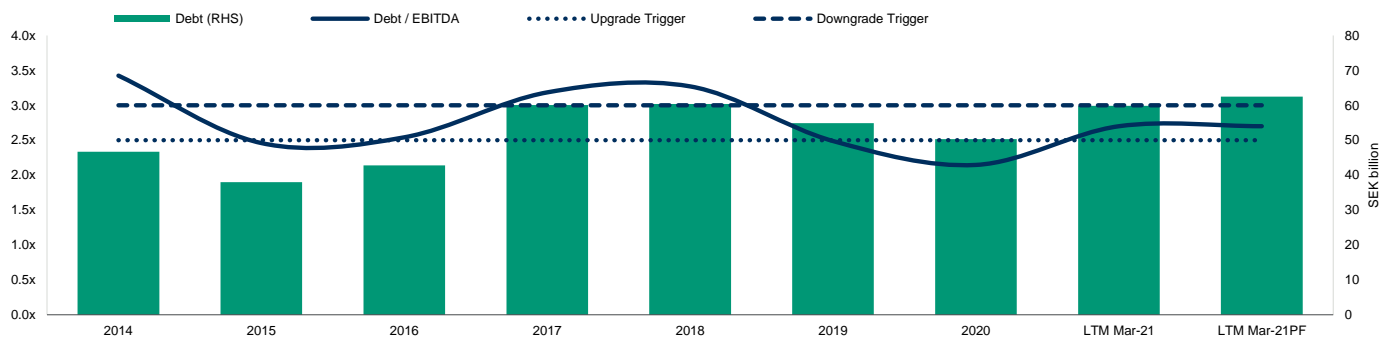
On 22 April, [Essity Aktiebolag](#) (Baa1 stable) announced its plan to acquire an additional 44% stake of Colombian hygiene company Productos Familia S.A. (Familia), in order to build a stronger platform in Latin America. Essity currently owns 50% of Familia's share capital and thus will increase its ownership stake to approximately 94%. Despite of Familia's high profitability, the acquisition is initially credit negative since it increases Essity's leverage - debt will increase in order to fund the transaction while earnings are not affected since Familia is already consolidated in Essity's accounts. It does however materially reduce the amount of minority interests and gives Essity greater leeway in the further development of Familia. Closing of the transaction, which is subject to customary closing conditions and certain antitrust approvals, is expected for H2 2021. In the context of the acquisition, Essity has reiterated its commitment to retain a solid investment grade rating.

Familia is active in Feminine Care, Consumer Tissue, Baby Care, Incontinence Products and Professional Hygiene and holds top 1 - 3 market positions in Colombia and Ecuador. The company's geographic presence is a complementary fit for Essity. With this strategic step Essity materially strengthens its position in the growing Latin American market. Essity aims to increase growth, profitability and efficiency as well as accelerating its digital transformation. Essity's management expects that the acquisition will be accretive to Essity's earnings per share from 2021 onwards.

The transaction is at an advanced stage and the parties have agreed on key terms and conditions, including a total cash consideration of around SEK5.7 billion to be paid for 44% of Familia's share capital, which equates to an enterprise value of approximately USD1.54 billion (SEK13 billion) on a debt free basis. Essity plans to fund the acquisition with additional debt and has committed credit facilities in place for this purpose.

Familia is fully consolidated in Essity's accounts and reported revenue of SEK6.950 billion, with organic sales growth of 2.8%, along with company adjusted EBITDA of SEK1.419 billion in 2020. Pro forma for this transaction, the acquisition of additional shares of Asaleo Care announced in February and the redemption of the €500 million notes maturing in May 2021, we expect Essity's Moody's adjusted debt/EBITDA to increase to around 2.7x for the twelve months that ended March 2021, from 2.1x as of 2020, while its Moody's-adjusted debt will increase to SEK62.5 billion (Exhibit 1), which positions Essity solidly within its current Baa1 issuer rating.

Exhibit 1

Essity's leverage will remain within the boundaries of its current Baa1 issuer rating after the increase in ownership in Familia

All ratios incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Moody's related publications

Issuer Research:

[Issuer Comment: Essity Aktiebolag: Acquisition of additional stake in Asaleo Care is credit positive, 18 February 2021](#)

[Credit Opinion: Essity Aktiebolag: Update following H1 2020 results, 24 August 2020](#)

[Announcement: Moody's announces completion of a periodic review of ratings of Essity Aktiebolag, 12 June 2020](#)

Sector Research:

[Outlook: Consumer packaged goods and beverages –Global, Consumer durables and food – US, 4 December 2020](#)

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