S&P Global
Ratings

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Essity AB

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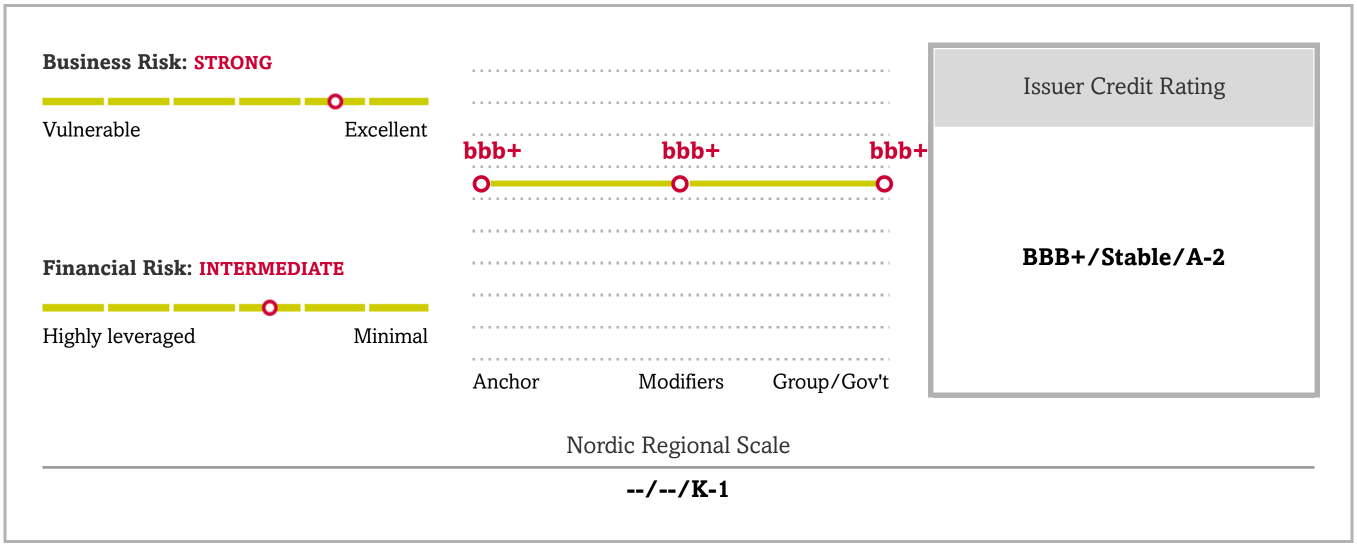

Credit Highlights

Overview

Key strengths	Key risks
Well-diversified product portfolio competing in the personal care, consumer tissue, and professional hygiene product categories.	Exposed to volatile input costs, including pulp and oil.
Global leader in incontinence products and European leader in consumer tissues.	The tissue market in Europe is characterized by overcapacity and fierce price competition.
Exposed to different distribution channels--retail comprises 58%; health care sector, 18%; and business-to-business, 24%.	High volatility will continue throughout 2020, with significant swings in demand and potential disruptions in production and logistics depending on the evolution of COVID-19.
Global presence, with about 63% exposure to mature markets and about 37% to emerging ones.	

The personal care division is remaining resilient and the consumer tissue division is benefiting from the COVID-19 pandemic, while professional hygiene is likely to be hit by lockdowns and social distancing measures. Increased attention to hygiene and the stockpiling that occurred during the lockdowns boosted Essity's consumer tissue sales in first-quarter 2020, with the division also seeing organic growth in the second quarter. We assume that the hygiene precautions adopted to contain COVID-19 will be maintained in the next quarters until the virus has stopped spreading. As such, we expect consumer tissues to be one of the three of Essity's divisions to perform better during the pandemic. The personal care division benefited from higher demand in the first quarter but the destocking that occurred in the second offset the increase in sales. However, we believe that demand remains solid and once the destocking is absorbed, organic growth will return. In professional hygiene, the increase in organic sales registered in the first quarter has been largely offset by the fall in the second. We expect a prolonged reduction in mobility will likely reduce traffic in public places like restaurants, airports, and offices, also depressing demand for professional tissues in the next quarters.

Essity started the year with solid credit metrics for the current rating. In 2019, Essity benefited from the decrease in raw material prices, particularly pulp. Part of the price negotiations with retailers were concluded in the first part of the year when the decreasing trend in raw material costs was not yet clear. Consequently, the group could rely on a much more favorable price environment than in the previous two years when Essity had to cope with an uninterrupted increase in the pulp price that weakened the operating margin and cash generation. EBITDA and cash generation have been very solid, while S&P Global Ratings-adjusted debt to EBITDA strengthened to 2.3x in 2019 from 3.1x reported in 2018.

In 2020, we expect Essity to maintain solid credit metrics . The first half-year results show a sharp increase in operating profits and cash generation. We assume that Essity's 2020 credit metrics will not be hit by any significant contraction in demand as a large part of its portfolio comprises staple items. We believe that financial ratios might improve. We note that at the end of first-half 2020, sales contracted by 1% but the reported adjusted EBITA margin increased by 370 basis points (bps) to 14.7%. Essity may not be able to maintain the current improvement for the full year as it has benefited from the lower cost of raw materials. We anticipate that these will provide less of a boost during the rest of the year, in particular for pulp. Still, we note that the preference for branded products supports Essity, in particular in mature markets, and we assume that this will continue in the next quarters. That said, we note that the external environment remains volatile and we assume that the group could be exposed to one off-costs related to sub-optimal logistic conditions or disruptions in supply chains, which are hindering several companies during the pandemic.

Outlook: Stable

The stable outlook reflects that we expect Essity to weather COVID-19-related challenges in 2020. We assume that the potential hit to professional hygiene products will be at least counterbalanced by stable or increased demand within other divisions. We also expect the group will maintain solid cash generation and credit metrics, with adjusted debt to EBITDA of 2x-3x.

Downside scenario

We could consider lowering the rating if the COVID-19 pandemic weakens Essity's performance and credit metrics, such that they deteriorate beyond the level consistent with the rating in 2020, and we do not envisage the possibility of them recovering in 2021. This could happen if, due to an extremely deep recession, consumers become highly sensitive to price and shift consistently toward white-label and unbranded products.

We could also consider lowering the rating if Essity adopts an aggressive financial policy characterized by large debt-funded acquisitions or unexpectedly large shareholder distributions, and pushes debt to EBITDA above 3x for a prolonged period.

Upside scenario

We could consider an upgrade if, thanks to a consistently robust performance in its three divisions, Essity generates very solid free operating cash flow and uses it to improve the leverage ratios, with debt to EBITDA approaching 2x. Achieving these targets consistently also depends on the group's willingness to adapt its future debt-funded acquisitions to these targets.

Our Base-Case Scenario

Assumptions

- Essity's sales growth in 2020 will be sustained by strong demand for consumer tissues and solid demand for personal care products, bolstered by increased attention to hygiene and medical solutions, especially in mature markets. We also assume that the professional hygiene division's revenues will contract due to lower traffic in public spaces because of lockdowns and social distancing measures. At this stage, we assume that organic sales expansion will be limited in 2020, at about 1%. However, the high volatility brought by the COVID-19 pandemic might change the external conditions in the rest of the year.
- Essity's adjusted EBITDA margin improved significantly in 2019 and in the first half 2020. We do not expect the improvement achieved in the first semester to be maintained for the full year but we still envisage an improvement versus 2019. We assume that raw material costs will still be supportive in 2020 but renegotiations with customers will absorb part of this improvement, especially in the second half of the year. We expect EBITDA to take full benefit from the actions taken on costs in the past years but we are aware that in a few cases the cost base might be sub-optimal due to disruptions in production or logistics due to the COVID-19 outbreak. Overall, we therefore assume about 100 bp-150 bp improvement in operating margin for 2020, stabilizing in 2021. In the medium term, we expect the gradual increase in revenues from lower-margin emerging markets could have a slight dilutive effect on the group's operating profit, which should be offset by ongoing cost efficiencies.
- Capital expenditure (capex) of 4%-5% of revenues in 2020 and returning to 5%-6% beyond.
- Dividends of about Swedish krona (SEK) 4.8 billion in 2020. This is based on the proposed dividend--currently suspended and set to be voted on at the annual general meeting in November 2020--which represents an increase of about 8% on the previous dividend.

In our base case, we assume Essity will not make any significant acquisitions in 2020; we include SEK500 million for bolt-on deals. However, we are aware that Essity is interested in external growth and, after strengthening its credit metrics in 2019, we believe the group might use the existing headroom in the credit metrics to purchase midsize companies or to make more bolt-on acquisitions than we currently assume.

Key Metrics

Essity AB--Key Metrics*

	--Fiscal year ended Dec. 31--				
	2018a	**2019a**	**2020e**	**2021f**	**2022f**
Revenue growth (%)	8.5	8.8	about 1.0	2.0-3.0	2.0-3.0
EBITDA margin (%)	15.4	17.1	17.0-18.0	17.0-18.0	17.0-18.0
Capital expenditure	6,882.0	5,869.0	about 5,000	6,000-7,000	6,000-7,0010
Debt to EBITDA (x)	3.1	2.3	2.0-2.3	1.7-2.0	1.4-1.7
FOCF to debt (%)	11.9	26.4	20-25	25-30	30-35

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Demand for most of Essity's products will hold well during the COVID-19 pandemic. The only business that might be hit more severely is the away-from-home (Afh) division. The rest of Essity's business relates to personal care and hygiene where the main risk is consumers switching to cheaper products if their personal incomes have fallen. This risk is more acute in emerging markets while, so far, mature markets have exhibited a clear trend of moving from unbranded to branded products.

Under these assumptions, credit metrics are expected to remain strong for the rating. Essity started 2020 with headroom in its credit ratios and we believe that these should strengthen in 2020. Under this scenario, we believe that Essity could accommodate potentially weaker results in the Afh division--or any unexpected shortfall in other divisions--stemming from the recession or from a very harsh second round of COVID-19 in the second part of the year.

Company Description

Essity is a Swedish health and hygiene group created when Svenska spun off its hygiene division. It produces, markets, and sells personal care and tissue products in over 150 countries worldwide. Its top brands include TENA for incontinence products, Tempo for consumer tissues, and Tork for Afh tissues. Essity is the third-largest tissue and hygiene group, after Procter & Gamble (P&G) and Kimberly Clark (KC) by revenues.

Essity operates through three main divisions:

- Personal care (37% of 2019 sales). Essity is a global leader in personal care, including incontinence, baby and feminine care, and medical solutions. Its global and regional brands include Libero, Libresse, Nosotras, Saba, and TENA, and it also offers retailers' brands. It distributes personal care products through the retail trade, online sales, pharmacies, and care institutions.
- Consumer tissues (39% of 2019 sales). Essity is the second-largest supplier of consumer tissues and offers toilet paper, household towels, handkerchiefs, facial tissues, wet wipes, and napkins. The group's own brands include Lotus, Tempo, Zewa, Edet, and Vinda, and it also offers retailers' (that is, private-label) brands. It sells consumer tissue products through retailers, online, and via distributors.
- Professional hygiene (24% of 2019 sales). The group develops and markets complete hygiene solutions, including toilet paper, paper hand towels, napkins, hand soap, hand lotion, hand sanitizer, tissue, soap, hand lotion, dispensers, cleaning and wiping products, and service and maintenance for institutions and companies, under the globally leading brand Tork.

Peer Comparison

Table 1

Essity AB--Peer Comparison

Industry sector: Personal care and household products

	Essity AB	Kimberly-Clark Corp.	Henkel AG & Co. KGaA	Procter & Gamble Co.
Ratings as of July 15, 2020	BBB+/Stable/A-2	A/Stable/A-1	A/Stable/A-1	AA-/Stable/A-1+
	31-Dec-19	**31-Dec-19**	**31-Dec-19**	**31-Dec-19**
(Mil. $)				
Revenue	13,806.0	18,450.0	22,571.6	67,684.0
EBITDA	2,358.3	4,058.0	4,093.7	17,493.8
Funds from operations (FFO)	2,120.9	3,254.8	3,339.6	13,862.0
Interest expense	120.5	286.2	110.0	579.7
Cash interest paid	116.5	275.2	72.9	567.7

Table 1

Essity AB--Peer Comparison (cont.)				
Cash flow from operations	2,067.2	2,877.8	3,529.3	15,436.3
Capital expenditure	628.2	1,209.0	759.7	3,347.0
Free operating cash flow (FOCF)	1,439.0	1,668.8	2,769.5	12,089.3
Discretionary cash flow (DCF)	970.8	(502.2)	1,829.2	(411.7)
Cash and short-term investments	313.4	717.0	1,640.6	10,287.0
Debt	5,443.4	8,174.2	3,341.5	27,339.3
Equity	6,722.5	194.0	20,884.9	47,579.0
Adjusted ratios				
EBITDA margin (%)	17.1	22.0	18.1	25.8
Return on capital (%)	13.0	33.6	13.9	19.2
EBITDA interest coverage (x)	19.6	14.2	37.2	30.2
FFO cash interest coverage (x)	19.2	12.8	46.8	25.4
Debt/EBITDA (x)	2.3	2.0	0.8	1.6
FFO/debt (%)	39.0	39.8	99.9	50.7
Cash flow from operations/debt (%)	38.0	35.2	105.6	56.5
FOCF/debt (%)	26.4	20.4	82.9	44.2
DCF/debt (%)	17.8	(6.1)	54.7	(1.5)

U.S.-based KC is Essity's closest peer. It is the No. 2 player in tissues and incontinence products, while Essity is No. 3 globally. At about 23%-24%, KC's EBITDA margin is structurally higher than Essity's, at approximately 17%-18%. We attribute this partly to KC's domestic market being more profitable than several of the European countries in which Essity operates. Private labels have a lower market share in the U.S. than in Europe, which allows U.S. players to maintain higher prices. KC has five "billion-dollar" brands, while Essity has two (TENA and Tork). KC has, over time, maintained more conservative credit metrics. Its average adjusted debt to EBITDA is close to 2.0x while Essity's was closer to 3.0x in 2017 and 2018, retracing to 2.3x in 2019, boosted by the reduction of raw material costs.

German company Henkel is larger and more diversified than Essity in terms of products--it competes in home care, personal care, and adhesive technologies. Henkel is the global leader in adhesive technologies, whereas in home care and personal care it usually ranks No. 2, No. 3, or lower, behind big peers like P&G, Unilever, or L'Oreal. In the past two years, Henkel's revenue growth in the home care and personal care divisions has slowed due to increasing pressure from competition. This is reflected in the decrease in the adjusted operating profit to 18% at year-end 2019 from 19% the previous year; Essity's is lower at 17%. Henkel maintains a very conservative financial risk profile and its adjusted leverage is below 1.5x, but it has external growth ambitions.

U.S.-based P&G competes with Essity in almost all products. It has very solid positions in diapers and feminine care, but a weaker position in incontinence products, where it is investing heavily to gain market share. The hygiene business is only one of P&G's businesses and this diversity supports its adjusted EBITDA margin at about 25%. This translates into strong cash generation and conservative adjusted leverage of below 2x.

Business Risk: Strong

Essity benefits from a top global position in some segments of personal care and hygiene businesses. We see positive growth prospects in both sectors and we note the nondiscretionary demand for most of its product segments. The group has leading positions in incontinence products, consumer tissues, and AfH professional products. It also produces diapers and feminine care products, for which it has some local leading positions. We see the tissue sector as mature in Western Europe and North America, but still growing in emerging markets. The increasing demand for incontinence products is supported by the aging population in mature countries and the increasing average income in emerging markets. On the other hand, the slowing birth rate in mature countries is dampening demand for diapers. Both tissues and incontinence products are exposed to the volatility of raw materials costs, mainly pulp and oil-based raw materials.

Because tissues and diapers are highly commoditized and white-label competitors have increased their presence in the hygiene market, it has become very competitive and crowded. Essity is among the leading players because it continues to invest in its brands and particularly in innovation.

We evaluate positively the group's global exposure. In 2019, Essity generated about 37% of its sales and 31% of reported EBITA in emerging markets. However, its presence in consumer tissues in these markets was much larger, at 47%, and its presence in professional hygiene was lower at 20%. Over time, Essity has adjusted its exposure to emerging markets--exiting specific segments in particular countries (for example, diapers and feminine care in India in 2017) that were not giving satisfactory returns, while enlarging its presence in more promising markets. For example, in China, it acquired Vinda in 2016 to expand its presence in consumer tissues.

According to Euromonitor, Essity has a 19% market share of the global adult incontinence products market, where it has the leading brand, TENA. This brand enjoyed an 18% market share at year-end 2019.

Essity competes fiercely with KC, whose market share is similar across its three main brands (Depend, Poise, and Plenitud). Although Essity's position could be eroded by the increasing penetration of white labels, in an expanding market, loss of market share may not translate into decreasing sales.

In diapers and feminine care, Essity leads the market in certain regions, but not globally. For example, it is the leader in the Nordic region and in Latin America. Given the commoditized nature of these products and the strong presence of white labels in mature markets, we consider that gaining market share may be tough. That said, the market for such products is expanding in emerging markets, where Essity has limited exposure to date.

Essity is also increasingly present in medical solutions. Since it acquired BSN in 2017, its exposure to these products has increased to about 7% of the group's sales at year-end 2019. We share the group's view that demand should structurally increase in mature markets as it is directly linked to the aging population.

Essity leads the consumer retail tissue market in Western Europe, where it has a market share of about 14% according to Euromonitor. It is followed by KC with about 10%. Essity gained market share in the Chinese consumer retail tissue market by acquiring Vinda in 2016. We note that the consumer tissue division is the most exposed to pulp price volatility, as clearly observed in 2017 and 2018.

In professional products, Essity again competes with KC and P&G and maintains strong positions in North America and Western Europe, particularly in the Nordic countries.

The commoditized nature of tissues makes competition very fierce in Western Europe, a problem exacerbated by structural overcapacity. Essity has continually reduced capacity by shutting plants in the past three years. However, amid long-lasting low interest rates, other industry players have invested in building new plants. Therefore, we anticipate that the industry will still be marred by overcapacity. In Western Europe, Essity competes in both the consumer tissue branded segment (66% of consumer tissues sales) and in the unbranded one (33% of consumer tissues sales). This helps to optimize its cost structure.

We note that the very adverse raw material cost conditions experienced in the consumer tissue division in 2017 and 2018 forced Essity to take very bold actions to optimize its cost structure (through its Tissue Roadmap efficiency plan). We have seen the full effects of these measures filter through to the group's cost structure, giving a permanent boost. We note that it is not possible to mitigate the increase in pulp price by using different raw materials. The only solution is to impose very stringent discipline on other costs, use raw materials as efficiently as possible, and increase prices to compensate for the increase in raw material costs. In addition, there is usually a gap between the increase in raw materials and pass-through on final prices as the price mechanism is rigid. It is possible to revise prices once or more a year in the retailer channel (59% of sales), but not in the health care sector (17% of sales). This sector uses an auction system and contracts that usually last three years, during which prices cannot be renegotiated. In the business-to-business sector (24% of the sales) the situation depends on the contract with each customer. Retailers do accept the proposed price increases and raise prices for the end-consumers.

In 2019, Essity reported 4.5% organic growth and a significant improvement in reported EBITA margin to 12.3% from 10.9%, largely supported by the rebound in the operating margin of the consumer tissue division that was the most severely hit by the increase in pulp costs in 2018. The improvement in Essity's reported operating margin continued in the first half of 2020; the reported group's adjusted EBITA margin was 14.7%, 370 bps above the same period of last year. The consumer tissue division generated most of the improvement, reporting a 15.4% adjusted EBITA margin from 8.0% in the first half of 2019. In 2019, Essity fully benefited from the cost-saving programs adopted since 2017. In the current recession triggered by the COVID-19 outbreak, we believe that significant increases in raw materials costs are unlikely, but we see some retracement in pulp prices. These are not currently concerning, but we expect raw materials to be less supportive in the second part of 2020.

Financial Risk: Intermediate

Essity's credit metrics experienced some volatility in the past three years due to the BSN acquisition and then to the high volatility of the raw material costs. In particular, the price of virgin pulp increased sharply from 2017 and into 2018, only starting to revert in 2019. We note that the global economic environment remains challenging due to the great damage caused by COVID-19 to the global economy. However, except for its Afh products, Essity's offering should not be too pressured from the ongoing situation. We assume that the group has some flexibility in adapting capex, which it already lowered in 2019 to about 4.5%, compared with its historical average of 5.0%-5.5% in previous years. In our base case, we do not expect dividend payments to reduce, but to remain in line with the historical trend, and we assume no significant acquisitions. Regarding the latter, Essity has indicated interest for acquisitions in sectors where it already operates for medical solutions, and in adjacent ones for incontinence, feminine products, and professional hygiene. We assume that external growth will be commensurate with the headroom in the current rating as the group clearly communicates that the maintenance of the rating is part of the strategy. We assume that Essity retains its focus on cash generation.

Financial summary

Table 2

Essity AB--Financial Summary

Industry sector: Personal care and household products					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. SEK)					
Revenue	128,975.0	118,500.0	109,265.0	101,238.0	98,519.0
EBITDA	22,031.0	18,266.0	19,075.5	16,219.0	14,909.0
Funds from operations (FFO)	19,813.0	14,760.2	15,070.9	11,374.5	11,422.0
Interest expense	1,126.0	1,116.8	1,206.6	1,143.5	1,365.0
Cash interest paid	1,088.0	1,039.8	1,033.6	1,062.5	1,293.0
Cash flow from operations	19,273.0	13,698.2	13,083.9	13,094.5	11,106.0
Capital expenditure	5,869.0	6,882.0	6,119.0	6,289.0	5,632.0
Free operating cash flow (FOCF)	13,404.0	6,816.2	6,964.9	6,805.5	5,474.0
Discretionary cash flow (DCF)	9,030.0	2,381.2	6,679.9	2,577.5	2,121.0
Cash and short-term investments	2,928.0	3,008.0	4,107.0	4,244.0	4,828.0
Gross available cash	2,928.0	3,008.0	4,107.0	4,244.0	4,828.0
Debt	50,851.7	57,147.2	54,150.1	37,008.4	31,343.2
Equity	62,801.0	54,899.0	49,570.0	39,580.0	48,275.0
Adjusted ratios					
EBITDA margin (%)	17.1	15.4	17.5	16.0	15.1
Return on capital (%)	13.0	10.7	14.5	14.1	13.4
EBITDA interest coverage (x)	19.6	16.4	15.8	14.2	10.9
FFO cash interest coverage (x)	19.2	15.2	15.6	11.7	9.8
Debt/EBITDA (x)	2.3	3.1	2.8	2.3	2.1
FFO/debt (%)	39.0	25.8	27.8	30.7	36.4
Cash flow from operations/debt (%)	37.9	24.0	24.2	35.4	35.4
FOCF/debt (%)	26.4	11.9	12.9	18.4	17.5
DCF/debt (%)	17.8	4.2	12.3	7.0	6.8

SEK--Swedish krona.

Reconciliation

Table 3

Essity AB--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. SEK)

	--Fiscal year ended Dec. 31, 2019--							
Essity AB reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	48,190.0	54,125.0	21,878.0	14,349.0	994.0	22,031.0	19,351.0	5,908.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(1,130.0)	--	--
Cash interest paid	--	--	--	--	--	(1,049.0)	--	--
Reported lease liabilities	3,872.0	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	1,684.7	--	69.0	69.0	93.0	--	--	--
Accessible cash and liquid investments	(2,228.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	39.0	(39.0)	(39.0)	(39.0)
Dividends received from equity investments	--	--	8.0	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	(60.0)	--	--	--	--	--
Nonoperating income (expense)	--	--	--	106.0	--	--	--	--
Noncontrolling interest/minority interest	--	8,676.0	--	--	--	--	--	--
Debt: Derivatives	(667.0)	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	160.0	160.0	--	--	--	--
EBITDA: Other	--	--	(24.0)	(24.0)	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	(27.0)	--	--	--	--
Total adjustments	2,661.7	8,676.0	153.0	284.0	132.0	(2,218.0)	(39.0)	(39.0)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	50,851.7	62,801.0	22,031.0	14,633.0	1,126.0	19,813.0	19,312.0	5,869.0

SEK--Swedish krona.

Liquidity: Strong

The short-term global scale rating is 'A-2' and the short-term Nordic scale rating is 'K-1'. We assess Essity's liquidity as strong. We project that Essity's sources of liquidity will cover uses by more than 1.5x for the next 12 months. We consider that Essity has demonstrated a high standing in credit markets. The group frequently issues bonds and has access to the commercial paper market (SEK15 billion Swedish program and €1.2 billion Belgian program). Also, we believe Essity maintains solid relationships with its diverse and creditworthy banking groups.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash available of SEK5.5 billion on June 30, 2020; • Cash funds from operations of about SEK16 billion-SEK18 billion annually; and • Two undrawn bank lines maturing in 2024 and 2025 totaling €2 billion.	• Debt maturities amounting to about SEK8.4 billion in the 12 months from June 30, 2020; • Working capital outflow of about SEK500 million-SEK1000 million, potentially higher than usual due to one-off expenses related to COVID-19; • Annual capex of about SEK5.0 billion in 2020 and about –SEK7 billion in 2021; and • Dividends of SEK4.8 billion in 2020 and 2021; and SEK500 million acquisitions in 2020 and 2021.

Debt maturities

As of Dec. 31, 2019

- 2020: SEK8.0 billion
- 2021-2022: SEK18.4 billion
- 2023-2024: SEK14.3 billion
- Beyond 2024: SEK8.9 billion

Environmental, Social, And Governance

We see environmental and social factors for Essity as broadly in line with those of the industry average. The group's portfolio includes nondiscretionary items like consumer tissues, incontinence products, and baby and feminine care products, whose growth is supported by rising living standards in emerging economies. We see potential risks on environmental issues, in particular the sustainability of resources (given Essity's reliance on natural fibers like virgin pulp) and the disposal of diaper and incontinence products (given the currently limited range eco-friendly raw materials). Essity is adopting technologies to use fewer materials and produce less waste. We assess Essity's management and governance as satisfactory, reflecting consistency in its executed strategies, clear rules on governance, and the board's independence.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Industrials: Key Credit Factors For The Branded Nondurables Industry, May 7, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- ARCHIVE - General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
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- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
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- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 15, 2020)*

Essity AB		
Issuer Credit Rating		BBB+/Stable/A-2
Nordic Regional Scale		--/--/K-1
Senior Unsecured		BBB+
Issuer Credit Ratings History		
10-Apr-2017		BBB+/Stable/A-2
10-Apr-2017	*Nordic Regional Scale*	--/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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