Nordic Credit Rating

CORPORATE

Norway
1 Jun. 2023

Lerøy Seafood Group ASA

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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RATING RATIONALE

Our 'BBB+' long-term issuer rating on Norway-based Lerøy Seafood Group ASA reflects the company's relatively strong market position in the profitable salmon farming industry. It also reflects the breadth of its operations as a fully integrated seafood producer with significant wildcatch, processing and distribution capabilities. The rating further reflects the company's moderate financial leverage and strong cash flow, which should allow it to maintain a high level of investment, if necessary, to keep up with technological developments and create revenue growth.

The rating is constrained by the seafood sector's historical earnings volatility due to unstable prices as a result of variable supply and the fact that salmon farmers are effectively price takers, particularly in recurring periods of oversupply. It is also constrained by environmental and disease-related challenges, with the industry particularly impacted by higher costs for sea lice and winter wounds, which we expect will trigger investment in new farming technology. These factors have contributed to volatile EBITDA margins despite strong credit metrics.

STABLE OUTLOOK

The outlook is stable, reflecting our view that demand for salmon and low supply growth will support global prices over the next three years. We expect stable, high salmon prices over the 2023–2025 period, albeit with considerable seasonal variations. In addition, we believe that Lerøy will keep adverse biological factors under control. We expect that any cash flow reduction as a result of a proposed "resource rent" tax on fish farmers will be primarily offset by lower dividends, supporting continued strong credit metrics. However, the company's investment planning and business model could change if the tax is approved as currently proposed.

POTENTIAL POSITIVE RATING DRIVERS

- More stability in supply leading to reduced price uncertainty.
- Reduced costs and improved margin stability due to reduction of biological problems.

POTENTIAL NEGATIVE RATING DRIVERS

- Increased biological problems such as disease and sea lice.
- Higher financial leverage leading to net debt/EBITDA above 1.5x, interest coverage below 10x, or FFO/net debt below 45% over a protracted period.
- Lower demand for Norwegian and Atlantic salmon in general.

Figure 1. Lerøy key credit metrics, 2019-2025e

NOKm	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	20,427	19,960	23,136	26,652	30,116	32,826	33,811
NCR-adjusted EBITDA	3,997	3,123	3,791	4,734	5,292	5,939	6,305
NCR-adjusted EBITDA margin (%)	19.6	15.6	16.4	17.8	17.6	18.1	18.6
NCR-adjusted FFO	3,335	2,557	3,020	3,547	3,692	4,095	4,343
NCR-adjusted net debt	4,015	4,740	4,764	6,017	6,084	5,768	4,994
Total assets	30,189	30,163	34,194	37,062	38,451	39,634	40,869
NCR-adjusted net debt/EBITDA (x)	1.0	1.5	1.3	1.3	1.1	1.0	0.8
NCR-adjusted EBITDA/net interest (x)	19.9	14.9	17.6	16.6	14.7	14.8	15.7
NCR-adjusted FFO/net debt (%)	83.1	54.0	63.4	58.9	60.7	71.0	87.0
NCR-adjusted FOCF/net debt (%)	43.2	19.2	50.7	15.8	20.0	35.8	51.5

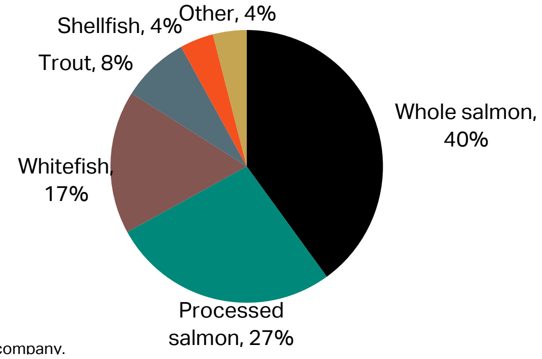
Based on NCR estimates and company data. e–estimate. FFO–funds from operations. FOCF–free operating cash flow. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Lerøy traces its roots back to 1939 as a seafood wholesaler and exporter. It bought its first wholly owned salmon farming operation in 2003 and has developed into a fully integrated international seafood supplier with three business segments; Farming, Value Added Processing, Sales and Distribution (VAPSD), and Wildcatch. The VAPSD segment is among the largest seafood processors in Europe and generates most of Lerøy's revenues. The Wildcatch segment comprises Norway's largest fishing company, Lerøy Havfisk (Havfisk), which owns and operates 10 trawlers, and whitefish processor and distributor Lerøy Norway Seafood, which takes deliveries from more than 600 fishing vessels. These businesses were acquired in 2016. In addition, Lerøy owns 50% of UK salmon farmer Scottish Sea Farms Ltd. through a joint venture with SalMar ASA.

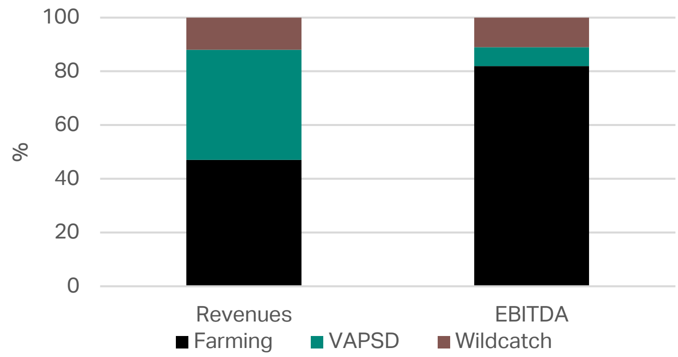
Austevoll Seafood ASA, a pelagic fishery company, became Lerøy's majority owner in 2008 and currently holds 52.7% of the shares. Some 55.6% of the shares in Austevoll Seafood are owned by Laco AS, an investment company owned by the Møgster family. Both Lerøy and Austevoll Seafood are listed on the Oslo Stock Exchange.

Figure 2. Lerøy operating revenue by product, 2022



Source: company.

Figure 3. Lerøy revenue and EBITDA by segment*, 2022



Source: company. *Eliminations are subtracted from VAP revenues and excluded from EBITDA.

BUSINESS RISK ASSESSMENT

Business risk assessment 'bbb-'

Lerøy generates most of its profit from salmon farming, where it is among the world's largest operators. The market for salmon is characterised by increasing demand and limited, albeit volatile, supply growth. Historically, this has led to volatile but generally strong margins in the sector. The company is Norway's largest seafood processor and distributor and a major operator in European terms. Seafood processing and distribution is characterised by low but relatively stable margins. The Wildcatch segment is small but generates good margins and provides products for the company's sales platform. Overall, Lerøy's margins are close to the industry average.

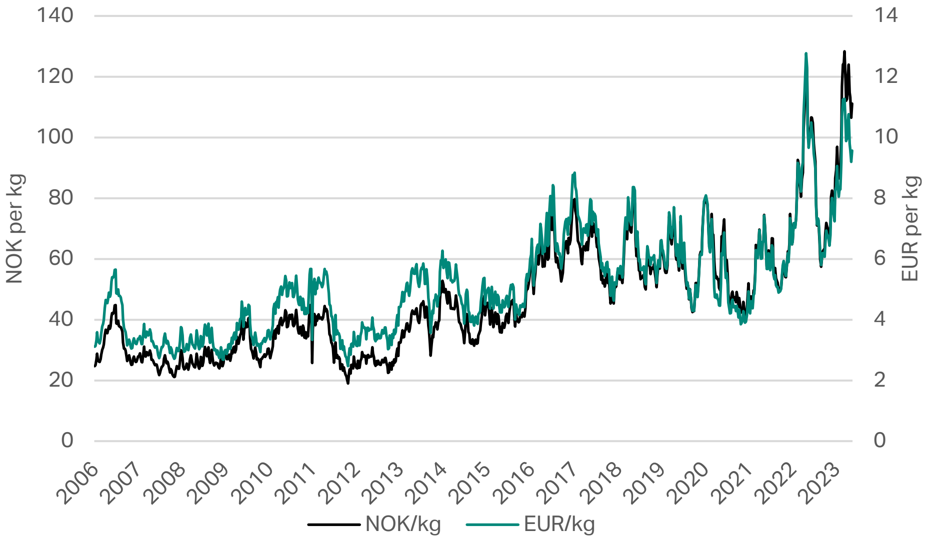
Volatile prices and costs driven by biological challenges

Operating environment 'bb'

Salmon prices are likely to remain strong through 2025, driven by low supply growth and increased demand. In our base-case scenario, salmon prices will average NOK 90 per kg between 2023 and 2025. In our view, salmon farmers are well positioned to pass any increase in production costs on to end-consumers. However, a resource rent tax proposed by the Norwegian government will, in our opinion, challenge salmon farmers' business models (see Relevant Research below).

Supply of wildcatch is mainly dependent on licence rights and quotas. While the wider fishing industry has shown good profitability in recent years, the fish processing industry has struggled with low profitability due to regulatory challenges and seasonality of supply.

Figure 4. Salmon prices Oslo (Fish Pool Index), 2006-Apr. 2023



Source: Fishpool.

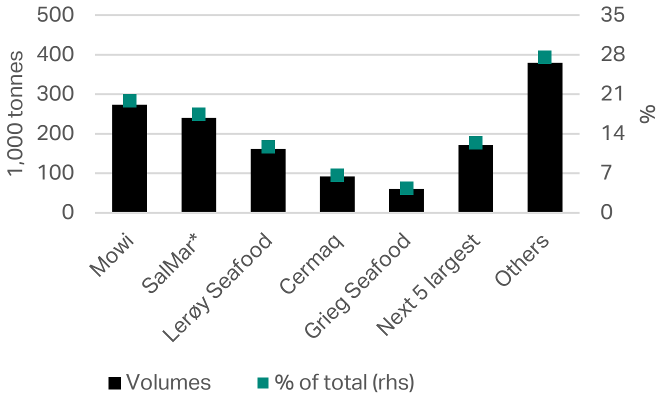
World's third largest farmer of salmonids

Market position 'bbb'

Lerøy harvested 174,629 tonnes (all weights gutted) in Norway in 2022. Central Norway produced 39% of volumes, Western Norway 38%, and Northern Norway 23%. Including 50% of Scottish Sea Farms' production (16,200 tonnes), Lerøy is the largest trout farmer and third-largest farmer of salmon and trout both in Norway and globally. Lerøy's harvesting volumes fell by 6% in 2022 due to biological problems, which in turn led to flat volume guidance in 2023. The company expects volumes to increase by 11% in 2024 and 5% in 2025.

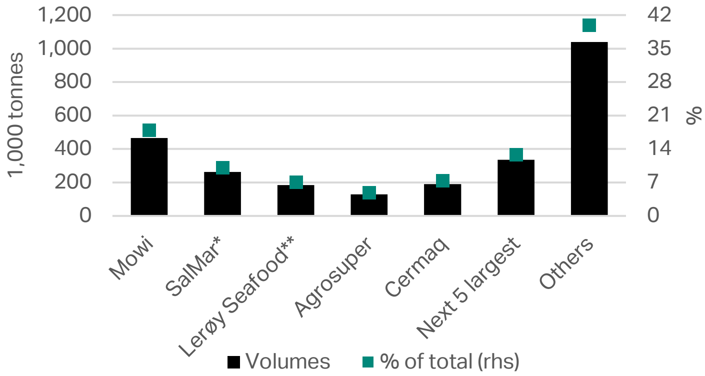
Lerøy is the leading distributor of seafood to the Norwegian market and supplies key grocery markets across Europe. About 70% of volumes handled by the VAPSD segment come from the company's own farming and fishing operations. The European and global seafood processing industry is extremely fragmented. The EU alone has about 3,500 seafood processors with total annual turnover of about EUR 32.5bn.

Figure 5. Norway's largest salmon farmers, 2022



Source: Mowi (Salmon Farming Industry Handbook 2022). *Includes NTS and NRS.

Figure 6. Largest global salmon farmers, 2022



Source: Mowi (Salmon farming industry handbook 2022). *Includes NTS, NRS and 50% of Scottish Seafood. **Includes 50% of Scottish Seafood.

We believe that biomass restrictions imposed by licences and the large investments needed to scale up production represent major barriers to entry to salmon farming. We expect increased investments to satisfy legal requirements and improve salmon welfare (in particular, the problem of sea lice) to trigger further consolidation in the sector as farmers seek synergies to offset increasing costs. We consider Lerøy will maintain a favourable market position and believe the company is well placed to participate in any consolidation of the industry. We also note that while the Norwegian government has permitted 2.4% accumulated growth in biomass in 2022 and 2023, Lerøy's biomass capacity will be reduced by about 1% due to tighter regional restrictions. We believe that this makes growth through acquisitions a more attractive option.

Havfisk has licence rights to harvest just over 10% of total Norwegian cod quotas in the zone north of 62 degrees latitude, corresponding to around 30% of the total quota allocated to the national trawler fleet. The total catch in 2022 was 71,726 tonnes, up from 71,521 tonnes in 2021. Lerøy aims to improve Havfisk's competitiveness and has the scale to make an impact in this respect. It can also provide significant wholesale and processing capacity.

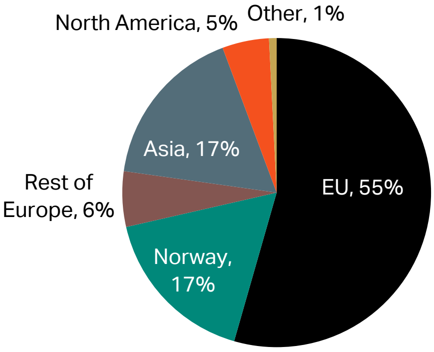
Product diversity greater than peers'

Size and diversification 'a-'

Lerøy has greater product diversity and less concentrated production than most of its peers, which make them somewhat less exposed to the proposed resource rent tax than peers more focused on salmon farming. However, its profitability is dependent on salmon prices internationally, and particularly in Europe. The company generates more than half of its revenues in Europe but exports a significant amount of production to Asia and North America.

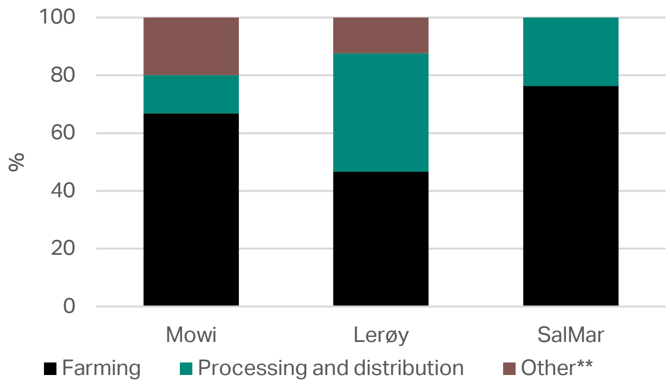
Lerøy is a fully integrated producer, and a significant proportion of its production and catch is processed at its own processing plants. Secondary processing (filleting, portioning, slicing, marinating, and coating) adds less value to the bottom line than farming due to the fragmented and competitive nature of the international processing industry but increases flexibility in production and offers some protection against low prices. Moreover, it reduces the company's environmental footprint by reducing the volumes transported to end-customers. The broad and fragmented client base of retailers, secondary processors, and buyers in the hotel, restaurant and catering industries means that individual customers generally act as price takers.

Figure 7. Lerøy's revenues by geographic market, 2022



Source: company.

Figure 8. Largest Norwegian salmon farmers distribution of revenues*, 2022



Based on company data. *Eliminations subracted from processing and distribution revenues. **Other: Mowi: Feed, Lerøy: Wildcatch.

Cost efficiency in line with peers'

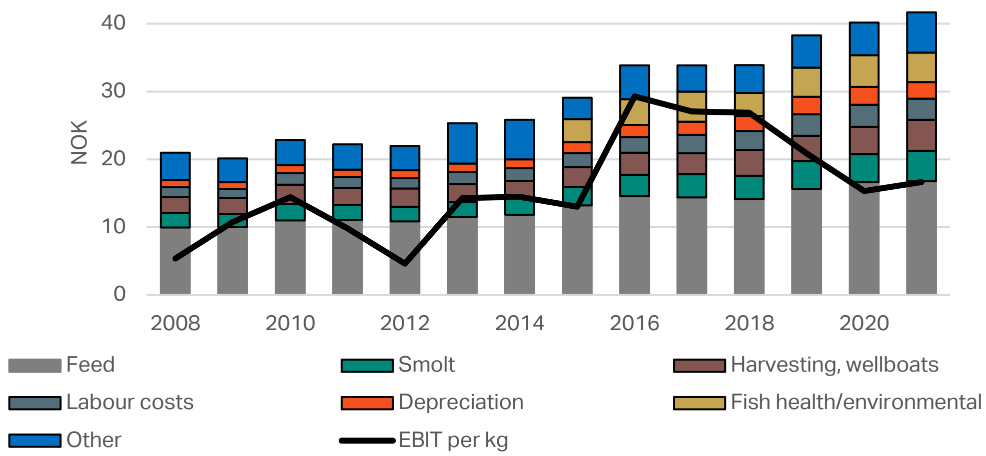
Operating efficiency 'bbb'

Lerøy's margins in its main areas of operation have historically been close to its peer group average. The company has more stringent standards for levels of sea lice per salmon than its peers, forcing it to incur higher costs to reduce infestation with an impact of close to NOK 10 per kg harvested. We note some differences in reporting practices across the sector, for example some low-margin processing-related activities are included in Lerøy's Farming segment. We also believe that Lerøy incurs higher-than-average feed costs due to stringent quality requirements and a strong environmental focus in sourcing.

Industry operating costs increased by an average of about 6.5% annually in the 2011-2021 period. Feed prices, representing close to 50% of costs, have increased significantly over the past two years mainly due to higher prices of vegetable-based ingredients (which account for about 70% of total feed). Accordingly, we believe that operating costs rose by 12% in 2022. While we expect raw material costs to stabilise in euro terms in the course of 2023, the weak Norwegian krone is leading to further cost increases. Conversely, the weak domestic currency is boosting both revenues and margins. In addition, we expect Lerøy to be able to pass most increases in production costs on to end-customers due to strong demand and low supply growth.

Lerøy's price realisation levels in 2022 were well below spot prices because 40% of volumes were sold at fixed-price contracts at lower price levels. Positively, these high levels of fixed-price contracts counterbalance swings in spot prices and help to avert supply shocks, resulting in reduced volatility. The uncertainty brought along by the government's proposed resource rent tax has led to a low contract ratio for 2023.

Figure 9. Norway salmon average operating costs and normalised EBIT per kg, 2008-2021



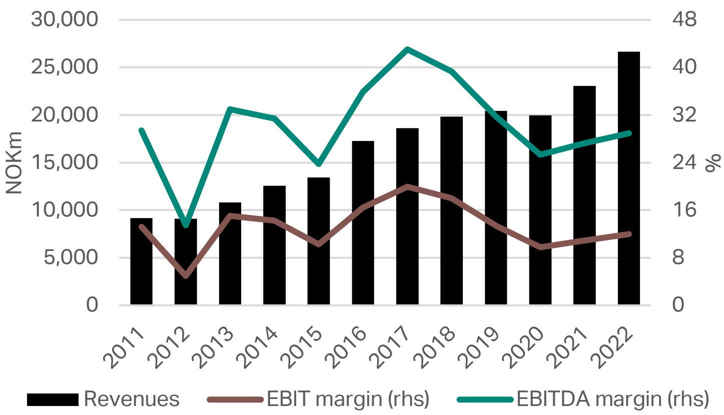
Source: Directorate of Fisheries.

Comparison with the wider European seafood processing industry is distorted by the relatively high proportion of whole fresh and frozen fish in the VAPSD segment's revenue base. Historically, the segment's margins have been low but stable, and it generates more predictable cash flow than the more volatile Farming segment.

The Wildcatch segment operates with EBITDA margins of around 10%. Since fishermen's remuneration is linked to the value of the catch, labour costs in this segment are highly volatile. The whitefish processing activities constrain margins, but these operations are difficult to streamline since fishing licences are conditional on the fishing company having operations on land.

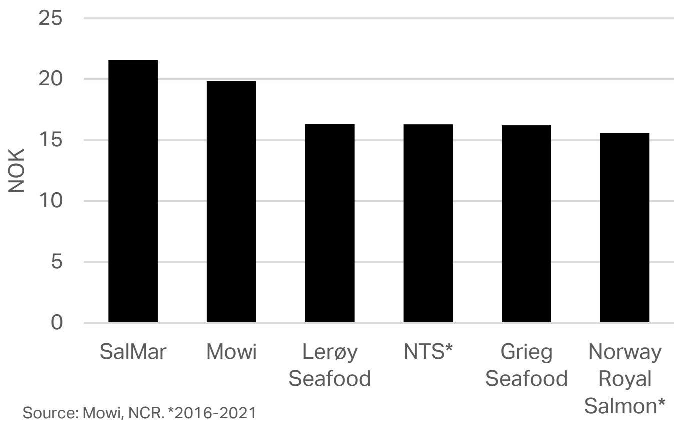
Trout have proven more resilient to sea lice than salmon (due to farming in brackish water), underpinning Lerøy's extensive trout farming business in the fjords of western Norway. However, winter wounds have become a problem since the industry started to release smolt during the winter months.

Figure 10. Lerøy revenues and margins*, 2011–2022



Source: company. Excluded fair value adjustments

Figure 11. Norwegian salmon farmers' average EBIT/kg, 2016-2022



Source: Mowi, NCR. *2016-2021

FINANCIAL RISK ASSESSMENT

Financial risk assessment 'a-'

Our financial risk assessment reflects Lerøy's strong balance sheet and cash generation. However, we view the company's risk appetite as greater than warranted by its credit metrics. In addition, we consider the company's volatile EBITDA margins and recent history of paying dividends above policy targets as a further risk factor. We consider Lerøy to have adequate policy headroom but believe the company will have to undertake high levels of investment to keep up with technological developments and generate revenue growth.

Ratio analysis 'a+'

Strong balance sheet and cash flows

Lerøy has undertaken heavy investments in smolt and processing capacity but still has strong credit metrics both in absolute terms and compared with most of its peers. The company's strategy is to build capital during economic upturns to make value-creating transactions in downcycles. It has invested less in new farming technology than some of its peers, except for investments in state-of-the-art facilities using RAS technology (closed-containment aquaculture systems using recirculated water) for production of large smolt, which are more resilient to sea lice, and potentially facilitate land-based fish farming.

Because the proposed resource rent tax will be based on EBITDA levels, we attribute more weight to credit metrics based on FFO, which will be negatively affected by the increased tax level.

In our base-case forecast of Lerøy's future performance we assume:

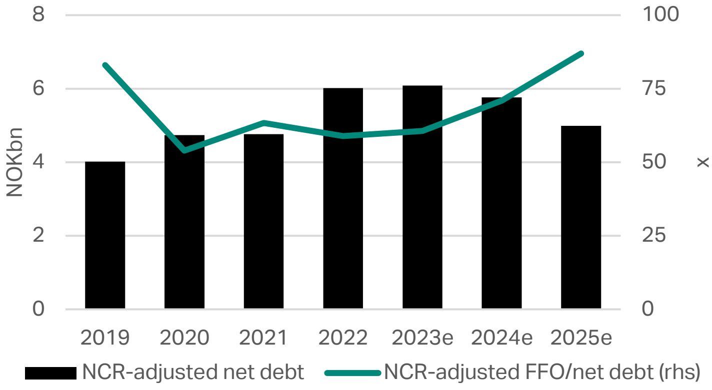
- revenue growth of 13% in 2023, 9% in 2024, and 3% in 2025;
- NCR-adjusted EBITDA margins of 17.6% in 2023, 18.1% in 2024, and 18.6% in 2025;
- A resource rent tax of 25% of EBITDA minus investments, generated in the sea phase;
- capital spending of about NOK 4bn over the next three years; and
- dividend payments of NOK 1.5bn annually.

Figure 12. NCR's adjustments to Lerøy's reported credit metrics, 2019–2025e

NOKm	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	3,746	3,109	3,778	4,521	5,270	5,909	6,255
Dividends from JVs and associates	266	29	14	6	22	30	50
Capitalised development expenses	-16	-14	-5	-1			
Settlement costs*				209			
NCR-adjusted EBITDA	3,997	3,123	3,786	4,734	5,292	5,939	6,305
Net interest	-120	-133	-134	-179	-255	-295	-295
Financial costs from leasing	-81	-77	-82	-106	-106	-106	-106
NCR-adjusted net interest	-201	-210	-215	-286	-361	-402	-402
NCR-adjusted EBITDA	3,997	3,123	3,786	4,734	5,292	5,939	6,305
NCR-adjusted net interest	-201	-210	-215	-286	-361	-402	-402
Current taxes	-461	-356	-555	-902	-1,239	-1,441	-1,560
NCR-adjusted FFO	3,335	2,557	3,016	3,547	3,692	4,095	4,343
Change in working capital	-168	-283	412	-1,711	-1,177	-663	-339
Capital spending	-1,447	-1,377	-1,019	-887	-1,300	-1,365	-1,433
Capitalised development expenses	16	14	5	1			
NCR-adjusted FOCF	1,736	912	2,414	949	1,215	2,067	2,570
Cash and cash equivalents	3,031	2,966	4,203	3,305	3,738	4,054	4,828
Restricted cash	-132	-158	-137	-125	-125	-125	-125
NCR-adjusted cash and equivalents	2,899	2,809	4,066	3,180	3,613	3,928	4,703
Gross interest-bearing debt	4,616	5,207	5,911	6,437	6,937	6,937	6,937
Leasing liabilities	2,295	2,339	2,916	2,756	2,756	2,756	2,756
Retirement benefit obligations	3	3	3	3	3	3	3
NCR-adjusted cash and equivalents	-2,899	-2,809	-4,066	-3,180	-3,613	-3,928	-4,703
NCR-adjusted net debt	4,015	4,740	4,764	6,017	6,084	5,768	4,994

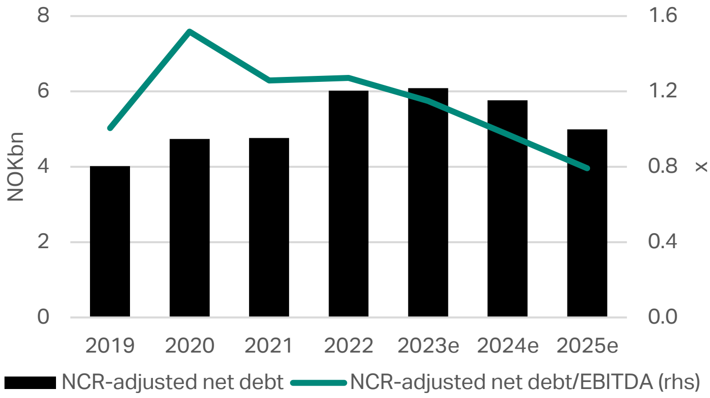
Based on company data. JVs–joint ventures. * See under Environmental, social and governance factors below.

Figure 13. Lerøy NCR-adjusted net debt and FFO/net debt 2019–2025e



Based on company data and NCR data. e–estimate.

Figure14. Lerøy NCR-adjusted EBITDA and EBITDA to net interest, 2019–2025e

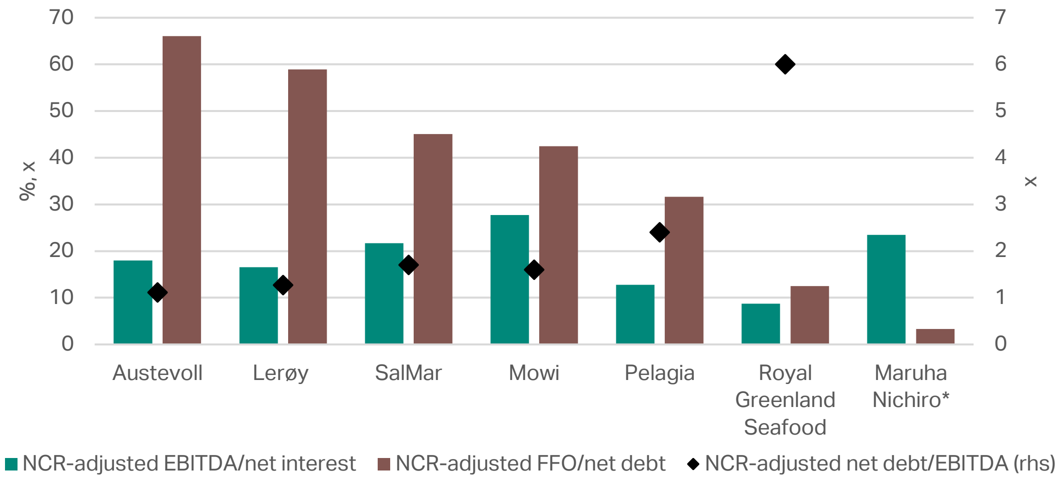


Based on company data and NCR data. e–estimate.

On the basis of these assumptions, we estimate the following credit metrics for 2023-2025:

- NCR-adjusted net debt/EBITDA of 0.8-1.1x;
- NCR-adjusted EBITDA/net interest of 14.7-15.7x; and
- NCR-adjusted FFO/net debt of 61–87%.

Figure 15. Lerøy peer group adjusted credit metrics, 2022



Based on company data and NCR data. *NCR-adjusted net debt/EBITDA is 23.9x.

Technological advances in salmon farming could create need for larger investments

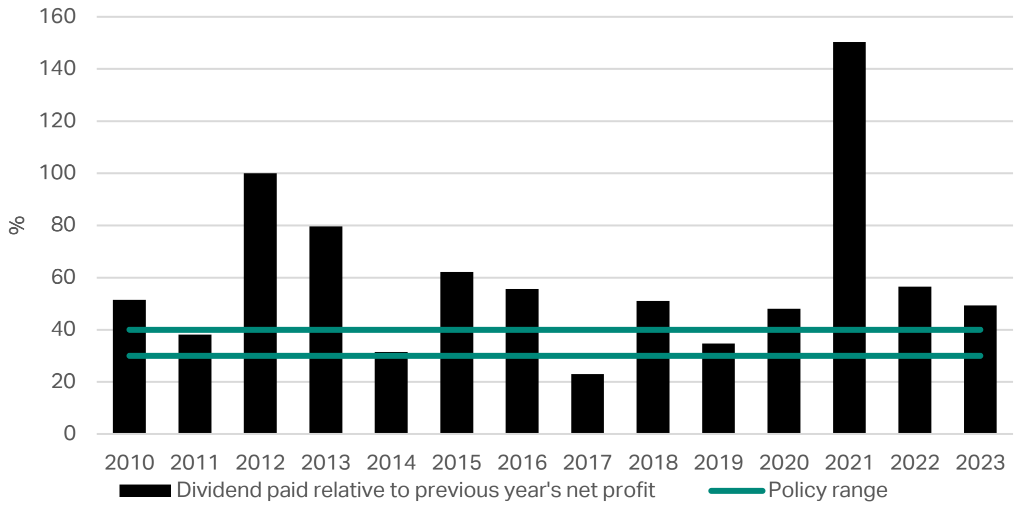
Risk appetite 'bbb+'

We view Lerøy's risk appetite as greater than warranted by its current financial ratios. The company has a history of volatile credit metrics, largely due to price fluctuations but also due to the unpredictable cost base of its farming operations. We view its recent history of paying dividends well in excess of policy targets as an additional risk factor.

Lerøy issued a total of NOK 3bn in green bonds in 2021 and 2023, with tenors of five to 10 years, materially extending its debt maturity profile. The company has a minimum equity ratio requirement of 30% in its financial policy and bank covenants; the current level is 58%.

We note that Lerøy's financial policy allows for increased financial gearing. We believe that the company, in line with the wider sector, will need to make substantial investments to keep up with advances in farming methods and technologies. However, unlike its peers, the company has not utilised supply chain financing. Lerøy has paid 59% of net profits in dividends over the past 13 years (see Figure 16), which is more aggressive than its dividend policy of 30-40% of net profits over time. We believe that the company's owners will continue to require high dividend payments in the years ahead.

Figure16. Lerøy dividends paid, 2010-2023



Source: company.

Lerøy has a history of acquisitions during periods of weak market conditions. The last significant transaction by the Farming segment was in 2013, when it acquired Villa Organic AS. Lerøy's largest acquisition to date was in 2016 when Havfisk and Norway Seafood were bought for NOK 3.2bn. In addition, the company has made several bolt-on acquisitions. The acquisition by the VAPSD segment of processing and distribution company Seafood Danmark A/S (DKK 1.2bn in revenues in 2020), is one example. We also note that in 2021 Scottish Sea Farms acquired Grieg Seafood's operations in Shetland (32,400 tonnes harvested in 2021) for GBP 172.6m, financed by capital contributions and external debt.

In 2022, 68% of Lerøy's operating revenues were denominated in foreign currencies, the largest being the euro (40%) and the US dollar (16%). Contractual sales are hedged and sales revenues adjusted for the effect from currency forward contracts. About 5% of interest-bearing debt is denominated in euro and 4% in other currencies. We do not see currency risk as a significant factor in the short term, although changes in the EUR/NOK exchange rate have a direct impact on revenues.

ADJUSTMENT FACTORS

Adjustment factors neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

Liquidity

Liquidity adequate

We assess Lerøy's liquidity position as adequate. The company has a strong cash position and unutilised credit facilities that more than outweigh its committed financial obligations over the next 12 months.

We estimate the following primary liquidity sources for the 12-month period starting 1 Apr. 2023, totalling NOK 10.7bn:

- NOK 3.5bn in cash (excluding NOK 125m in restricted cash);
- NOK 1.5bn in bonds issued 26 Apr. 2023;
- NOK 2.9bn in committed available credit facilities; and
- NOK 2.8bn, reflecting 75% of FFO over the period.

This compares with the following estimated uses of liquidity, totalling NOK 2.8bn:

- NOK 0.7bn in amortisation of secured debt and lease instalments;
- NOK 1.5bn in dividend payments (payment date 2 June 2023); and
- NOK 0.6bn in committed capital spending.

Environmental, social and governance factors

ESG factors adequate

The main environmental, social and governance (ESG) issues that could affect our credit rating on Lerøy are factors that could contribute to loss of revenue, increased operational costs, increased capital spending, loss of value of assets, decreased access to funding, or loss of operating rights. In this context, the main credit risks are fish health and emissions and their potential impact on the social perception of fish farming and fish as a sustainable source of protein. Increasing capital spending to comply with changing regulations could further strain liquidity. However, we see Lerøy's liquidity position as solid and expect that the company could easily adapt to changing regulations.

Fish farming is not yet incorporated into the EU Taxonomy, which we expect to increase transparency into sustainable investments. However, its environmental footprint is significantly smaller than that of beef, at 5.1 kg carbon equivalent per kilo of edible product compared with 39 kg.

Figure17. Lerøy ESG considerations

Issue	Risks	Mitigating efforts	Results
Sea lice and disease	Loss of revenue through early harvesting or mortality. Increased costs due to treatment. Reduced revenue potential due to lower volume growth. Diseases could affect consumer perception of salmon as a healthy protein source.	Medical treatments such as baths and through feed. Vaccination. Aim to use zero antibiotics, but emphasis on fish welfare in line with relevant legislation.	0.18 fully grown lice per fish in 2022. Unchanged from 2021 and well below regulatory levels. Antibiotic use was reduced to zero in 2021 and 2022, compared with 19kg in 2020. Survival rates of 92.5% (92.5%) at sea were recorded in 2022. These levels are acceptable but not best in class.
Trawler operations	Negative publicity could affect brand reputation, lowering overall demand for Lerøy's products. Trawling could increase political or social tension.	Trawling is highly regulated. Lerøy aims to trawl in the same locations to limit unwanted effects on seabed ecosystems. Increased focus on research and development to reduce risk.	Concentrated use of trawling, in compliance with local regulations, mitigating risk of negative media focus and scrutiny.
Escapes	Loss of revenues and increased costs. Escapes impact the environment and negatively affect wild salmon. They are thoroughly monitored by non-governmental organisations. Could result in restrictions on open cages.	Continuous work on quality of pens. Close cooperation with local fishermen to catch escaped fish.	10,544 fish escaped in 2022, of which 8.976 fish escaped in an incident involving a well boat. This is up from four in 2021 and 208 in 2020.
CO_2 emissions	Any increase in related regulation and taxation could reduce operating efficiency and access to funding. Regulatory requirements could increase capital spending significantly.	Increased focus on renewable energy such as battery/hydrogen power for service boats. Climate target (approved by the Science Based Targets initiative) aims to reduce emissions by 46% from 2019 to 2030.	Scope 1 and 2 emissions rose by 12% in 2022 and 6% in 2021. However, 82% of emissions in 2022 were Scope 3 (indirect) emissions. These were down by 10% both in 2021 and 2022.
Fish feed ingredients	Use of both unsustainable plant-based ingredients and marine products could attract regulatory scrutiny and negatively affect consumer perceptions.	Aim to use suppliers with sustainability certifications. Strong focus on finding sustainable alternatives. Aim to use ingredients that are not sourced from areas threatened by deforestation. The company is part of the Pro Terra environmental foundation and committed to certified soy production only. Avoidance of ingredients based on marine products.	94.6% of marine ingredients were certified in 2022 (92.5%), supported by own production through waste from wildcatch. 100% traceability was achieved. In total, 42% of raw materials certified compared with 49% previously.

Source: company.

In 2019, the European Commission launched an inquiry into Lerøy and a number of other Norwegian aquaculture companies over alleged price fixing. Leroy disputes the allegations and we see no significant risk of loss of operating licence or accounting losses. A similar investigation opened by the

US Department of Justice into the Norwegian salmon industry in November 2019 was closed in January 2023, with Lerøy paying a settlement of NOK 209m.

OWNERSHIP ANALYSIS

Ownership neutral

Lerøy's majority owner is Austevoll Seafood, a pelagic fishery company controlled by the Møgster family. Austevoll Seafood is an industrial owner which provides raw material for the fish feed industry, has expertise in fisheries, and owns a small salmon farming operation in western Norway. However, most of the holding company's pretax profit is generated by dividends from Lerøy (72% in 2022).

The Møgster family controls offshore company DOF ASA, which recently filed for bankruptcy, and we are not certain that Austevoll Seafood would contribute capital if Lerøy were to face an event of financial distress. Austevoll Seafood did not contribute to a NOK 2.2bn share issue to fund the acquisition of Havfisk and Norwegian Seafood Group in 2016, preferring to reduce its ownership stake to the current level of 52.7% from 62.6% previously.

Figure 18. Lerøy ownership structure, 21 Apr. 2023

OWNER	SHARE OF VOTES AND CAPITAL
Austevoll Seafood	52.7%
Folketrygdfondet	5.3%
UBS AG	3.5%
Ferd AS	2.3%
Bank of New York Mellon	1.5%
Other	34.7%
Total	**100.0%**

Source: company.

ISSUE RATINGS

Lerøy is financed primarily through senior unsecured bonds, credit facilities and equity. We expect gross secured debt to NCR-adjusted EBITDA to remain below 2.0x over our forecast period (1.1x as of 31 Mar. 2023). Accordingly, we rate the company's long-term senior unsecured obligations 'BBB+', at the same level as the issuer rating, reflecting the flat debtor hierarchy.

METHODOLOGIES USED

(i) Corporate Rating Methodology, 8 May 2023.
(ii) Rating Principles, 24 May 2022.
(iii) Group and Government Support Rating Methodology, 18 Feb. 2022.

RELEVANT RESEARCH

(i) Norway salmon farms face sharp tax hike, 29 Mar. 2023.
(ii) Salmon prices likely to remain strong due to low supply growth, 3 Mar. 2023.
(iii) Low supply growth and strong demand drive salmon prices, 15 Jun. 2021.

Figure 19. Lerøy key financial data, 2019– Q1 2023

NOKm	2019	2020	2021	2022	LTM TO Q1 2023
INCOME STATEMENT					
Revenue	20,427	19,960	23,136	26,652	28,093
Gross profit	9,143	8,615	10,299	12,244	12,716
EBITDA	3,746	3,109	3,778	4,521	4,665
EBIT	2,400	1,123	3,604	4,283	4,659
Interest costs	-35	-136	-72	-216	-382
Pre-tax profit	2,365	987	3,532	4,067	4,277
Net profit	1,870	790	2,781	3,165	3,311
BALANCE SHEET					
Property, plant and equipment	6,230	6,797	7,297	7,487	7,636
Intangible assets and goodwill	8,151	8,307	8,554	8,550	8,704
Total non-current assets	17,797	18,702	20,010	20,559	20,806
Cash and cash equivalents	3,031	2,966	4,203	3,305	3,585
Total current assets	12,393	11,461	14,184	16,503	17,838
Total assets	30,189	30,163	34,194	37,062	38,644
Total equity	17,763	17,633	19,323	21,024	22,198
Long-term interest-bearing loans	3,629	3,994	5,329	4,935	4,883
Long-term leasing liabilities	1,880	1,900	2,081	2,154	2,114
Total non-current liabilities	8,017	8,251	9,994	9,674	9,754
Total current liabilities	4,409	4,279	4,876	6,363	6,692
Total equity and liabilities	30,189	30,163	34,194	37,062	38,644
CASH FLOW STATEMENT					
Pre-tax profit	2,365	987	3,532	4,066	4,277
Operating cash flow	2,859	2,367	3,740	2,275	2,504
Cash flow from investment activities	-876	-1,354	-1,440	-908	-1,021
Cash flow from financing activities	-1,988	-1,077	-1,063	-2,266	-1,734
Cash and cash equivalents at beginning of year	3,036	3,031	2,966	4,203	3,836
Cash flow for year	-5	-65	1,237	-898	-251
Cash and cash equivalents at end of year	3,031	2,966	4,203	3,305	3,585

Figure 20. Lerøy rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bb
Market position	10.0%	bbb
Size and diversification	10.0%	a-
Operating efficiency	10.0%	bbb
Business risk assessment	50.0%	bbb-
Ratio analysis		a+
Risk appetite		bbb+
Financial risk assessment	50.0%	a-
Indicative credit assessment		**bbb+**
Liquidity		Adequate
ESG		Adequate
Peer calibration		Neutral
Stand-alone credit assessment		**bbb+**
Support analysis		Neutral
Issuer rating		**BBB+**
Outlook		Stable
Short-term rating		**N2**

Figure 21. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

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