

## Lerøy Seafood Group ASA

## Rating Action Report

**Lerøy Seafood Group ASA 'BBB+' long-term issuer rating affirmed; Outlook stable**

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term issuer rating on Norway-based Lerøy Seafood Group ASA. The outlook is stable. The 'N2' short-term issuer rating was also affirmed, while the issue rating on the company's senior unsecured debt was raised to 'BBB+' from 'BBB' in accordance with NCR's revised corporate rating methodology. The ratings are no longer under criteria review.

**Rating rationale**

The long-term issuer rating reflects Lerøy'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 stable outlook reflects 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 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.

We could raise the ratings to reflect more stability in supply leading to reduced price uncertainty or reduced costs and improved margin stability due to fewer biological problems such as disease and sea lice.

We could lower the ratings to reflect an increase in biological problems or reduced demand for Norwegian and Atlantic salmon. We could also lower the ratings to reflect 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.

| Rating list                      | To     | From   |
|----------------------------------|--------|--------|
| Long-term issuer credit rating:  | BBB+   | BBB+   |
| Outlook:                         | Stable | Stable |
| Short-term issuer credit rating: | N2     | N2     |
| Senior unsecured issue rating:   | BBB+   | BBB    |

## LONG-TERM RATING

**BBB+**

## OUTLOOK

**Stable**

## SHORT-TERM RATING

**N2****PRIMARY ANALYST**

Geir Kristiansen  
+4790784593  
geir.kristiansen@nordiccreditrating.com

**SECONDARY CONTACTS**

Gustav Nilsson  
+46735420446  
gustav.nilsson@nordiccreditrating.com

Sean Cotten  
+46735600337  
sean.cotten@nordiccreditrating.com

Figure 1. Lerøy rating scorecard

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

Figure 2. Capital structure ratings

| Seniority        | To   | From |
|------------------|------|------|
| Senior unsecured | BBB+ | BBB  |

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| Type of credit rating:                                                                  | Long-term issuer credit rating<br>Short-term issuer credit rating<br>Issue credit rating                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Publication date:                                                                       | The rating was first published on 02 Jul. 2021.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Office responsible for the credit rating:                                               | Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Primary analyst:                                                                        | Geir Kristiansen, +4790784593, <a href="mailto:geir.kristiansen@nordiccreditrating.com">geir.kristiansen@nordiccreditrating.com</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Rating committee chairperson responsible for approval of the credit rating:             | Sean Cotten, +46735600337, <a href="mailto:sean.cotten@nordiccreditrating.com">sean.cotten@nordiccreditrating.com</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Were ESG factors a key driver behind the change to the credit rating or rating outlook? | No.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Methodology used when determining the credit rating:                                    | <a href="#">NCR's Corporate Rating Methodology published on 8 May 2023</a><br><a href="#">NCR's Rating Principles published on 24 May 2022</a><br><a href="#">NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022</a><br>The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .<br>The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Materials used when determining the credit rating:                                      | Annual- and quarterly reports of the rated entity, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| Additional information:                                                                 | Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Ancillary services provided:                                                            | No ancillary services were provided.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Regulations:                                                                            | This rating was issued and disclosed under Regulation (EC) No 1060/2009.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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