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CREDIT OPINION
15 April 2021

Update

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RATINGS

Lantmannen Ekonomisk Forening

Domicile	Sweden
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Lantmannen Ekonomisk Forening

Update to credit analysis

Summary

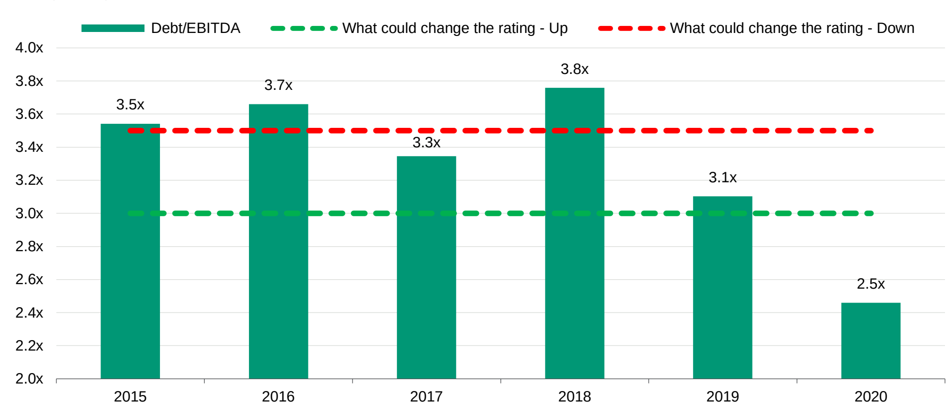
Lantmännen Ekonomisk Förening's (Lantmännen) Baa3 issuer rating reflects (1) the co-operative's very strong position in the Swedish agricultural sector as it purchases about 50% of the total grain harvest, mainly from its large member base of 20,000 Swedish farmers; (2) its large market shares and well-known name in both branded and unbranded flour- and grain-based products in the Nordic market; (3) its position as the second-largest producer of bread in Europe, focused on the growing Bake-Off market; (4) a diverse set of operations, with low correlation in profitability among segments; and (5) a diverse funding base and conservative financial policy.

However, the company's credit quality is constrained by (1) its relatively low, but stable operating margin, which is diluted by the sizeable and low-margin trading business; (2) its sales concentration in the Nordic markets; (3) difficult market conditions in its agricultural machinery wholesale business, which we expect to persist and (4) an ownership that limits its ability to issue equity, although it has a stable and engaged shareholder base supportive of the conservative financial policy.

Exhibit 1

Debt/EBITDA has decreased to 2.5x as of 2020

Moody's-adjusted debt/EBITDA for Lantmännen



Source: Moody's Financial Metrics™

Credit strengths

» Stable business model, with positive operating profit and operating cash flow every year since 2006, because of the company's diverse range of businesses with different cycles and drivers

» Leading position in the Swedish grain value chain, because the company purchases 50% of the annual harvest from its members, which it turns into feed, food and energy

» High barriers to entry in the Swedish grain market, given Lantmännen's extensive network of collection points across the country and the strong service offering to its members

» Largest supplier of flour- and oat-based products to the industry and of breakfast cereals to the retail market in Denmark, Norway and Sweden

» Solidly positioned in the growing European Bake-Off market, with significant market shares in its markets

Credit challenges

» Lower operating margins than those of its agricultural peers that we rate, although these margins are diluted by the sizeable low-margin trading business

» Historically, leverage at the upper end of the range for the assigned rating

» Corporate development to be funded with internally generated cash flow and potential debt, given the company's limited access to equity

Rating outlook

The stable outlook balances challenges stemming from the coronavirus with the solid underlying growth trajectory of the business. Our base case, with flat revenue growth and pressure on profitability for some of the company's divisions, leads to an expected debt/EBITDA of 2.7x — 2.9x and CFO / debt in the high twenties percentage wise.

Factors that could lead to an upgrade

» Increased profitability leading to a Moody's-adjusted debt/EBITDA well below 3x

» A track record of positive Moody's-adjusted free cash flow

» Moody's-adjusted CFO/net debt increasing above 40%

Factors that could lead to a downgrade

» Moody's-adjusted debt/EBITDA increasing above 3.5x on a sustained basis

» Moody's-adjusted CFO/net debt decreasing below 20%

» A prolonged decline in profitability

Key indicators

Exhibit 2

Lantmännen Ekonomisk Förening

	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12-18 Month Forward View[1]
Total Sales (USD Billion)	$4.4	$4.7	$5.1	$5.1	$5.0	$5.0 - $5.1
CFO / Debt	34.6%	26.9%	13.2%	34.2%	43.7%	27% - 29%
Debt / EBITDA	3.7x	3.3x	3.8x	3.1x	2.5x	2.7x - 2.9x
EBITA / Interest Expense	4.3x	5.3x	4.3x	8.3x	9.5x	8.6x - 8.8x
Debt / Book Capitalization	42.6%	41.8%	45.1%	41.1%	36.1%	36% - 38%

[1] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Profile

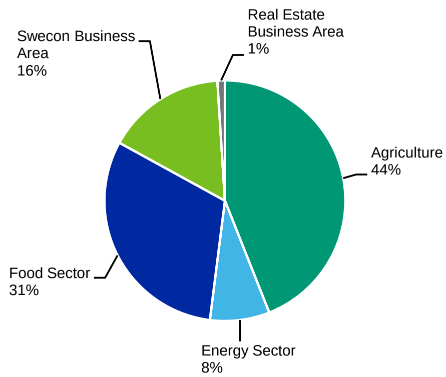
Based in Stockholm, Sweden, Lantmännen Ekonomisk Förening (Lantmännen) is Sweden's largest agricultural cooperative, with 19,200 Swedish farmers as members and 10,000 employees in about 20 countries. The company purchases 3.1 metric tons of grains, oilseeds and pulses annually from its member base and holds almost 50% of the market. With grain as its base, it supplies agricultural products, bio energies and food, such as flour and bread, as well as other agriculture-related products.

In 2020, Lantmännen's five divisions operating in agriculture, food, energy, machinery and real estate reported annual sales of SEK46.0 billion (€4.6 billion), EBIT of SEK2.2 billion (€220 million). The company generates around 60% of its sales in the Nordics and most of the remaining 40% in Europe.

Exhibit 3

Agriculture and food generates over 70% of group revenue

Revenue by division as of 2020 before eliminations

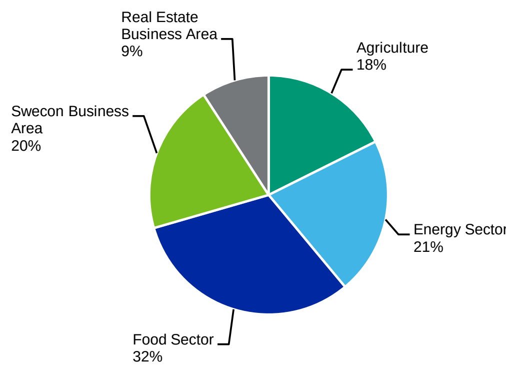


Source: Company annual report

Exhibit 4

Food is the largest contributor to EBIT

Reported EBIT by division as of 2020 before eliminations



Source: Company annual report

Detailed credit considerations

Leading supplier and manufacturer of grains and grain-based products in the Nordics

Lantmännen's business profile, with a high degree of vertical integration, is bolstered by its leading positions in businesses related to industries such as food, ethanol and agricultural and construction machinery. Cerealia is the largest supplier of flour- and oat-based products to bakeries, wholesalers and the food industry in the Nordics. The division is also the leading producer of flour and breakfast cereals sold to grocery markets in the region. With 36 bakeries in 15 countries, its Unibake division is Europe's second-largest bakery group, with significant market shares in the Nordic Bake-Off market and in consumer-packed bread in Denmark, Finland and the Baltics. The company also uses the harvest of grains to produce ethanol through its subsidiary Agroetanol. The company's revenue is further diversified by its machinery division, which is the largest supplier of agricultural machinery in Sweden. Furthermore, through Swecon, the company exclusively sells construction equipment from Volvo Construction Equipment in Sweden, Northern Germany and the Baltics (non-exclusively in other parts of Germany). Diversifying revenue even further is its large real estate portfolio of 150 investment properties, renting out premises internally as well as externally.

High entry barriers for the agricultural division

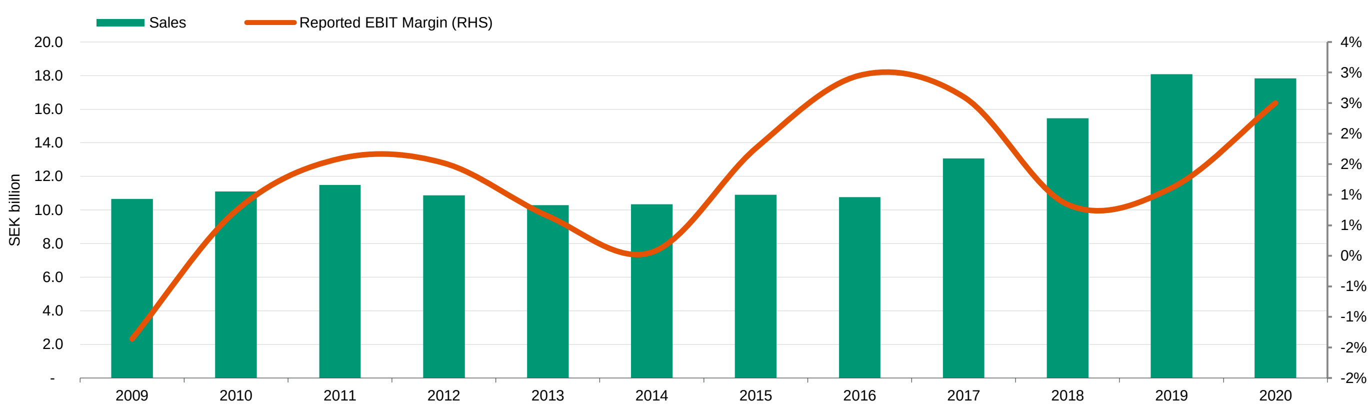
The agricultural division is based in Sweden and has a strong position in the Baltic Sea region. The division offers a wide range of products for livestock and crop production, and purchases grains, oilseeds, pulses and forages. A large part of this volume is sold to Lantmännen's divisions, as well as to the Swedish and international industries. Typically around of the purchased grains goes to the company's own industries. Given the company's extensive network of assets and equipment to collect the grains across the country, it is difficult for a new entrant to replicate that asset base and, therefore, market entry barriers are high.

Agricultural operations are mostly concentrated in Sweden, where 70% of the division's sales come from. Revenue amounted to SEK17.8 billion in 2020 if calculated with the old reporting structure (without Lantmännen maskin Sverige), with low-single-digit reported EBIT margin in percentage terms. The single most important driver of profitability is volume because the division has a sizeable fixed cost base. Nevertheless, the company has continuously restructured its business to increase profitability. Exposure to foreign-currency and commodity-price movements are limited because company policy stipulates that all such risks related to sales and cost of goods sold are to be hedged.

Exhibit 5

Lantmännen's agricultural division is very sensitive to volumes

Historical sales and profitability of Lantmännen's agricultural division



Sales and EBIT with respect to old reporting structure, i.e. without Lantmännen maskin Sverige

Source: Company annual reports

Portfolio of well-known brands and large market shares not enough to weather off fierce competition and changing demand drivers in the food business

The largest contributor to operating profit is Lantmännen's food division, split into two businesses, Cerealia and Unibake. The former is a producer of basic food products, such as flour, breakfast cereals, pasta and cake mixes. Roughly half of the sales are generated from the B2B market, that is, selling flour/grains to Nordic bakeries, while the other half is generated from the sale of its own brands to the retail grocery market.

Unibake, reporting sales of SEK11.1 billion in 2020, has a somewhat different sales profile because of its focus on Bake-Off. Although a small part of the product portfolio consists of pre-packed bread to grocery stores, the largest portion of revenue comes from the sale of both branded and unbranded Bake-Off products to in-store bakeries and food service companies. Retail/in-store accounts for 55% of Unibake's sales and food service companies for 41%.

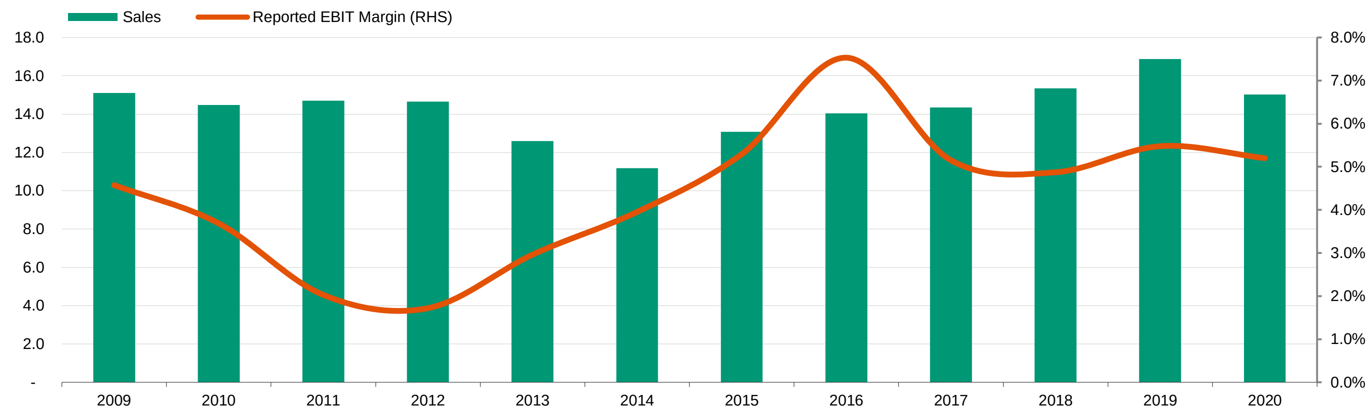
Both divisions have very strong brand recognition; they should, therefore, be able to adapt to new trends, such as low-sugar food, with innovation and product development. Cerealia has a retail market breakfast share that is significantly higher than that of the second-largest competitor in the markets of Sweden, Norway and Denmark, according to Euromonitor. It is also the largest supplier of flour- and oat-based products to bakeries, wholesalers and the food industry in the Nordics.

The challenges for producers of food products with low-to-moderate value-added content are of a general nature — vulnerability to private label, consumption trends and price competition. However, private label and Bake-Off go hand in hand because the latter is an unbranded product. While consumption trends are actually benefiting Unibake, with consumers demanding fresh products, they have, together with fierce price competition and a growing share of private label, historically hurt Cerealia's operating performance.

Exhibit 6

The food division's EBIT margin has hovered around 5% during the last four years

Historical sales and profitability of Lantmännen's food division



Kronfågel was divested in 2013 through a merger and subsequent stock market listing.

Source: Company annual reports

Agricultural and food businesses complemented by machinery, energy and real estate

Historically, Lantmännen's Machinery division consisted of Machinery Sweden and Swecon. The former is a wholesaler of agricultural machinery with close ties to the co-operative's farmers. It has for a long time struggled with profitability, however, has been break even in terms of reported EBIT. Swecon is the company's wholesaler of construction machinery, with exclusivity to distribute AB Volvo's construction machinery in Sweden and parts of Germany. The division, now a reporting segment of its owns, acts as a good diversifier to the group in terms of end-market demand, showing very stable performance through the cycle and generating around 20% of group EBIT during a normal year.

Adding to diversification of revenue is Lantmännen's energy division, which is Sweden's largest producer of bioenergy products. Around 50% of sales come from the sale of ethanol products, which historically has shown very volatile profitability because of the cyclical dynamics of the industry.

The smallest segment is its holdings of real estate throughout Sweden, mostly housing warehouses and production facilities for both internal operations and external parties. Although around half of the rental income is from internal operations, EBIT contribution has been very stable since the creation of the segment back in 2012.

Diverse set of operations limit overall earnings volatility

By generating revenue from multiple business lines, the company has shielded itself from the earnings volatility witnessed in case of its single-business agricultural peers. This is the target that management wants to achieve, hence its current "from field to fork" strategy. This has been and remains a result of activities on both the supply and marketing sides, adding value and services to the members (feed and seed), while at the same time realising value from their harvest (food and energy products), which in the end is transferred back to members through dividends. Since the new CEO was appointed in 2012, focus on the grain value chain has increased and translated into divestments of more than a handful companies. By reinvesting a large part of its cash flow from operations and divestments strategically, the company has gained significant market shares in its businesses with different demand drivers.

Capital structure supported by diverse funding base however constrained by limited ability to raise new equity

As Lantmännen is owned by its members, the ability to raise new equity is very limited. Instead, the company is dependent on debt capital as well as its ability to generate cash flow. The company actively tries to diversify its funding base as a way to mitigate refinance risks. This includes both bank and agency loans, Schuldschein debt and savings accounts owned by its members as well as the external public. Although savings accounts (currently around one third of interest bearing debt) is short term by nature, this source of funding has been used for a long time and has proved to be very sticky, even during the global financial crisis in 2008. Hence, this is not a ratings constraint.

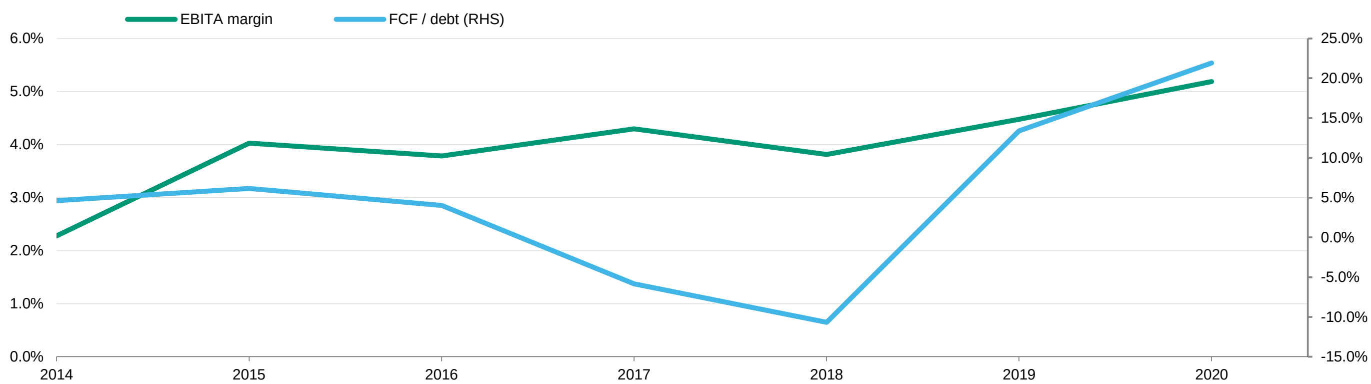
Strengthened credit profile on the back strong operating performance despite COVID-19

In the summer of 2018, the record heat and the following drought in Europe brought the lowest harvest of grains on record since 1957 in Sweden, impacting Lantmännen's various businesses negatively to various extents. Since then, both profitability and cash flow generation has recovered strongly, also resulting in strong key credit ratios. The company also decreased its debt load by around SEK2.0 billion in debt (including leases), however, we believe it will increase again during 2021 as the 2018 drought and COVID-19 has made the company postpone capex. We also factor in that the strong cash flow from operations (CFO) during 2020 was inflated by working capital inflows stemming from a more normalised working capital cycle after the drought in 2018 (working capital increased significantly during 2018 but has since entirely gone back to pre drought levels).

Exhibit 7

Lantmännen's profitability as well as cash flow generation has improved over the last six years

Moody's-adjusted EBITA margin and FCF / debt ratio



Source: Moody's Financial Metrics™

We believe Lantmännen's profitability improvement measures from the previous decade will lead to a generally more strongly positioned Baa3 rating over the next 12-18 months. If current credit metrics can be sustained, including a debt / EBITDA well below 3.0x and continued positive free cash flow generation, this would create positive ratings pressure over time.

Liquidity analysis

Lantmännen's liquidity is good, with a cash balance of SEK1.4 billion as of year-end 2020. In addition, there is a multicurrency revolving credit facility of SEK3.0 billion maturing in August 2025, not currently drawn. The facility has a non-repeating material adverse change clause at closing with financial covenants. The debt maturities coming up within the next 12 months consist of 2 bilateral loans totalling SEK 33 million. The build up of working capital usually occurs in connection to the Swedish grain harvest in August and is released in the following quarters. Hence, the company holds the largest cash balance during the first part of the year.

Rating Methodology and scorecard

In assessing the credit quality of Lantmännen, we apply the Global Protein and Agriculture Industry rating methodology (last updated in May 2019). The scorecard indicated outcome for Lantmännen in our forward view is Baa3, which is the same as the assigned rating.

Exhibit 8

Rating factors

Lantmännen Ekonomisk Forening

Protein and Agriculture Industry Scorecard [1][2]	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of 4/13/2021 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Total Sales (USD Billion)	$5.0	Ba	$5.0 - $5.1	Ba
Factor 2 : Business Profile (35%)				
a) Geographic Diversification	Ba	Ba	Ba	Ba
b) Segment Diversification	Baa	Baa	Baa	Baa
c) Market Share	Ba	Ba	Ba	Ba
d) Product Portfolio Profile	Baa	Baa	Baa	Baa
e) Earnings Stability	Ba	Ba	Ba	Ba
Factor 3 : Leverage & Coverage (40%)				
a) Debt / EBITDA	2.5x	Baa	2.7x - 2.9x	Baa
b) CFO / Debt	43.7%	A	27% - 29%	Baa
c) Debt / Book Capitalization	36.1%	Baa	36% - 38%	Baa
d) EBITA / Interest Expense	9.5x	A	8.6x - 8.8x	Baa
Factor 4 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2020; Source: Moody's Financial Metrics™
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
LANTMANNEN EKONOMISK FORENING	
Outlook	Stable
Issuer Rating -Dom Curr	Baa3

Source: Moody's Investors Service

Appendix

Exhibit 10

Summary of selected Moody's-adjusted financial metrics

SEK Millions	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
INCOME STATEMENT					
Revenue	37,244	39,686	43,962	48,523	45,990
EBITDA	2,856	3,279	3,502	3,979	4,186
EBIT	1,218	1,492	1,462	1,966	2,135
BALANCE SHEET					
Cash & Cash Equivalents	1,773	927	720	1,183	1,415
Total Debt	10,455	10,967	13,161	12,349	10,296
CASH FLOW					
Funds from Operations	3,095	3,054	2,976	3,642	3,844
Dividends	383	445	603	374	451
Retained Cash Flow	2,712	2,609	2,373	3,268	3,393
Cash Flow from Operations	3,613	2,948	1,733	4,226	4,503
Capex = Capital Expenditures	-2,810	-3,143	-2,535	-2,201	-1,795
Free Cash Flow (FCF)	420	-640	-1,405	1,651	2,257
PROFITABILITY					
% Change in Sales (YoY)	4.4%	6.6%	10.8%	10.4%	-5.2%
EBIT Margin %	3.3%	3.8%	3.3%	4.1%	4.6%
EBITDA Margin %	7.7%	8.3%	8.0%	8.2%	9.1%
INTEREST COVERAGE					
EBITA / Interest Expense	4.27x	5.26x	4.25x	8.30x	9.46x
(EBITDA - CAPEX) / Interest Expense	0.14x	0.42x	2.45x	6.65x	9.48x
LEVERAGE					
Debt / EBITDA	3.66x	3.34x	3.76x	3.10x	2.46x
Net Debt / EBITDA	3.04x	3.06x	3.55x	2.81x	2.12x
FCF / Debt	4.0%	-5.8%	-10.7%	13.4%	21.9%
RCF / Debt	25.9%	23.8%	18.0%	26.5%	33.0%

Source: Moody's Financial Metrics™

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