

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Metsä Board's Baa2 LT Issuer Rating, changes outlook to negative from stable

15 May 2025

Frankfurt am Main, May 15, 2025 -- Moody's Ratings (Moody's) has today affirmed Metsä Board Corporation's (Metsä Board) Baa2 long term issuer rating. The outlook has been changed to negative from stable.

RATINGS RATIONALE

Today's rating action was triggered by the longer-term underperformance of Metsä Board against our expectations for the Baa2 rating category. With an Moody's-adjusted EBIT margin of 3.2% for the twelve months to March 2025 compared to the expectation of 10% and leverage of 3.4x (gross) debt/EBITDA vs. 2.0x required for the Baa2 rating category and negative free cash flow of €260 million in the same period Metsä Board's key credit metrics are outside of our expectations for a stable Baa2 rating for a prolonged period and we expect the company to be challenged to reach the threshold set during the next 12-18 months. Metsä Board is also a large exporter to the US, which exposes the company to the current uncertainty around import tariffs in the US.

Following a period of robust earnings growth in recent years (Moody's adjusted EBITDA increased by 121% in 2019-2022 to €611 million), Metsä Board encountered a substantial drop of EBITDA since 2022. This downturn, while initially anticipated, was more severe and prolonged than what we had expected. In 2024, Moody's adjusted EBITDA fell by 20% due to a combination of lower paperboard prices, increased wood costs, political strikes in Finland, and a further reduced earnings contribution from the associated company Metsä Fibre. Moody's adjusted free cash flow was negative by €222 million in 2024 (2023: negative €112 million). The negative trend in earnings and cash flow continued in Q1 2025 despite of higher contribution from Metsä Fibre and lower energy and chemical costs.

While we expect in our base case scenario to see positive contributions from the capacity investments made at the Husum and Kemi mills during 2021 - 2023 as well as from the closure of Tako mill and from operational measures at Kyro mill, related costs will weigh on 2025 results and we do not expect Metsä Board to reach the expectations set for the Baa2 rating category in the near term. The group's liquidity position will remain robust and we expect no further dividend distribution in 2025 following the payment of €25 million in Q1 2025 which equals the 2024 net income after minorities. Improving funds from operations and lower capex will support a recovery in free cash flow to around break even level (as defined by us) in 2025.

We expect that Metsä Board will continue to manage its balance sheet conservatively, taking into account the volatility of its earnings and carefully planning capacity expansions, considering their potential effects on market equilibriums. We think that Metsä Board's strong market position and competitive cost structure will ultimately bolster its profitability recovery.

The rating is mainly supported by (1) the company's market leadership in high-quality, fresh fibre paperboard packaging in Europe; (2) its good level of vertical integration into energy and pulp; (3) structurally growing demand from largely non-cyclical end-markets; and (4) its integration into the wider and more diversified Metsä Group, including via the direct 24,9% ownership stake in Metsä Fibre.

However, the rating is primarily constrained by (1) its modest size and lower product diversification compared to most Investment Grade rated peers in paper packaging; (2) financial policy allowing net leverage to increase up to 3.4x (Moody's-adjusted) in Q1 2025; (3) lack of rating commitment.

RATIONALE FOR NEGATIVE OUTLOOK

Following a period of high strategic investments key credit metrics have been outside of the ranges expected for the Baa2 rating of Metsä Board for a prolonged time leaving the rating weakly positioned. The negative outlook reflects our concern that management will be challenged to improve profitability and free cash flow within the next 12-18 months to a level required to defend the current rating category. In addition, in view of Metsä Board's high exposure to the US market with 22% of revenue (2024) and the current uncertainty around import tariffs we expect margin pressure to develop.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

WHAT COULD MOVE THE RATINGS - UP

Positive rating pressure could arise if:

- Metsä Board achieves further significant improvements in its business profile, scale and diversification;
- Moody's adjusted EBIT margin sustainably above 15% (including contributions from Metsä Fibre);
- Moody's adjusted retained cash flow (RCF)/ net debt sustainably above 45%;
- Moody's adjusted gross debt/EBITDA sustainably below 1.0x.

WHAT COULD MOVE THE RATINGS - DOWN

Negative rating pressure could arise if:

- Moody's adjusted EBIT margin below 10% on a sustained basis;
- Moody's adjusted RCF/ Net debt sustainably below 35%;
- Moody's adjusted gross debt/EBITDA sustainably above 2.0x;

LIQUIDITY

We view Metsä Board's liquidity profile as robust. As of March 2025, its liquidity consisted of €171 million of cash and cash equivalents plus the €200 million undrawn revolving credit facility (RCF) maturing in January 2027. Furthermore, it had an internal short-term credit line of €150 million from the Metsä Group. We view the company's cash sources to be more than adequate to cover projected cash uses over the next 12-18 months.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Paper and Forest Products published in August 2024 and available at <https://ratings.moody.com/rmc-documents/426539>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Espoo, Finland, Metsä Board Corporation (Metsä Board) is one of the leading European fresh fibre paperboard producers for consumer and retail packaging, focusing on folding boxboard and white kraftliners, including its own pulp production. In the last 12 months ended March 2025, the company generated €1.9 billion of revenue. Metsä Board has around

2,400 employees worldwide and while its production is located in Finland and Sweden, the company delivers paperboard to approximately 100 countries around the world. Metsä Board's shares are listed on Nasdaq Helsinki, with a current market capitalisation of around €1.2 billion.

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