

# NINGI RESEARCH

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## Oseriöst gymnasiearbete by Svenska Cellulosa

SCA's CEO Ulf Larsson's first reaction to our report was to call it "non-serious high school work."<sup>1</sup> However, it took Svenska Cellulosa almost two weeks to publish a "clarification" to our report.<sup>2</sup> The company's rebuttal is just six pages long and 75 percent – four and a half pages of the six – discuss the forest assets' valuations. **With less than 350 words, SCA tries to refute our findings regarding its accounting misstatements without providing any factual evidence.**<sup>3</sup> The company didn't support any of its statements with supplementary documents, opinions, or calculations.

In our opinion, it is obvious that SCA can't refute any of our findings and tries to deceive investors and the public. What's worse is that some journalists fall for this, as Dagens Industri reported that Svenska Cellulosa "[...] hits back against the blanks point after point."<sup>4</sup> The accounting-related rebuttal only consisted of baseless counterclaims and sources that refer to one another - like an infinite loop. SCA never addressed that its entire audit committee lacks any experience in accounting or auditing.<sup>5 6</sup> The same applies to our findings about the material conflict of interest in its nomination committee or the hidden related party transactions.<sup>7 8</sup>

On the next pages, we will go into detail about how, in our opinion,

- **SCA avoids responsibility by asserting that the term 'maturity' doesn't carry the universally accepted meaning** in a financial context, specifically referring to a due date. **However, in Swedish legal documents, SCA defines maturity as "the date on which the nominal amount is to be repaid."**
- we've found that **SCA paid cash interest of SEK 363 million in 2022**, which is more than double the reported total interest expense of SEK 164 million and ultimately, how **Svenska Cellulosa recognized only SEK 2 million in interest expense** (less than 1 percent of the total interest paid) **in its income statement.**
- SCA tries to avoid any discussion about its net debt because **the company's net debt includes the employee's pension surplus that the company doesn't have access to.** As this concerns the employees, **we have written to the trade unions representing SCA employees asking for clarification as to whether Svenska Cellulosa has unrestricted access to use the employees' pension surpluses of SEK 2.2bn at the company's discretion.** We believe that all parties are eager for a clear answer.
- SCA references sources that should prove that the commercial paper is included but the sources don't prove anything. The sources reference each other, resulting in an infinite loop of no evidence.

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<sup>1</sup> <https://www.di.se/nyheter/sca-s-vd-slar-tillbaka-oseriost-gymnasiearbete/>

<sup>2</sup> <https://www.sca.com/en/media/news/2024/clarification-regarding-questions-relating-to-the-valuation-of-forest-assets-harvesting-forest-damage-and-accounting-related-matters/>

<sup>3</sup> <https://www.sca.com/en/media/news/2024/clarification-regarding-questions-relating-to-the-valuation-of-forest-assets-harvesting-forest-damage-and-accounting-related-matters/>

<sup>4</sup> <https://www.di.se/nyheter/efter-dubbelattacken-sca-slar-tillbaka-mot-blankarna-pa-punkt-efter-punkt/>

<sup>5</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>

<sup>6</sup> <https://ningiresearch.com/2024/01/25/research-report-svenska-cellulosa-ab-sca-sfb-sca-b/>

<sup>7</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>

<sup>8</sup> <https://ningiresearch.com/2024/01/25/research-report-svenska-cellulosa-ab-sca-sfb-sca-b/>

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## Credit facilities

In our first response to the company's "Oseriöst gymnasiearbete"-rant, we asked how billions of credit facilities with a reported maturity of less than one year can be included in the non-current accounts.<sup>9</sup> Svenska Cellulosa's CFO Andreas Ewertz now claims that the term 'maturity' in the credit facilities doesn't stand for the credit facilities' maturities. Instead of paraphrasing this nonsense, it's easier to quote it:<sup>10</sup>

*[...] Maturity refers to maturity on the respective credit facility. This should not be confused with maturity of the amount used under the facility. At the end of 2022, used amounts were loans with final maturities between 2029 and 2031 and [sic!] consequently reported in the balance sheet under Non-current financial liabilities as Other non-current loans with maturities of more than 5 years. [...]*

Just to sum it up: the CFO of a billion-dollar company says that the term 'maturity' doesn't mean the globally accepted term 'maturity' when it comes to SCA's credit lines. That's contrary to Swedish legal documents, in which SCA has defined the term 'maturity' as "the date on which the nominal amount is to be repaid."<sup>11</sup>

In our opinion, it is worrying that SCA suddenly is claiming that a term that is defined in the company's legal documents and is generally interpreted in the same way in finance means something else.<sup>12</sup>

In our first response published January 26, 2023, we encouraged SCA to be transparent and to publish the last three years' debt issuance and repayment, credit facilities, and all counterparties involved.<sup>13</sup> In its rebuttal, Svenska Cellulosa didn't do so even though Ulf Larsson touted in an interview with Dagens Industri that "[...] It's the easiest thing to deal with."<sup>14 15</sup> In the end, Svenska Cellulosa didn't support any of its statements with evidence.<sup>16</sup>

Without our report, the public would have never caught up on SCA's shenanigans. In our opinion, Svenska Cellulosa did its best to hide the unconsolidated and rising consolidated debt levels by capitalizing 99% of its reported interest expense related to its debt (see Figure 1).<sup>17 18</sup> That way, investors won't notice that the interest expense relative to the reported debt levels doesn't seem reasonable.

Interest expense - borrowing, in SEKm	2022	2021	2020	2019
Interest expense - borrowing	2	46	75	66
Interest expense - capitalized	162	57	21	1
Total interest expense - borrowing	164	103	96	67
Capitalized interest expense, in %	99%	55%	22%	1%

Figure 1 Capitalized interest expense, source: NINGI Research, company data

Now, that we have your attention, may we ask you a question: if 99% of its interest expense was capitalized, how much cash interest did SCA pay in 2022?

<sup>9</sup> <https://ningiresearch.com/2024/01/26/our-response-to-svenska-cellulosa-ab-sca-sfb-sca-b/>

<sup>10</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>

<sup>11</sup> <https://www.sca.com/siteassets/investors/debt/debt-program/foretagscertifikatsprogram-allmanna-villkor-2017-12-08.pdf>, pg. 4

<sup>12</sup> <https://www.sca.com/siteassets/investors/debt/debt-program/foretagscertifikatsprogram-allmanna-villkor-2017-12-08.pdf>, pg. 4

<sup>13</sup> <https://ningiresearch.com/2024/01/26/our-response-to-svenska-cellulosa-ab-sca-sfb-sca-b/>

<sup>14</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>, pg. 6

<sup>15</sup> <https://www.di.se/nyheter/sca-s-va-slar-tillbaka-oseriost-gymnasiearbete/>

<sup>16</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>, pg. 6

<sup>17</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 122

<sup>18</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2020/annual-report-2020.pdf>, pg. 118

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To save you some time, we tried answering that question and the result is: that SCA doesn't disclose the consolidated cash interest paid in its financial statements.<sup>19 20</sup> In our opinion, it is common to find the cash interest paid in a company's consolidated statement of cash flow.

However, the credit analysts at S&P disclosed Svenska Cellulosa's cash interest paid: SEK 363 million (see Figure 2).<sup>21</sup>

Svenska Cellulosa Aktiebolaget SCA--Financial Summary						
Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	16,664	18,755	19,591	18,410	18,822	20,794
EBITDA	3,662	4,800	4,369	3,214	7,260	8,398
Funds from operations (FFO)	3,365	4,421	3,614	3,046	6,543	7,176

  

Svenska Cellulosa Aktiebolaget SCA--Financial Summary						
Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Interest expense	234	117	113	126	128	188
Cash interest paid	267	150	103	133	179	363

Figure 2 Cash interest paid according to S&P credit report from June 2023, source: S&P Global Ratings

That's more than SEK 200 million more than SCA reported as interest expense and 180 times more than the company recognized in its income statement.<sup>22 23</sup>

**Why does a company capitalize most of its interest expense and secretly pay more than 180 times the recognized interest? How does that make any sense?** And please spare us with an excuse like "The phrase 'cash interest paid' doesn't mean cash interest paid".

## Net debt

Next to the redefinition of the term 'maturity,' what's remarkable is SCA's response related to the company's understated net debt (see Figure 3).<sup>24</sup> It's short. Too short, in our opinion. We believe SCA tries to avoid any further discussion of its net debt.

### Net debt

Net debt is calculated in accordance with the net debt definition stated in SCA's 2022 Annual and Sustainability Report. How the calculation is made and what it includes is shown in SCA's 2022 Annual and Sustainability Report, page 94.

Figure 3 Extract from SCA's rebuttal, source: company filings

<sup>19</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>

<sup>20</sup> The company reported "Interest paid to creditors" in its "Economic value creation" section until 2021, but that is actually not the interest paid but the line item 'Financial income and expenses.'

<sup>21</sup> <https://www.sca.com/siteassets/investors/debt/credit-rating/sp-sca-researchupdate-8-june-2023.pdf>, pg. 15

<sup>22</sup> <https://www.sca.com/siteassets/investors/debt/credit-rating/sp-sca-researchupdate-8-june-2023.pdf>, pg. 15

<sup>23</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 122

<sup>24</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>, pg. 6

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In our past publications, we highlighted that SCA is understating its net debt by not consolidating billions of debt, so we will focus on the company’s SEK 2.2 billion pension surplus that is included in the company’s net debt.<sup>25 26</sup> As a reminder, the common definition of net debt is as follows:

$$\text{Net debt} = (\text{long term debt} + \text{short term debt}) - \text{cash \& cash equivalents}$$

But SCA deviates from that common practice. Next to deducting non-current and current financial assets from its gross debt, the most significant line item being included in the calculation is SCA’s pension surplus.<sup>27</sup>

$$\begin{aligned} \text{Net debt} &= (\text{long term debt} + \text{short term debt}) - (\text{cash \& cash equivalents}) \\ &\quad - (\text{non current financial assets}) - (\text{current financial assets}) \\ &\quad - (\text{surplus in funded pension plans}) \end{aligned}$$

Examining the net debt calculation closer is important because SCA has reported a declining cash balance. In numbers, cash declined by 60 percent since 2020.<sup>28 29</sup> However, a surging pension surplus offset the falling cash balance, resulting in an understated net debt (see Figure 4). But no investor appears to realize that.

Net debt, in SEKm	2023	2022	2021	2020
<b>Surplus in funded pension plans</b>	<b>2,219</b>	<b>1,689</b>	<b>1,564</b>	<b>1,329</b>
Non-current financial assets	148	165	80	81
Current financial assets	91	106	114	-
<b>Cash and cash equivalents</b>	<b>502</b>	<b>836</b>	<b>1,056</b>	<b>1,273</b>
Financial assets	2,960	2,796	2,814	2,683
Non-current financial liabilities	11,498	10,751	9,083	8,488
Provisions for pensions	326	245	427	530
Current financial liabilities	1,902	1,789	1,056	1,336
Financial liabilities	13,726	12,785	10,566	10,354
<b>Reported net debt</b>	<b>10,766</b>	<b>9,989</b>	<b>7,752</b>	<b>7,671</b>
<b>True net debt</b>	<b>12,898</b>	<b>11,704</b>	<b>9,083</b>	<b>8,551</b>

Figure 4 Net debt calculation, source: NINGI Research, company data

We believe a key issue is that most investors and data providers don’t calculate the net debt metric themselves but take SCA’s figures from the company’s reports. They do so because the reports are audited and trust that a third party has verified that the financial statements give a fair presentation. However, fair presentation requires that key figures such as net debt are calculated based on the globally recognized method. This is not the case with the SCA figures.

We have never seen any net debt calculation that included a pension surplus. **Because, commonly, a company doesn’t have access to its employee’s pensions surplus. If SCA doesn’t have access to it as well, why did the company include it?**

In our opinion, Svenska Cellulosa tries to avoid the discussion about the pension surplus in its net debt by pointing to the metric’s definition in its 2022 annual report as a source.<sup>30</sup> However, the annual report doesn’t provide any clarification or legitimate reason as to why SCA includes the pension surplus in its net debt.<sup>31</sup> Likewise, with other issues, it’s an attempt to push back on the raised concerns and findings without giving a definitive answer.

<sup>25</sup> <https://ningiresearch.com/2024/01/25/research-report-svenska-cellulosa-ab-sca-sfb-sca-b/>

<sup>26</sup> <https://ningiresearch.com/2024/01/26/our-response-to-svenska-cellulosa-ab-sca-sfb-sca-b/>

<sup>27</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 94

<sup>28</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2021/annual-report-2021.pdf>, pg. 83

<sup>29</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 89

<sup>30</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>, pg. 6

<sup>31</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>, pg. 6

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To get a proper answer about the pension surplus, we asked the person sitting on the opposite of that trade: the employees. More specifically, last week we sent a letter to the trade unions and employee representatives sitting on SCA's board asking for clarification (see Annex). Does SCA have unrestricted access to the pension surplus to use it at the company's own discretion: for short-term financing of its operations, for dividends or even to repay debt?

**We sent the letter in English and attached a Swedish translation so the union's representatives could grasp the topic. In our opinion, it's important to make a factual and written statement to the employees and the investors. Both sides are interested in a clarification.**

## Commercial paper

Regarding the commercial paper, Svenska Cellulosa didn't try to explain anything and just referenced its 2022 annual report as well as the company's "Funding"-page on its IR website.<sup>32</sup> The respective documents point to each other as sources, resulting in an infinite loop of no real evidence. We could now argue two pages why the commercial paper is not included, with supplementary documents but it is obvious that SCA's claims are baseless and any further discussion would be a tit-for-tat.

**We stand by our findings and for all information herein, we are short Svenska Cellulosa AB.**

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<sup>32</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/sca-pm-clarification.pdf>, pg. 6

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Svenska pappersindustriarbetareförbundet  
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Dear Chairpersons,

## **Inquiry Regarding Svenska Cellulosa AB's Use of Employee's Pensions**

We are a forensic research firm specializing in equity research since 2022. As an investigative research company, we focus on analyzing complex problems and making them understandable to the public. Our past work has resulted in being ranked in the top 5 leading research firms worldwide by Diligent Market Intelligence two years in a row.

We are writing to you regarding our analysis of Svenska Cellulosa AB (SCA). In our examination of SCA, we have come across various discrepancies.

A focal point of our analysis revolved around the company's "Net Debt." Net Debt is a metric widely used by capital market participants and investors to assess a company's indebtedness. It is one of the key indicators used to gauge a company's leverage. The calculation is as follows:

$$\text{Net debt} = (\text{Long-term debt} + \text{Short-term debt}) - \text{Cash \& cash equivalents}$$

However, contrary to best practice, SCA has also deducted the pension surplus from the debt in their calculation:<sup>1</sup>

$$\text{Net debt} = (\text{Long-term debt} + \text{Short-term debt}) - \text{Cash \& cash equivalents} - \text{Pension Surplus}$$

The inclusion of the Pension Surplus in SCA's net debt calculation implies that the company has unrestricted access to it. Specifically, it means that SCA can use the Pension Surplus of SEK 2.2 billion at the company's own discretion: for short-term financing of its operations, for dividends or even to repay debt.

This is relevant because, since 2020, SCA's cash reserves have decreased from SEK 1,273 million to SEK 502 million, representing a 60 percent decline. Similarly, the Operating Cash Flow (OCF) decreased by 47 percent within the last year, as the net profits reported by SCA are merely accounting gains due to the revaluation of their forest lands. SCA is headed for an unfunded cash crunch.

OCF is an important metric used by the investing public to assess a company's liquidity situation and the upkeep of its operations. Therefore, OCF, alongside Net debt, is prominently placed on the first

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<sup>1</sup> <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 94



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page of every interim report. With declining cash flows and less cash on hand, investors focus on the pension surplus as SCA's most attractive source for funding.

However, we have years of experience in forensic balance sheet analysis and have never seen pensions being included in the net debt calculation before. SCA is trying to suppress discussions about its net debt methodology by referring to definitions within its 2022 annual report as its "clarification" of the matter. In our opinion, Svenska Cellulosa AB is not interested in clarifying anything.

We are reaching out to you because we believe that the unions play a crucial role in representing the interests of Svenska Cellulosa AB employees. Given the significant financial irregularities we have identified in our analysis of the company, we would like to ask for clarification from you.

1. Have the trade unions contractually agreed that Svenska Cellulosa AB can use the employees' pensions as an unrestricted interest-free financing alternative?
2. Does Svenska Cellulosa AB have a contractual right allowing the company unrestricted access to the Pension Surplus?
3. Are the union representatives on the SCA board informed about the company's financial situation and the precise calculation of Net Debt? If so, how have they reacted to this information?
4. What measures do the unions plan to take to protect the interests of employees, particularly regarding the use of the Pension Surplus and its impact on the liquidity and financial stability of SCA?

We ask for a prompt response to these questions in order to clarify how SCA disposes of pension surpluses and to ensure that the interests of employees are adequately represented.

Thank you for your attention and support.

Sincerely,

NINGI Research

cc. Maria Jonsson, Employee representative [maria.jonsson@sca.com](mailto:maria.jonsson@sca.com)  
Roger Boström, Employee representative [roger.bostrom@sca.com](mailto:roger.bostrom@sca.com)  
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