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List of abbreviations

Jämtland	A region in Northern Sweden
m ³ fo	Forest Cubic Meter
NBSK	Northern Bleached Softwood Kraft
Skogsmarkspriser report	A biannual market report published by Ludvig & Co (fka LRF Konsult)
Västernorrland	A region in Northern Sweden

List of references

All citations, references, and sources are publicly available. Annual reports and other company documents were obtained through the respective issuer's website, regulatory filings, and commercial registries. Documents are cited as follows:

< url >, < page >

Some SEC filings were retrieved through direct URLs within the EDGAR system, and those filings are quoted directly.

The phrase "company data" indicates that we aggregated the specific metrics from one or several respective regulatory filings.

List of figures

If not stated otherwise, all figures are obtained through the quoted references in the footnotes and can be found in the respective source.

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Executive Summary

Svenska Cellulosa AB SCA	
Ticker:	SCA-B
Market Cap:	SEK 98.4bn
Share Price:	SEK 139.5
Consensus:	SEK 165.73

We are short Svenska Cellulosa AB SCA (Ticker: SCAB.SS, SCAb.ST), because, in our opinion, **the company's financial statements are materially misstated and SCA didn't consolidate at least SEK 3.6 billion (!) of debt** from commercial paper and credit facilities. Since it is neither included in the balance sheet nor the cash flow statement, **where did the money go?** We believe SCA's financials cannot be relied upon. The company's auditor, Ernst & Young, failed miserably and **the unqualified opinions of the last three years are worthless.** In addition, the board of directors consists of puppets, and its forest assets are significantly overvalued.

In our opinion,

- **SCA has been hiding at least SEK 3.6 billion in debt (credit facilities and commercial paper)** by not accounting for it on the company's balance sheet (see color-matching approach in Annex) since 2020. **We estimated that the unconsolidated debt could reach SEK 5.1 billion.**
- **SCA inflated its EBITDA through non-cash gains totaling SEK 6.2 billion since 2019.** On average, the EBITDA figure is overstated by 29 percent.
- **SCA's net debt is understated by SEK 7 billion at the end of Q3 2023.** SCA did so by not consolidating liabilities and deducting illiquid financial assets from its gross debt to arrive at its grotesque net debt.
- By manipulating net debt and EBITDA, **SCA misstated its Net debt/EBITDA metric.** The company is significantly more leveraged and **the true Net debt/EBITDA is 3.3x.**
- Ernst & Young failed to do the most basic task during its audit and **SCA's unqualified opinions issued by E&Y are worthless.**
- **Prior to the publication of the 2021 annual report, SCA's CFO resigned** for "personal reasons" and was replaced by a 36-year-old greenhorn. **The new CFO was the head of a business control unit at a subsidiary prior to being appointed CFO.**
- **In the last ten years, SCA has been the center of several of Sweden's biggest scandals involving private jets, luxury lodges, and criminal investigations for bribery.** The board of directors was caught lying on several occasions.
- **The audit committee lacks experience** and the chairwoman of the committee is a former marketing executive with no training in accounting or auditing. **Two of the three audit committee members don't own a single share of SCA.**
- SCA's nomination committee is a barely known board of external shareholders that has more power than the board of directors. **The committee is the ultimate gatekeeper for all decisions to be made by the board of directors. The board of directors at SCA are just puppets.**
- The nomination committee is not independent and secretly controlled by Fredrik Lundberg. **A small group of affiliates is not acting in the interests of all shareholders, but solely in their own interests.**

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1. Company Overview

From an investment perspective, Svenska Cellulosa looks like a boring company. Its main products include many one-use paper products, containerboard, solid-wood products, pulp, and forest-based biofuel. SCA is Europe's largest private owner of forest land, with 2.6 million hectares, the size of Connecticut or Belgium. SCA is vertically integrated in a way that its own forest is used for all further products like energy, pulp, containerboard, or paper. SCA is also involved in the field of renewable energies and is investing billions in wind power and biorefineries.

One important fact is that the company does not sell wood, but 100% of the felled wood is sold internally for the production of pulp and containerboards. Pulp and corrugated cardboard are used as packaging material. During the pandemic, SCA made huge profits as demand for packaging material soared to saturate the e-commerce boom, and after the Russian invasion of Ukraine when supplies were disrupted due to sanctions. At that time, SCA's share price rose to SEK 190. Since then, however, NBSK prices have fallen and SCA's margins have collapsed.

With the falling timber prices and decreasing profitability, SCA is experiencing a cash crunch. In the nine months of 2023, SCA was barely cash flow positive. As a vertically integrated business, the overhead is significant. In times of growth, this leads to better margins but in times of decline, that overhead leads to a significant cash crunch.

In October 2023, SCA began to counter the stagnating prices by hiking its NBSK pulp prices (which is the leading price reference for others) to \$1200 and tried to put a floor to it. However, that is still 20% below the NBSK pulp market's peak at \$1,500 in July 2022.¹ In our opinion, despite SCA's countermeasures, the NBSK prices will fall further. For comparison, pre-Covid historic NBSK pulp prices were below \$1,000 for decades.

SCA hopes to increase its income from wind energy by switching to renewable energies, but the company already leased the best areas for wind energy generation to third parties such as the Norwegian energy supplier Statkraft more than ten years ago.^{2 3} The wind turbines on SCA's land already produce 7.2 TWh, and the company states that due to restrictions and legislation, only a maximum of 15 TWh could be generated on its land.^{4 5} In our opinion, this growth does not justify the investment sums. Svenska Cellulosa was just late to the party.

What makes Svenska Cellulosa so interesting is what happens alongside the actual business. SCA has been embroiled in Sweden's most notorious business scandals over the past 10 years. From the use of company jets by the board member's family for pleasure trips to bribery investigations against SCA's largest shareholder Lundberg and its chairman Boman, to undisclosed leasing contracts for luxury hunting lodges with former board members.^{6 7 8}

We are firm believers of the cockroach theory and seeing one is evidence that there are many more lingering in the dark. In our opinion, we found the biggest cockroach in the form of unconsolidated debt of at least SEK 3.6 billion, although it is more likely to be SEK 5.1 billion.

¹ <https://www.fastmarkets.com/insights/bek-and-nbsk-pulp-prices-decline-in-january-in-europe/>

² <https://renewablesnow.com/news/sca-statkraft-cut-ribbon-on-85-mw-swedish-wind-farm-424415/>

³ <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/2022/capital-markets-day-2022.pdf>

⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 142

⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/other-presentations/2022/capital-markets-day-2022.pdf>

⁶ <https://www.ft.com/content/c0c4f0da-1f5b-11e7-b7d3-163f5a7f229c>

⁷ <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker>

⁸ <https://www.ft.com/content/8eaf1f38-b150-11e4-a830-00144feab7de>

NINGI RESEARCH

2. Billions in Unconsolidated Debt and Understated Leverage

SCA doesn't account for about SEK 5,147m in Q3 2023, and at least at year-end 2022 around SEK 3,651m in its balance sheet (see Annex, Figure 2, and Figure 3).^{9 10} It's just staggering to us how bluntly SCA misstated its financials for years and doesn't consolidate billions of debt. The debt was raised but not included in SCA's liabilities, assets, or cash account. **So where did the money go?** To be frank, we don't know.

However, as a result, **the net debt in 3Q23 is SEK 17,422m instead of the reported SEK 10,199 million** (see Figure 4). Furthermore, **SCA is understating its leverage by 135%** at the end of Q3 2023 (see Figure 7) and the true Net debt/EBITDA is 3.29x instead of 1.4x that SCA reported.

What's worse for the company is that SCA has several debt maturities coming up.¹¹ In 2024, SCA would have to repay one of the unconsolidated credit facilities of around SEK 1,000m, and in 2025, SCA has to repay two bonds totaling SEK 2,500 million.¹²

In our opinion, the company will have to raise new debt to repay the upcoming liabilities. In addition, depending on how much debt the company will be raising, SCA has to either cut its dividend or pay the dividend through issuing additional debt (classic Ponzi scheme). Further, capex could lead to more debt being issued. **In any case, we believe SCA's leverage will increase in 2024.** Let's delve into our findings.

2.1 Manipulating the Numerator: Net Debt

The company drew billions of kronor from its credit facilities and didn't report the debt in SCA's consolidated financial liabilities. **Just see it for yourself on pages 119 and 120 of the 2022 annual report.** We've never encountered such a misstatement. **Even though SCA lists a 600m kronor commercial paper and more than SEK 3 billion in credit facilities, neither of both is accounted for in SCA's financial liabilities.**^{13 14}

SCA lists the non-included debts (commercial paper and credit facilities) directly next to the table of financial liabilities on page 119, and therefore one would assume that these are included.¹⁵ It's right next to it; why check it? However, **if you take a calculator and try to match the bonds and loans with the line items in the financial liabilities table, you will notice that SEK 3.6 billion is not included.** Svenska Cellulosa is hiding debt in plain sight. It's not a one-time clerical error but a repeated offense because SCA has manipulated its financial statements since utilizing its credit facilities in 2020 (see Annex and Figure 1).^{16 17 18}

In our opinion, the repeated manipulation of its financials is why the company's long-serving CFO, Toby Lawton, resigned before the publication of the 2021 annual report and was replaced by a 36-year-old who headed a business control unit at a subsidiary before being promoted to the C-suite.^{19 20}

⁹ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2023/20231027-interim-report-q3-2023-en-0-4665917.pdf>, pg. 3

¹⁰ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

¹¹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

¹² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

¹³ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

¹⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

¹⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

¹⁶ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

¹⁷ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2021/annual-report-2021.pdf>, pg. 113

¹⁸ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2020/annual-report-2020.pdf>, pg. 115

¹⁹ <https://www.sca.com/en/media/press-releases/2022/sca-appoints-new-cfo/>

²⁰ <https://www.linkedin.com/in/andreas-ewertz-156b6242?originalSubdomain=sca>

NINGI RESEARCH

SCA conceals the manipulation by solely reporting the amount of “unutilized credit facilities” in its interim reports and neither the utilized facilities nor the total amount available through the facilities are disclosed in the reports.^{21 22} Further, SCA doesn’t list the credit facilities on its “Funding” page despite listing other debt securities.²³

That’s how they omit the fact that the company borrowed billions through several credit facilities (see Figure 1).

2020 annual report

Credit facilities						
Program size	Nominal SEKm	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm	Sustainability linked
Bilateral credit facilities	2,259	2023	2,259	341	1,918	-
Syndicated credit facilities	5,000	2024	5,000	-	5,000	Yes
Syndicated credit facilities	2,000	2025	2,000	-	2,000	Yes
Total	9,259		9,259	341	8,918	

2021 annual report

Credit facilities						
Program size	Nominal SEKm	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm	Sustainability linked
Bilateral credit facility (in EUR)	2,305	2023	2,305	348	1,957	
Bilateral credit facility (in EUR)	3,070	2024	3,070	-	3,070	
Syndicated credit facility	5,000	2026	5,000	-	5,000	Yes
Total	10,375		10,375	348	10,027	

2022 annual report

Credit facilities						
Program size	Nominal SEKm	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm	Sustainability linked
Bilateral credit facility (EUR)	2,507	2023	2,507	1,938	569	
Bilateral credit facility (EUR)	3,340	2024	3,340	1,113	2,227	
Syndicated credit facility	5,000	2026	5,000	-	5,000	Yes
Total	10,847		10,847	3,051	7,796	

Figure 1 SCA's utilized credit facilities grew 10x in 2022, source: NINGI Research, company filings

In addition, SCA issued commercial paper for SEK 600m that is not reported on the balance sheet.²⁴ The company never issued a press release about the issuance of commercial paper and the public can only find information about it by skimming through the notes to the financial statements with a laser focus. It’s neatly tucked away in the bottom right corner on page 120.

Both, credit facilities and commercial paper are listed in the notes to the financial statements but are not consolidated.²⁵ For all lazy people, **just check the Annex**, where we highlighted the different debt securities and the matching line item in the financial liabilities with the same color. **That way it’s easy to spot that SCA is not reporting billions in liabilities.**

We reviewed dozens of SCA's Swedish entities and found that the subsidiaries do not report long-term debt in their annual reports, but simply omit them.^{26 27 28 29 30} Their balance sheets consist only of current and non-current assets, equity, and current liabilities. **In our opinion, SCA is obviously trying to hide the true size of its long-term debt.**

²¹ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2023/20231027-interim-report-q3-2023-en-0-4665917.pdf>, pg. 3

²² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 69

²³ <https://www.sca.com/en/investors/debt/fundingfunding/>

²⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

²⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

²⁶ <https://www.hitta.se/f%C3%B6retagsinformation/sca+skogsfastigheter+ab/5562076256>

²⁷ <https://www.hitta.se/f%C3%B6retagsinformation/sca+forest+products+ab/5563793586>

²⁸ <https://www.hitta.se/f%C3%B6retagsinformation/sca+logistics+ab/5564316965>

²⁹ <https://www.hitta.se/f%C3%B6retagsinformation/sca+massa+ab/5560936733>

³⁰ We referenced only four as sources but there are many more.

NINGI RESEARCH

We think that it's obvious that Ernst & Young did not fulfill their basic duties and responsibilities but still issued an unqualified opinion for SCA. Even though the unconsolidated debt is listed in the notes to the financial statements, Ernst & Young did not notice it. We believe that there is more hidden debt that E&Y did not know about because it wasn't even reported in the notes.

But the omitted debt isn't the only thing to worry about. SCA also included non-current and non-cash financial assets to calculate the company's net debt (see Figure 2 and Figure 3).³¹ That contradicts all common practice. "Other capital investments" and equity investments included in non-current financial assets make SCA's net debt calculation more dubious.³² We doubt that long-term capital investments are equivalent to cash.

Svenska Cellulosa's opaque and strange method of calculating net debt doesn't stop there. The company is also subtracting the non-cash pension surplus from its gross debt (see Figure 2 and Figure 3).³³ While cash declined over the last few years, the pension surplus offset that and through this malfeasance understated the SCA's true net debt.^{34 35}

2022 Net Debt, in SEKm	SCA method	Common practice	Difference
Surplus in funded pension plans	1,689	-	
Non-current financial assets	165	-	
Current financial assets	106	-	
Cash and cash equivalents	836	836	
Financial assets	2,796	836	(1,960)
Non-current financial liabilities	10,751	10,751	
Provisions for pensions	245	-	
Current financial liabilities	1,789	1,789	
Commercial paper	-	600	
Credit facilities	-	3,051	
Financial liabilities	12,785	16,191	3,406
Net debt	9,989	15,355	5,366

Figure 2 SCA's Net debt and common practice, source: NINGI Research, company data

9M2023 Net Debt, in SEKm	SCA method	Common practice	Difference
Surplus in funded pension plans	2,100	-	
Non-current financial assets	182	-	
Current financial assets	97	-	
Cash and cash equivalents	925	925	
Financial assets	3,304	925	(2,379)
Non-current financial liabilities	11,701	11,701	
Provisions for pensions	223	-	
Current financial liabilities	1,499	1,499	
Commercial paper	-	600	
Credit facilities	-	4,547	
Financial liabilities	13,423	18,347	4,924
Net debt	10,119	17,422	7,303

Figure 3 SCA's Net debt in 3Q23 was understated by SEK 7bn, source: NINGI Research, company data

Net debt has been understated for several years and since 2020, debt has been omitted from SCA's balance sheet (see Figure 4).

³¹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 94

³² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

³³ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 94

³⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2020/annual-report-2020.pdf>, pg. 92

³⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 94

NINGI RESEARCH

Net debt/EBITDA reconciliation, in SEKm	3Q23 LTM	2022	2021	2020	2019	2018	2017
Credit facilities	4,547	3,051	348	341	-	-	-
Commercial paper	600	600	-	-	-	-	-
Financial liabilities	13,200	12,540	10,139	9,824	9,618	7,825	7,177
Cash and cash equivalents	925	836	1,056	1,273	454	648	538
Estimated Net Debt	17,422	15,355	9,431	8,892	9,164	7,177	6,639
Delta (Estimated Net Debt vs. Reported Net Debt)	7,303	5,366	1,679	1,221	567	157	673

Figure 4 SCA has been understating its Net debt for years, source: NINGI Research, company data

Ultimately, the estimated net debt at 3Q 2023 is around SEK 17,422m instead of reported SEK 10,199 million (see Figure 4). Now we know how SCA manipulated the numerator. However, the company also hacked the denominator.

2.2 Hacking the Denominator: EBITDA

The denominator in SCA's Net debt/EBITDA metric is inflated because the company includes non-cash gains from asset revaluations in the company's EBITDA figure.³⁶ **With EBITDA being inflated, the Net debt/EBITDA is significantly understated (see Figure 7).**

In 2019, Svenska Cellulosa changed its accounting for its forest assets and since then, revalues the forest assets based on a market-based approach (see Figure 9).³⁷ Before 2019, the company used a DCF model for its forest assets.³⁸

The switch from the DCF model to the market-based approach meant that the market value of the forests was suddenly shown much higher in the balance sheet, although nothing had changed in the standing timber.³⁹

The annual revaluation gains due to rising forest land prices were recognized as non-cash income in the income statement and boasted SCA's earnings by SEK 6.2 billion (see Figure 5).⁴⁰

By doing so, the non-cash gains were included in EBITDA and inflated the EBITDA by 29% on average each year since 2019. SCA's true EBITDA is significantly lower (see Figure 5). The non-cash gains are also included in the EBITDA that is used for the Net debt/EBITDA metric.^{41 42} However, these non-cash gains have no impact on SCA's cash flow and it makes no sense to include them in the EBITDA used for the Net debt/EBITDA measure.

Consolidated income statement, SEKm	9M 2023	2022	2021	2020	2019	2018	2017
Net sales	13,697	20,794	18,822	18,410	19,591	18,755	16,664
Reported EBITDA	5,172	10,194	9,109	4,440	5,319	5,252	3,648
Revaluations of forest assets	1,387	1,825	1,753	1,262	-	-	-
EBITDA (excl. reval)	3,785	8,369	7,356	3,178	5,319	5,252	3,648

Figure 5 EBITDA excluding forest asset revaluations, source: NINGI Research, company data

Just as a side note: the EBITDA margin and other margins are also overstated. In 2022, the EBITDA margin was overstated by 875 basis points, and in the first nine months of 2023, the margin was already overstated by 1013 basis points (see Figure 6). SCA is not as profitable as the public perceives it to be. These are merely non-cash gains due to accounting tricks.

³⁶ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 95

³⁷ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

³⁸ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2018/annual-report-2018.pdf>, pg. 93

³⁹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

⁴⁰ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 109

⁴¹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2021/annual-report-2021.pdf>, pg. 89

⁴² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 86

NINGI RESEARCH

SCA's margins	9M 2023	2022	2021	2020	2019	2018	2017
Reported EBITDA margin	37.8%	49.0%	48.4%	24.1%	27.2%	28.0%	21.9%
EBITDA margin (excl. reval)	27.6%	40.2%	39.1%	17.3%	27.2%	28.0%	21.9%
Reported operating margin	27.3%	41.6%	40.6%	15.4%	18.9%	21.3%	15.1%
Operating margin (excl. reval)	17.2%	32.8%	31.3%	8.6%	18.9%	21.3%	15.1%

Figure 6 Revaluations inflated profitability, source: NINGI Research, company data

Just as SCA deducts non-cash items such as pension surpluses or long-term equity investments from gross debt to arrive at net debt, **the company's EBITDA calculations are disingenuous as well.**

2.3 SCA's Net debt/EBITDA is Materially Misstated

To conclude, the Net debt/EBITDA metric is materially understated and noticeably manipulated. The true Net debt/EBITDA at the end of the third quarter of 2023 is around 3.3x and the reported is only 1.4x (see Figure 7).⁴³

Net debt/EBITDA reconciliation, in SEKm	3Q23 LTM	2022	2021	2020	2019	2018	2017
Credit facilities	4,547	3,051	348	341	-	-	-
Commercial paper	600	600	-	-	-	-	-
Financial liabilities	13,200	12,540	10,139	9,824	9,618	7,825	7,177
Cash and cash equivalents	925	836	1,056	1,273	454	648	538
Estimated Net Debt	17,422	15,355	9,431	8,892	9,164	7,177	6,639
Delta (Estimated Net Debt vs. Reported Net Debt)	7,303	5,366	1,679	1,221	567	157	673
EBITDA (excl. Revaluations)	5,291	8,369	7,356	3,178	5,319	5,252	3,648
Estimated Net debt/EBITDA	3.3x	1.8x	1.3x	2.8x	1.7x	1.4x	1.8x
Reported Net Debt/EBITDA	1.4x	1.0x	0.9x	1.7x	1.6x	1.3x	1.6x

Figure 7 SCA's reported Net debt/EBITDA metric is significantly understated, source: NINGI Research, company data

In our opinion, Svenska Cellulosa's financial statements cannot be trusted or relied upon. Billions in undisclosed debt and artificially inflated profitability at SCA, the resignation of executives who are not addressing the problem, and the complete neglect of Ernst & Young to do their job.

This is a failure across the board.

⁴³ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2023/20231027-interim-report-q3-2023-en-0-4665917.pdf>, pg. 18

3. Failed Corporate Governance for Decades

Next to the auditor E&Y and SCA's executive management, we believe the board of directors plays a key role in all of this. Svenska Cellulosa is known for its scandals and failed corporate governance in the last ten years.^{44 45 46} During that time, SCA was the center of two of Sweden's biggest business scandals.

3.1 Vänskapskorruption, or nah?

In 2015, Journalists found out that the board member's and executives' wives, children, and affiliates used SCA's corporate jets for lavish trips to hunting lodges, World Cup finals, and the Olympics.⁴⁷ The misuse was atrocious. SvD Näringsliv and N360 did an article series about it.⁴⁸

*[...] how SCA's chairman let hunting dogs, children, and grandchildren fly in the company's plane, **how dogs and dead moose were flown by helicopter**, how local hunting teams were thrown out, how the helicopter was ordered to pick up alcohol in connection with hunting, **how the private plane was sent to collect a forgotten wallet** or a chef in Europe, [...]*

In addition, it was uncovered that **Martin-Löf leased the company's luxury Källberget hunting lodge for only \$8,000 per year after it was renovated for more than \$700,000 by Svenska Cellulosa.**⁴⁹ The hunting lodge was supposed to be used for representative hunting trips but the lodge was used solely by Martin-Löf and his family.⁵⁰ All of this happened under SCA's then-chairman Sverker Martin-Löf's supervision and ultimately he resigned.

With the resignation, **SCA stated in a press release that Martin-Löf will hand back the keys to the lodge.**⁵¹ **But in 2021 journalists uncovered that Martin-Löf and his family still use the lodge** and an audit by the Swedish Tax Agency revealed that since the Källberget lodge was renovated in 2002, SCA didn't host a single representative hunt at the grounds.⁵² However, the tax authorities found that Martin-Löf had unrestricted right of disposal.⁵³ Furthermore, the former and the current chairman acknowledged that there was a mutual agreement for Martin-Löf to use the lodge and journalists uncovered that there was an additional lease agreement signed in 2020 through an LLC owned by Martin-Löf and his son.^{54 55 56}

⁴⁴ <https://www.ft.com/content/c0c4f0da-1f5b-11e7-b7d3-163f5a7f229c>

⁴⁵ <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker>

⁴⁶ <https://www.ft.com/content/8eaf1f38-b150-11e4-a830-00144feab7de>

⁴⁷ <https://www.ft.com/content/8eaf1f38-b150-11e4-a830-00144feab7de>

⁴⁸ <https://www.svd.se/a/bc57b2bb-f923-3e8b-82e9-95717ea1b617/sca-till-personalen-chefer-ska-forega-med-gott-exempel>

⁴⁹ <https://maps.app.goo.gl/6QRWxk2B6cEg13zT9>

⁵⁰ <https://www.tellerreport.com/news/2021-05-06-secret-deal--the-former-sca-chairman-was-allowed-to-keep-the-hunting-paradise-after-the-scandal.rkbQVoHbuO.html>

⁵¹ <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker>

⁵² <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker>

⁵³ <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker>

⁵⁴ <https://www.tellerreport.com/news/2021-05-06-secret-deal--the-former-sca-chairman-was-allowed-to-keep-the-hunting-paradise-after-the-scandal.rkbQVoHbuO.html>

⁵⁵ <https://www.hitta.se/f%C3%B6retagsinformation/k%C3%A4llberget+invest+ab/5567391684>

⁵⁶ We believe the LLC is Källberget Invest AB.

NINGI RESEARCH

Journalists confronted SCA's chairman Pär Boman about SCA's corporate culture and he said the following.^{57 58}

"It is an information and a point of view that you put forward and if it is as you describe that there would be a friendship award or that there is a contract that is designed in such a way that it does not meet the requirements we have set from the board's side, then of course the management has to deal with it. I don't want there to be a culture that means there are elements of what you could call friendship corruption or something else."

Boman stated that he didn't want a culture of "friendship corruption."⁵⁹ However, he was on the board during the misuse of SCA's corporate jets took place.⁶⁰ Furthermore, that is the same chairman who was investigated for bribery in connection with luxury hunting trips for Swedish politicians in 2017.⁶¹ The chairman is caught red-handed again and again but stays at the helm of SCA.

In our opinion, it is questionable how such people can be entrusted with supervisory duties. We believe that the unconsolidated debts prove us right.

3.2 Professional Negligence

In addition, Pär Boman is also one of three members of SCA's audit committee.⁶² The same audit committee is responsible for supervising the company's audit and its auditor E&Y.

To no surprise, Handelsbanken, the bank chaired by Pär Boman, was the agent and the lead bank for the SEK 600m commercial paper.⁶³ Solely from a compliance perspective, Handelsbanken must have been informed of this bond transaction and we doubt that the bank's compliance department didn't know about it. The bank he chairs does business with the forestry company he chairs. **In our opinion, it would be highly negligent if Boman did not know about the commercial paper issued.** Furthermore, this constitutes a related-party transaction that was not disclosed.

In our opinion, the remaining Audit Committee members likewise fail to convey assurance to investors regarding the credibility of the financial statements. The chairwoman Barbara Milian Thoralfsson, a former marketing executive, has been on SCA's board since 2006, experienced all scandals throughout the fifteen years, and was elected chairwoman of the audit committee in 2015.⁶⁴ In our opinion, she is a professional non-executive director with dozens (!) of past and current board mandates all over the world, primarily motivated by the ongoing income associated with such mandates.⁶⁵ The third committee member, Martin Lundqvist, is the CEO of Sweden's steel conglomerate SSAB.⁶⁶ How can a full-time CEO of a global conglomerate conscientiously oversee the audit of another billion-dollar company with complex and industry-specific accounting?⁶⁷

However, no committee members appear to have professional training in auditing or past experience as an auditor.^{68 69} Furthermore, two of the three audit committee members, Thoralfsson

⁵⁷ <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker/>

⁵⁸ Translated via Google Translate.

⁵⁹ <https://www.di.se/nyheter/sverker-martin-lof-tillbaka-pa-sca-s-jaktmarker/>

⁶⁰ <https://www.svd.se/a/PRMGpJ/lyxjakt-riskerade-falla-storbankens-ordforande>

⁶¹ <https://www.ft.com/content/c0c4f0da-1f5b-11e7-b7d3-163f5a7f229c>

⁶² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 78

⁶³ <https://www.sca.com/siteassets/investors/debt/debt-program/foretagscertifikatsprogram-allmanna-villkor-2017-12-08.pdf>

⁶⁴ <https://www.sca.com/en/investors/corporate-governance/board-of-directors-and-group-management/>

⁶⁵ <https://www.linkedin.com/in/barbara-milian-thoralfsson-a068681?originalSubdomain=se>

⁶⁶ <https://www.sca.com/en/investors/corporate-governance/board-of-directors-and-group-management/>

⁶⁷ <https://www.ssab.com/en/company/about-ssab/operating-environment/steel-market-and-ssabs-position>

⁶⁸ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 80

⁶⁹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 81

NINGI RESEARCH

and Lundqvist, don't own a single share in the company they supervise.^{70 71} Even though they've been on SCA's board for years. How can board members represent the interest of SCA's shareholders but are clearly not aligned and have no skin in the game?

We believe that the Audit Committee does not have the best interest of the company in mind, but only wants to maintain the status quo for itself. The unconsolidated liabilities affect SCA's financial performance through undisclosed increased interest expense and ultimately, if lenders catch on to the lies, SCA's reputation in the capital markets. Concealing billions of dollars of debt will not work forever, and sooner rather than later this will lead to significant turmoil for Svenska Cellulosa as covenants on its bonds are breached, credit lines are withdrawn and SCA's share price falls.

In our opinion, **the board of directors at SCA are just puppets.**

3.3 Nomination Committee: Puppet Masters of SCA's Board

We believe SCA's nomination committee and its secret backers are calling the shots. The nomination committee consists of representatives of the four largest shareholders and the chairman of SCA's board (see Figure 8).⁷² No other board members are allowed and the committee's size was Furthermore, the chair of the nomination committee is appointed relative to the size of the voting rights owned by distinct shareholders that he or she is representing.⁷³ Even though SCA has a large shareholder base, a small minority with special voting rights decides about the company's faith.⁷⁴

Just as a side note: board members are elected to the board to represent the interest of the company's shareholders. So, why does the nomination committee not solely consist of board members but outsiders?

The nomination committee is a barely known board of external stakeholders that has more power than the board of directors. Individual shareholders can submit proposals to the nomination committee but it appears the committee decides if the proposal will be even disclosed or reviewed at the AGM (see Figure 8).⁷⁵

The nomination committee is the ultimate gatekeeper for all decisions to be made by the board of directors as the nomination committee submits all proposals relating to the most important decisions for the company (see Figure 8).⁷⁶

Furthermore, we think that the **nomination committee is not independent** because Swedish billionaire Frederik Lundberg controls the nomination committee through his affiliates and that is not adequately disclosed to the shareholders. Stjernholm, Boman and Hallaker are not independent and are affiliates of Lundberg.^{77 78 79}

⁷⁰ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 80

⁷¹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 81

⁷² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 74

⁷³ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 74

⁷⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 59

⁷⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 74

⁷⁶ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 74

⁷⁷ <https://www.handelsbanken.co.uk/en/about-us/corporate-governance/board-of-directors>

⁷⁸ https://www.hitta.se/mikael-hall%C3%A5ker/sundbyberg/person/yhLM_mmmmn

⁷⁹ <https://www.industrivarden.se/en-gb/corporate-governance/board-of-directors/board-of-directors/>

NINGI RESEARCH

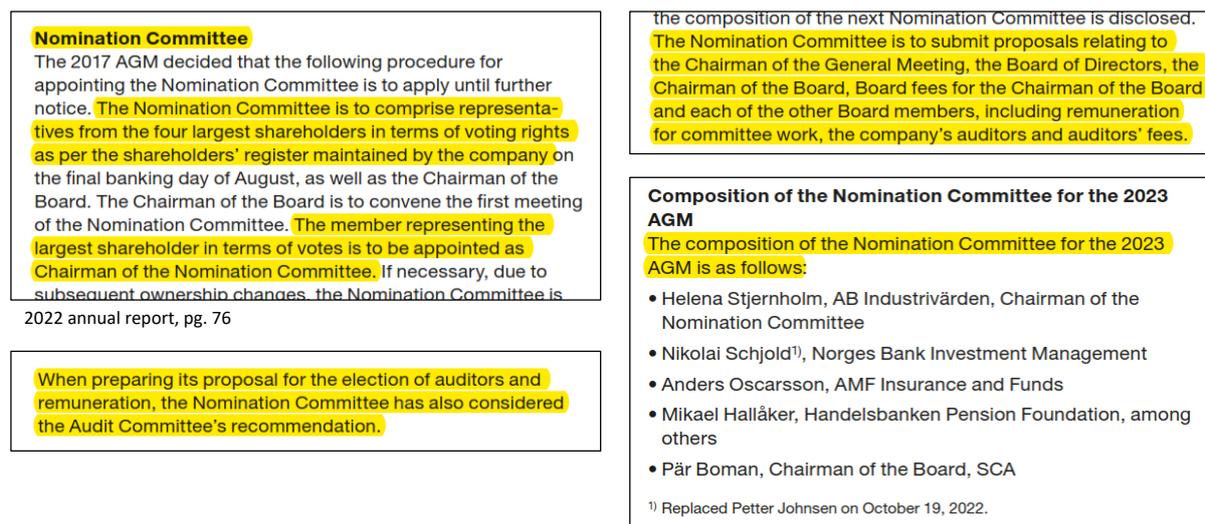


Figure 8 Extracts on SCA's nomination committee, source: NINGI Research, company filings

It's disclosed that Stjernholm and Boman are affiliates of Lundberg but Hallaker, listed as the chairman of the "Handelsbanken Pension Foundation" in SCA's reports, is also the chairman of Handelsbanken's Life Insurance and Real Estate segment (see Figure 8).^{80 81} Handelsbanken's parent is chaired by Pär Boman and Frederik Lundberg is the vice-chairman.⁸² Lundberg owns 79 million shares of Handelsbanken.⁸³ In late 2023, the committee proposed that Stjernholm, who chaired the nomination committee in the past, should be elected as SCA's next chair of the board.^{84 85} So Lundberg's right hand will be in charge of SCA's board.⁸⁶ As a reminder, Frederik Lundberg is the owner of Holmen and the company is a direct competitor to SCA. That is a material conflict of interest.

3.4 No Governance at SCA

The phrase "conflict of interest" appears only once in SCA's annual report and references the company's code of conduct on how a conflict of interest should be reported. The instruction on conflict of interest is a light-headed 125-word paragraph that reads like a suggestion to employees rather than a requirement. A strict reporting requirement for conflict of interests or related party transactions is not even stated.

[...]

Conflicts of interest

We must always act in the interest of SCA and avoid conflicts of interest. A conflict of interest arises when private interests, personal relationships, or external activities either influence your behaviour or appear to do so.

Remember:

- Avoid engagements or activities that may cause others to question your impartiality or loyalty to SCA

⁸⁰ <https://www.handelsbanken.se/sv/om-oss/svenska-dotterbolag/handelsbanken-liv>

⁸¹ https://www.hitte.se/mikael-hall%C3%A5ker/sundbyberg/person/yhLM_mmmn

⁸² <https://www.handelsbanken.com/en/about-the-group/organisation/board-of-directors>

⁸³ <https://www.handelsbanken.com/en/about-the-group/organisation/board-of-directors>

⁸⁴ <https://www.sca.com/en/investors/corporate-governance/board-and-committee-work/>

⁸⁵ <https://www.sca.com/en/media/press-releases/2023/helena-stjernholm-is-proposed-as-the-new-chairman-of-sca/>

⁸⁶ <https://www.di.se/nyheter/di-erfar-lundberg-besviken-over-ericssons-fiaskokop-stjernholm-lamnar-styrelsen/>

NINGI RESEARCH

- *If you see that there is a risk of a conflict of interest, including for yourself, always inform your manager*
- *Do not do business with companies that are owned or operated by a family member, partner or close friend without prior authorisation from your manager*
- *As a manager, you should not allow people who are related or have another close relationship to report directly or indirectly to each other*

[...]

It should come as no surprise that neither does SCA have a governance committee nor that related party transactions are monitored or reviewed by the board of directors. The company reports that no related party transactions except regarding executives' and board of directors' remuneration have taken place.⁸⁷ However, SCA always stated that the scandals of the last ten years show that there were related-party transactions happening. In our opinion, related party transactions are happening but nobody monitors or reviews these. Not even the auditor.

Such actions would have been carried out by an appointed governance committee that consists of board members but that does not exist at SCA. In our opinion, that's because it would also question the work and power of SCA's nomination committee. Normally, the governance committee is called the "Governance and Nomination Committee" and it is responsible for these tasks.

To conclude, we believe SCA's corporate governance is deeply flawed and shady and the main issue that led to the manipulation of SCA's financial statements. In our opinion, a small group of affiliates is not acting in the interests of all shareholders, but solely in their own interests.

4. Growing value with accounting tricks

Already known and highlighted as questionable by sell-side analysts is SCA's market-based approach to valuing its forest assets. In short, SCA changed its accounting for the company's forest assets from a DCF model to a market-based approach.⁸⁸ Through that, the company transferred its forest land from PPE into the balance sheet line item called "Forest assets".⁸⁹ Within "Forest assets", SCA reported separate book values for "Biological assets" which are standing timber, and for "Forest land" (see Figure 9 and Figure 10).⁹⁰

Before 2019, only the biological assets were accounted for as SCA's forest assets and were valued through a DCF model with a discount rate of 5.9% over 100 years.⁹¹ In 2019, SCA decided to move to a market-based approach, as the company argued that reliable data on market transactions of forestry assets has been available and could be used.⁹² What's worth noting is that there was data on market transactions even prior to 2019 and SCA even reported market data from LRF Konsult AB, Sweden's biggest forest land broker in prior years.⁹³ Therefore, we believe SCA's argument is nonsense. In 2012, a study from Swedish Lund University concluded that a market-based approach would not lead to a

⁸⁷ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 129

⁸⁸ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

⁸⁹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

⁹⁰ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

⁹¹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2018/annual-report-2018.pdf>, pg. 93

⁹² <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

⁹³ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2018/annual-report-2018.pdf>, pg. 21

NINGI RESEARCH

more precise fair value.⁹⁴ In that 2012 study, Göran Fridh, SCA’s chief economist, said it “[...] would be absurd to base valuation on market prices of smaller assets sold on the private market.”⁹⁵

Forest assets, in SEKm	Q3 2023	2022	2021	2020	2019	2018	2017
of which land assets	41,791	42,201	31,188	23,624	20,170	1,000	-
of which biological assets	57,417	55,681	53,309	51,276	49,512	32,065	31,386
Total	99,208	97,882	84,497	74,900	69,682	33,065	31,386

Figure 9 Forest asset's value on SCA's balance sheet since 2016, source: company data

Seven years later, SCA changed its accounting anyway and the assets on SCA’s balance sheet grew by 230 percent from 2016 to 3Q23 (see Figure 10). SCA’s “fair value” of its forest assets rose from SEK 33,065m in 2018 to SEK 99,208m at the end of 3Q 2023 (see Figure 9).^{96 97}

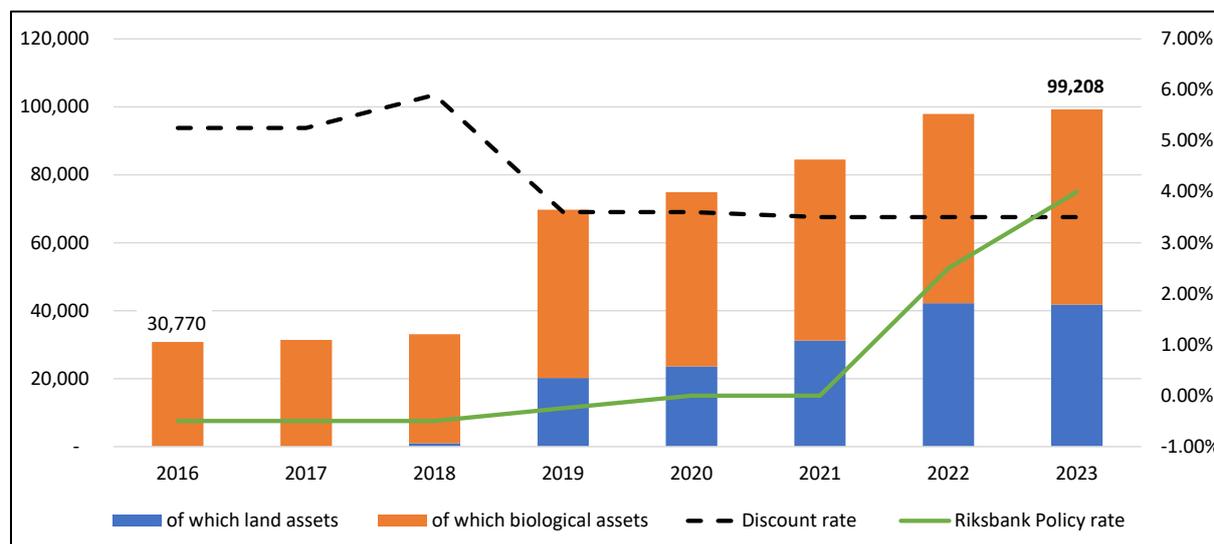


Figure 10 Valuation of forest assets (in SEKm) tripled within 7 years, source: NINGI Research, company data

To make the use of the market-based approach work, SCA had to lower the discount rate from 5.9% to 3.5%, leading to a higher value for its biological assets (see Figure 10).^{98 99} Otherwise, it wouldn’t make sense to use the market-based valuation. That’s because SCA values the total forest assets with the market-based approach but the cash-flow generating biological assets with a DCF model. because, just by increasing the discount rate by 100bps to 4.5 percent, SCA’s valuation approach would result in the forest land being worth more than the standing timber that’s growing on it.¹⁰⁰ **At a 4.5% rate, biological assets' fair value would decrease by almost SEK 22 billion.**¹⁰¹

How reliable is it to value 2.7 million hectares based on less than 137 hectares average transaction size (see Figure 11)? Furthermore, the input data used by SCA is based on only 135 (!) transactions, its lowest since SCA changed its valuation approach (see Figure 11).

⁹⁴ <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=2541910&fileId=2607962>

⁹⁵ <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=2541910&fileId=2607962>, pg. 42

⁹⁶ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 105

⁹⁷ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2023/20231027-interim-report-q3-2023-en-0-4665917.pdf>, pg. 14

⁹⁸ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2018/annual-report-2018.pdf>, pg. 93

⁹⁹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2019/annual-report-2019.pdf>, pg. 106

¹⁰⁰ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 110

¹⁰¹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 110

NINGI RESEARCH

Land transactions in Northern Sweden	2022	2021	2020	2019	2018
No. of transactions	135	176	219	251	209
Average price, SEK/m ³ fo	418	368	312	292	275
Average size of estate, in ha	137	75	61	67	66
Overall hectares sold, in ha	18,495	13,200	13,359	16,817	13,794
Overall hectares sold in % of SCA owned forest land	0.71%	0.51%	0.51%	0.65%	0.53%

Figure 11 Land transaction used for market-based approach, source: NINGI Research, company data, Svefa, Ludvig&Co

To put that into perspective, the overall hectares sold reflect only **0.71% (!)** of SCA's land and less than **0.26%** of Sweden's Jämtland and Västernorrland regions (see Figure 11).^{102 103} It's akin to forming an opinion about all Swedes based solely on watching every season of "Svenska Hollywoodfruar."

How flawed the valuation approach is can be seen in SCA's purchases and sales of forest land since the change in methodology. **SCA is marking its forest assets at "fair value" but since using the market-based approach, the company sold forest land at a discount and bought land at a premium (see Figure 12).**¹⁰⁴ The reversal is quite obvious if you chart the last ten years (see Figure 13).

Purchase and Divestment of forest land in Sweden	2022	2021	2020	2019	2018
Percentage difference - Purchase vs. Divestment	17.36%	91.41%	13.51%	26.52%	6.72%
Percentage difference - Purchase vs. Market prices (avg)	7.73%	2.90%	-6.12%	12.57%	5.94%
Percentage difference - Divestment vs. Average price	-7.66%	-46.20%	-16.99%	-9.59%	-2.55%
Percentage difference - Divestment vs. Market prices (avg)	5.46%	-38.89%	-11.00%	-4.69%	-0.37%

Figure 12 Delta percentage of the purchase price and sale price of SCA's forest land, source: NINGI Research, company data

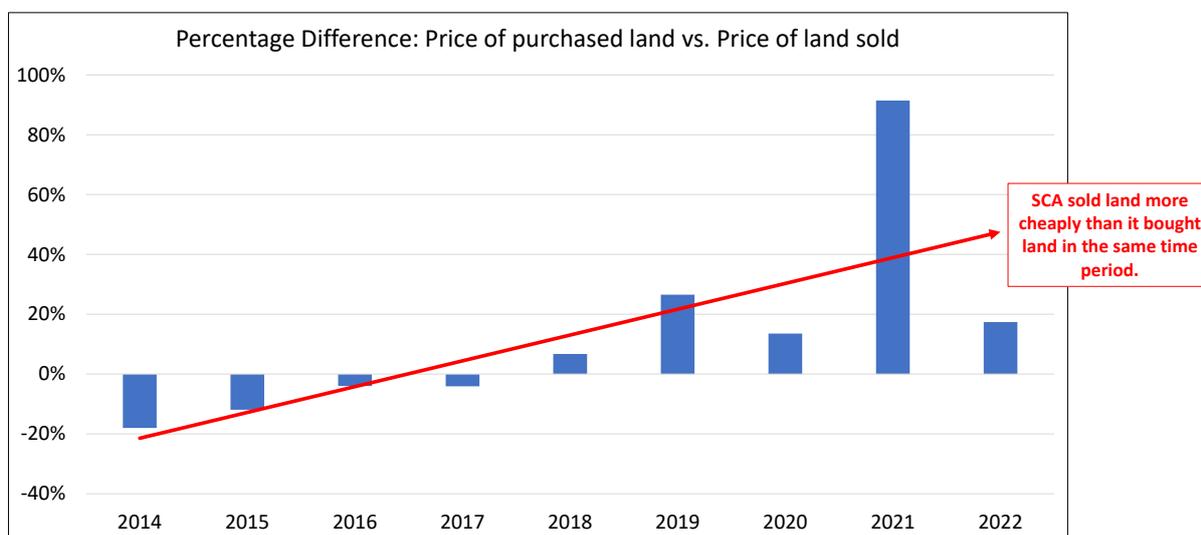


Figure 13 SCA is selling forest land for less than it is buying, source: NINGI Research, company data

Prior to the market-based approach, the purchase price per m³fo (forest cubic meter) was lower than the sale price (see Figure 14). After the change, **SCA sold forest assets at a significant discount to the market prices the company bases its book value on (see Figure 14).**¹⁰⁵ How is this possible if the market data is reliable and reflects the fair value of the assets?

¹⁰² <http://pxweb.skogsstyrelsen.se/pxweb/en/Skogsstyrelsens%20statistikdatabas/>

¹⁰³ Jämtland and Västernorrland have a total area of around 7,102,500 hectares.

¹⁰⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 111

¹⁰⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 111

NINGI RESEARCH

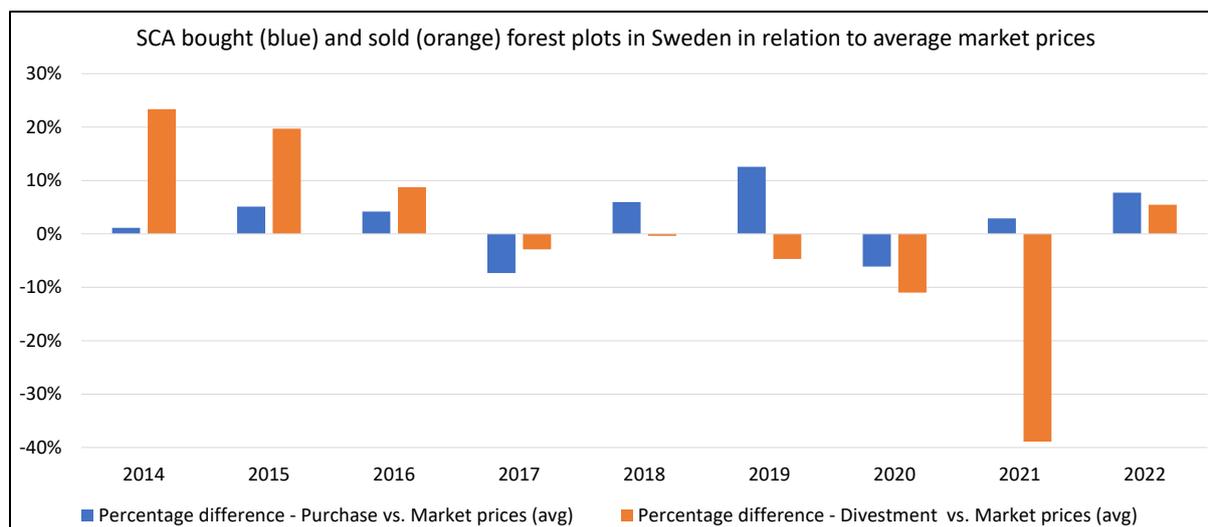


Figure 14 SCA is selling forest land below and buying land above market prices, source: NINGI Research, company data

Does it make sense to use market prices? Why value the standing timber and the land differently if you need the land to grow the timber in the first place? Literally, without the soil, there wouldn't be any timber. That's why the SotP valuation approach used by sell-side analysts and investors is nonsense. In our opinion, without the forest assets, SCA would not be in business. These assets can never be sold because they are an integral part of SCA's operations. We think that if the company ever sells forest assets on a large scale, SCA would have to buy its raw materials to supply its pulp and containerboard operations through open market transactions, resulting in higher prices and unprofitability.

Of course, it could be argued that parts of the land could be used for other purposes but it is located in the northern region of Sweden. Outside of forestry, there are very few other opportunities that could yield any return. SCA is pivoting into renewables, at a time when most of the money was already made.^{106 107} Furthermore, only a fraction of the land can be used for wind turbines, as there are not as many areas with suitable winds in Jämtland, Västernorrland, or even higher regions as in the south of Sweden.

In our opinion, the valuation method is just window dressing to make investors believe that the company's assets are worth more and to increase the company's EBITDA through non-cash gains from revaluations. What many investors in SCA seem to have forgotten is that the prices for forest land in the north of Sweden were already this high once before: from 2007 to 2012.¹⁰⁸ Back then, SCA did not benefit from this either because the cash flows from the biological assets were unaffected by soaring forest land prices. **Believe it or not, trees don't grow any faster just because they read Ludvig & Co's latest Skogsmarkspriser report about soaring property prices. Trees don't read at all.**

Ultimately, SCA's true forest assets are solely the biological assets. The forest land reported at a "fair value" of SEK 41 billion should be written off.

¹⁰⁶ <https://www.sca.com/en/media/press-releases/2023/sca-to-build-new-wind-farm-and-increases-the-degree-of-self-sufficiency-in-electricity/>

¹⁰⁷ <https://www.sca.com/en/media/press-releases/2022/sca-acquires-wind-farm-in-markbygden/>

¹⁰⁸ <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=2541910&fileId=2607962>, pg. 67

NINGI RESEARCH

5. Conclusion

Svenska Cellulosa's deliberate concealment of debt, coupled with questionable accounting practices, especially in the valuation of forest assets, presents a distorted financial picture.

SCA's financial practices reveal a deliberate concealment of at least 3.6 billion kronor in debt and an unconventional approach to calculating net debt. Moreover, SCA subtracts non-cash pension obligations and non-current financial assets while excluding commercial paper and utilized credit facilities from its liabilities. The estimated **net debt at 3Q23 is approximately SEK 17,422 million, significantly higher than the reported SEK 10,199 million**, highlighting the extent of SCA's financial manipulation.

The **Net debt/EBITDA metric, a critical indicator for financial health, is materially understated**, with the true ratio **estimated at around 3.3x, in stark contrast to the reported 1.4x** – undermining the company's true leverage position. This substantial discrepancy suggests a higher level of financial risk than what is apparent from the official financial disclosures.

The failure of the long-serving CFO to address these issues before their resignation further underscores the gravity of the situation. The involvement of the audit committee, including Pär Boman, in related-party transactions and professional negligence raises serious doubts about the effectiveness of internal controls and corporate governance.

The recurrent corporate governance failures over the past decade, involving scandals, undisclosed related-party transactions, and potential vänskapskorruption, contribute to a lack of investor confidence. The questionable practices surrounding the nomination committee and its ties to influential shareholders, particularly Frederik Lundberg, further exacerbate concerns of favoritism and conflicts of interest.

Additionally, SCA's market-based approach to valuing forest assets, marked by a reduction in the discount rate and reliance on limited transaction data, appears to be a maneuver aimed at inflating the company's EBITDA and, consequently, its overall financial standing.

For all information herein, we are short Svenska Cellulosa AB SCA.

NINGI RESEARCH

Questions for Svenska Cellulosa and Ernst & Young that are of interest to the public:

- Why has SCA not consolidated billions of kronor of debt from its balance sheet since 2020?
- Were their discussions in 2020 and 2021 with the board of directors and management about the omitted debt?
- Did the audit committee discuss the undisclosed indebtedness with SCA's CFO and auditor?
- Did Pär Boman disclose to the audit committee that Handelsbanken issued SEK 600m commercial paper for SCA?
- What is the reasoning behind including non-current financial assets and non-cash items like pension surplus to calculate net debt?
- Why did long-term CFO, Toby Lawton, resign in February 2022?
- Does the Martin-Lof family still lease the Källberget hunting lodge for the family's sole use? If so, at what annual rate?
- Why does SCA not disclose all related-party transactions?
- Why does the nomination committee not consist solely of board members?
- Did Ernst & Young read and check the notes to the financial statements for material misstatements?
- Why did Hamish Moban resign as auditor-in-charge after the 2019 annual report and was replaced by Fredrik Norman?
- How did Ernst & Young obtain audit evidence for a reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement?

GROUP

Provision for expected customer losses

SEKm	2022	2021
Value January 1	-42	-58
Individual provision for expected credit losses	-6	-3
Confirmed credit losses	11	17
Decrease due to reversal of provisions for expected credit losses	0	1
Translation differences	-1	1
Value December 31	-38	-42

The expense for the period for expected credit losses amounted to SEK 2m (2).

E4. FINANCIAL LIABILITIES

AP ACCOUNTING PRINCIPLES

The main principle for recognition of SCA's financial liabilities is that they are initially measured at fair value, net after transaction costs, and subsequently at amortized cost according to the effective interest method. Transaction costs are accrued over the term of the loan.

Liabilities that fall due after one year or later are classified as non-current liabilities and others are classified as current liabilities.

Financial liabilities

SEKm	2022	2021
Non-current financial liabilities		
Bond loans	4,000	4,000
Other non-current loans with maturities between 1 and 5 years	1,480	1,480
Lease liabilities with maturities between 1 and 5 years	229	291
Other non-current loans with maturities of more than 5 years	4,832	3,103
Lease liabilities with maturities of more than 5 years	210	209
BS Total	10,751	9,083
Current financial liabilities		
Amortization within one year	298	263
Derivatives	5	1
Loans with maturities of less than 1 year	1,311	646
Lease liabilities with maturities of less than 1 year	149	136
Accrued financial expenses	26	10
BS Total	1,789	1,056
Total financial liabilities	12,540	10,139
Fair value of financial liabilities ¹⁾	11,625	9,496

¹⁾ The fair value of financial liabilities are recognized excluding lease liabilities.

Borrowing

Bond loans and bilateral loans

SCA has a Medium Term Note (MTN) program with an amount of SEK 8,000m (8,000) for issuing bonds in the capital market. As of December 31, 2022, a nominal SEK 4,000m (4,000) was outstanding, of which green bonds accounted for SEK 1,500m (1,500). In addition to the bond loans, SCA has several long bilateral loans with strong and well-established banks at a nominal amount of SEK 7,921m (5,492). The average maturity of the loans was 3.8 (4.4) years.

Green bonds

SCA's green bonds were issued under the SCA Green Bond Framework, which complies with the Green Bond Principles. The framework was reviewed by the independent party Cicero Shades of Green and received the highest possible ranking (Dark Green). The framework regulates that borrowing under the framework is earmarked for green investments. The criteria for when an investment can be classified as green are specified by the framework. SCA will report back to bond holders about the green investments every year.

Issued

SEKm	Maturity, year	Carrying amount	Fair value
Bond – floating rate	2025	1,000	993
Bond – fixed rate	2025	300	272
Bond – fixed rate	2027	1,200	1,030
Bond – floating rate (Green)	2028	1,100	1,062
Bond – fixed rate (Green)	2028	400	335
Total		4,000	3,692

Bilateral loans

SEKm	Carrying amount	Fair value
Bilateral loans with maturities of less than 1 year	1,311	1,099
Bilateral loans with maturities between 1 and 5 years	1,480	1,698
Bilateral loans with maturities of more than 5 years	5,130	5,136
Total	7,921	7,933

Commercial paper program

SCA has a Swedish commercial paper program to the amount of SEK 5,000m (5,000), which can be utilized for short-term financing. At year-end, SEK 600m (-) was issued.

Program size

SEKm	Issued
Commercial paper SEK 5,000m	600
Total	600

Where?



GROUP

Where?

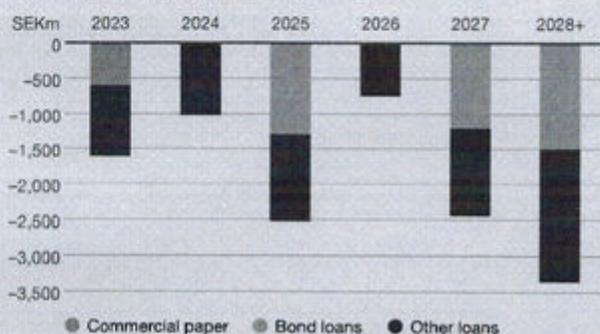
Credit facilities

Program size	Nominal SEKm	Maturity	Total SEKm	Utilized SEKm	Unutilized SEKm	Sustainability linked
Bilateral credit facility (EUR)	2,507	2023	2,507	1,938	569	
Bilateral credit facility (EUR)	3,340	2024	3,340	1,113	2,227	
Syndicated credit facility	5,000	2026	5,000		5,000	Yes
Total	10,847		10,847	3,051	7,796	

SCA has a syndicated bank facility of SEK 5,000m (5,000) to limit the refinancing risk and maintain a liquidity reserve. Additionally, SCA has a bilateral export credit facility based on the purchasing agreement for the paper machine in Obbola, of which SEK 569m (1,957) is unutilized, and a bilateral credit facility from the European Investment Bank, of which SEK 2,227m (3,070) is unutilized.

The syndicated facility was unutilized on December 31, 2022. SCA's existing credit facility with the bank group is linked to two of the Group's key sustainability targets related to climate benefit and nature conservation, read more about these targets on pages 141–143.

Maturity profile of gross debt



After additions for net pension provisions and deductions for cash and cash equivalents, interest-bearing receivables and capital investment shares, net debt amounted to SEK 9,989m (7,752) at December 31, 2022, refer to Note A2. For a description of the methods used by SCA to manage its refinancing risk, refer to page 69.

Changes in liabilities from financial activities

SEKm	OB 2022	CF	Cash flow	Reclassification from current to non-current liabilities	Revaluation	Other	CB 2022
Current financial liabilities (excluding lease liabilities)	- 918		-81	798	-	-	1,635
Non-current financial liabilities (excluding lease liabilities)	8,584		2,516	-798	-	10	10,312
Lease liabilities	636		-183	-	48	87	588
Derivatives	1		-	-	4	-	5
Total liabilities from financing activities	10,139		2,252	-	52	97	12,540

SEKm	OB 2021	Cash flow	Reclassification from current to non-current liabilities	Revaluation	Other	CB 2021
Current financial liabilities (excluding lease liabilities)	1,185	-1,158	763	-	128	918
Non-current financial liabilities (excluding lease liabilities)	7,866	1,481	-763	-	-	8,584
Lease liabilities	751	-185	-	26	44	636
Derivatives	22	-	-	-21	-	1
Total liabilities from financing activities	9,824	138	0	5	172	10,139



GROUP

Consolidated balance sheet BS

SEKm	Note	2022	2021
ASSETS			
Non-current assets			
Intangible assets	D1	731	526
Buildings, land, machinery and equipment	D2	24,800	21,737
Forest assets	D3	97,882	84,497
of which land assets	D3	42,201	31,188
of which biological assets	D3	55,681	53,309
Right-of-use assets	D4	561	614
Holdings in associated companies and joint ventures	F2	1,106	428
Surplus in funded pension plans	C5	1,689	1,564
Non-current financial assets	E2	165	80
Deferred tax assets	B5	22	18
Other non-current assets		176	1
Total non-current assets		127,132	109,465
Current assets			
Inventories	D5	4,856	4,189
Trade receivables	E3	3,007	2,516
Current tax assets	B5	3	1
Other current receivables	D6	1,415	892
Current financial assets	E2	106	114
Cash and cash equivalents	E2	836	1,056
Total current assets		10,223	8,768
Total assets		137,355	118,233
EQUITY AND LIABILITIES			
Equity			
E6, E8			
<i>Owners of the Parent</i>			
Share capital		2,350	2,350
Other capital provided		6,830	6,830
Reserves		31,833	23,161
Retained earnings including profit for the year		55,345	50,714
Total equity owners of the Parent		96,358	83,055
Non-current liabilities			
Non-current financial liabilities	E4	10,751	9,083
Provisions for pensions	C5	245	427
Deferred tax liabilities	B5	22,117	18,885
Other non-current provisions	D8	48	53
Other non-current liabilities	D7	66	50
Total non-current liabilities		33,227	28,498
Current liabilities			
Current financial liabilities	E4	1,789	1,056
Trade payables	D9	3,622	3,478
Current tax liabilities	B5	224	265
Current provisions	D8	108	239
Other current liabilities	D7	2,027	1,642
Total current liabilities		7,770	6,680
Total liabilities		40,997	35,178
Total equity and liabilities		137,355	118,233

Credit facilities: 3,061 m } Where are the
 Commercial paper: 600 m } utilized credit facility
 and the commercial paper?