

Schibsted ASA Norway, Media


BBB STABLE

Corporate profile

Founded in 1839, Schibsted ASA is one of the leading Scandinavian media groups. The group is organised in two main segments: digital marketplaces and news media. Digital marketplaces comprise online classified advertisements including Finn, Blocket, Tori Oikotie, DBA and Bilbasen. News media consists of publishing-related activities including VG, Aftenposten, Bergens Tidende, Aftonbladet and Svenska Dagbladet. Schibsted also operates innovative financial and business services companies that include Lendo and Prisjakt. Schibsted is listed on Oslo's stock exchange since 1992.

Key metrics

Scope credit ratios	2019	2020	Scope estimates	
			2021E	2022E
Scope-adjusted EBITDA (SaEBITDA)/interest cover (x)	22.4x	13.4x	11.5x	13.0x
Scope-adjusted debt (SaD)/SaEBITDA (x)	2.5x	2.2x	3.2x	2.6x
Scope-adjusted funds from operations (SaFFO)/SaD (%)	18%	24%	24%	29%
Scope-adjusted free operating cash flow (SaFOCF)/SaD (%)	8%	26%	13%	16%

Rating rationale

Scope Ratings GmbH (Scope) assigns a first-time issuer rating of BBB/Stable to Schibsted ASA.

The corporate issuer rating reflects Schibsted's business risk profile (assessed at BBB), supported by its market leadership in digital marketplaces and news media. Schibsted has a strong footprint in Scandinavia, which benefits from a portfolio of well-known brands in both its digital marketplaces and news media businesses. Over the past years, Schibsted has focused on not only expanding its online presence but also diversifying into new areas with strong growth prospects (e.g. financial services with Lendo). Schibsted's leading market positions are credit-positive, supporting the stability of revenues and thereby credit ratios. There is a high dependency on the Nordic region, however, this is mitigated by the region's economic strength as well as Schibsted's presence in other markets via associated company Adevinta. Schibsted's stable profitability also supports the rating (Scope-adjusted EBITDA margin of 20% for the last twelve months to June 2021).

Schibsted's financial risk profile (assessed at BBB) reflects its strong key credit ratios. These include adequate leverage, as measured by Scope-adjusted debt (SaD)/Scope-adjusted EBITDA of 2.2x as of December 2020, and positive free operating cash flows. While net financial debt to Q2 2021 has increased following the eBay Classifieds Denmark acquisition (with the company drawing on a NOK 3.3bn bridge facility), we expect leverage to fall towards 2x from 2022 as operating cash flow is strengthened by the eBay acquisition and the Oikotie consolidation in Finland.

We also deem Schibsted to pursue a conservative financial policy and therefore expect it to keep leverage within the 1x-3x target. We also note positively the company's additional financial flexibility through its shareholding in the separate listed Adevinta ASA.

Ratings & Outlook

Corporate rating	BBB/Stable
Short-term rating	S-2
Senior unsecured rating	BBB

Analyst

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Related Methodology

Corporate Rating Methodology:
July 2021

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Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Schibsted will i) continue its consolidation in the Nordic markets; ii) extend its financial services portfolio; and iii) consolidate its distribution business. We assume eBay Classifieds Denmark will be successfully merged, with no impact on the rating. The Outlook also factors in our expectation that the company will maintain a prudent financial policy consistent with the credit metrics required for the rating category.

A positive rating action could be warranted if the ratio of SaD/EBITDA remains below 2x on a sustained basis, for instance, because of a focus on organic growth rather than M&A.

A negative rating action is possible if the ratio of SaD/EBITDA increases persistently above 3x due to larger-than-anticipated debt-financed acquisitions.

Rating drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> Market leadership of its marketplaces through different verticals in core markets Strong record of digital transition, necessary in a fast-evolving industry Diversified across various segments including digital marketplaces, media, financial services and fast-growing digital operations Adequate SaD/EBITDA of 2.2x at YE2020, with expectation to remain in the 2x-3x area over time Additional liquidity and financial flexibility through its shareholding in Adevinta Clearly defined financial policy (target leverage of 1x-3x) 	<ul style="list-style-type: none"> Exposure to increased competition from new entrants and structural changes in news media and online classifieds Exposure to cyclical advertising sector Dominant exposure to Nordic region (Norway and Sweden with 97% of total operating revenues), mitigated by the region economic strength M&A and focus on strategic growth, implying considerable investments and some execution risk

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> SaD/EBITDA remains below 2x on a sustained basis 	<ul style="list-style-type: none"> SaD/EBITDA increases above 3x on a sustained basis



Financial overview

				Scope estimates	
Scope credit ratios	2018	2019	2020	2021E	2022E
SaEBITDA/interest cover (x)	16.9x	22.4x	13.4x	11.5x	13.0x
Scope-adjusted debt/SaEBITDA (x)	2.2x	2.5x	2.2x	3.2x	2.6x
SaFFO/SaD (%)	24%	18%	24%	24%	29%
FOCF/SaD (%)	3%	8%	26%	13%	16%
Scope-adjusted EBITDA in NOKm	2018	2019	2020	2021E	2022E
EBITDA	1,840	1,977	2,126	2,185	2,444
add: full operating lease payments	503	0	0	0	0
add: dividends received from joint ventures and associates	40	41	23	40	113
Scope-adjusted EBITDA	2,383	2,018	2,149	2,225	2,556
Scope-adjusted funds from operations in NOKm	2018	2019	2020	2021E	2022E
Scope-adjusted EBITDA	2,383	2,018	2,149	2,225	2,556
less: cash interest as per cashflow statement	-27	-90	-160	-193	-196
less: interest component operating leases	-114	0	0	0	0
less: pension interest	-26	-25	-20	-20	-20
less: cash tax paid as per cashflow statement	-941	-978	-819	-292	-362
Scope-adjusted funds from operations	1,275	925	1,150	1,719	1,978
Scope-adjusted debt in NOKm	2018	2019	2020	2021E	2022E
Interest-bearing debt	4,227	5,817	3,768	6,829	6,648
Lease obligations	0	2,544	1,788	1,703	1,860
Pension obligations	621	548	578	578	578
Cash	-1,844	-3,866	-1,306	-1,947	-2,312
Off-balance sheet debt*	2,288	0	0	0	0
Scope-adjusted debt	5,292	5,043	4,827	7,162	6,773

*Operating leases previous IFRS 16 application.

Business risk profile: BBB

Industry risk profile: BBB

Leading player in online marketplaces platforms and media in its core markets

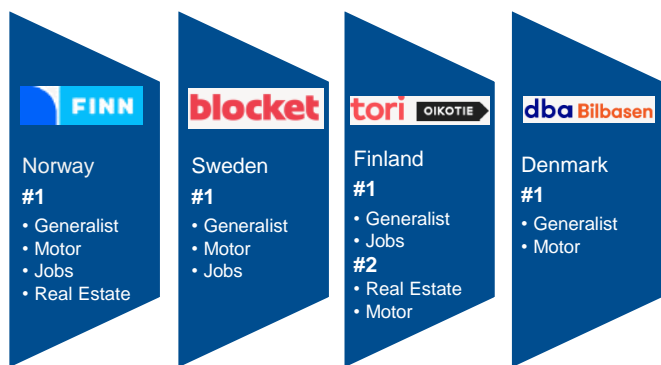
We have assigned a blended industry risk of BBB based on the risk profile of the media industry (cyclicality: medium; market entry barriers: medium; substitution risk: low) and the business services industry (cyclicality: medium; market entry barriers: medium; substitution risk: medium).

Schibsted benefits from a strong market position in the Nordic region. The company is the market leader in several countries through a portfolio of well-known brands in both digital marketplaces (Finn, Blocket, Tori and Oikotie) and news media (VG, Aftenposten, Bergends Tidende among others).

Schibsted's digital marketplaces segment is leader in online classifieds in almost all its countries but also across vertical markets (general, motor, jobs and real estate). This is reflected in the 977m monthly visits and about an 80% weekly digital reach in Norway and Sweden. Schibsted's online general classifieds portal Finn is ranked first in Norway with a 96% brand awareness. Sweden's Blocket and Finland's Tori and Oikotie also hold top positions across verticals with a brand awareness of above 70%. Schibsted's Nordic marketplaces have strengthened their relative market positions and relevance, with average online traffic growth rates of above 14% YoY between 2018-2020.

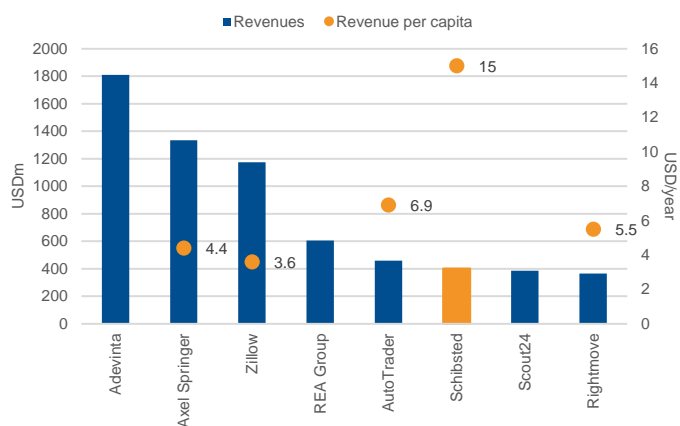
In addition to expected organic growth, the company intends to expand further through mergers and acquisitions, more recently in Finland and Denmark. In this sense, many of Schibsted's assets have potential for significant growth, through economies of scale and the replication of the business model in the less mature markets of Finland (Oikotie) and Denmark (eBay Classifieds).¹

Figure 1: Positioning by verticals



Source: Schibsted, Scope

Figure 2: Schibsted and marketplaces peers



Source: Schibsted, Scope
Includes eBayCG-Adevinta transaction and Schibsted acquisition of eBay Denmark.

Owner of Norway's best-selling newspaper

Schibsted's news media segment generates more than half of its revenues, supported by Norway's best-selling newspaper, VG. The company has successfully transitioned from traditional print to online, with its portfolio including primary online news destinations such as VG (43m daily visits) and Aftenbladet (40m daily visits). Of total news media revenues, more than 35% comes from digital platforms.

¹ In July 2020, Schibsted announced that Adevinta ASA had agreed to acquire 100% of eBay Classifieds Group, the global classifieds operations of eBay. Definitive agreement has been announced in June 2021. As part of the transaction, Schibsted has acquired the Danish operations of eBay Classifieds Group, at an enterprise value of USD 330m.

The segment also has recurring income from a broad subscriber base of 1.24m as at end-2020, which generated 36% of news media revenues in 2020. The number of digital subscribers as at end of 2020 reached 840,000 (67% of total subscriptions), and revenues obtained from this group have seen a cumulative annual growth rate of 33% from 2016.

Schibsted's leading positions and market shares are credit-positive, supporting the stability of revenues and thereby credit ratios.

Successful shift towards digital

The internet continues to rapidly change the media landscape, directing more readers towards online media, with pandemic lockdowns accelerating the transformation in Europe. Schibsted has successfully adapted to these structural changes over the past few years. Today, more than 60% of its operating revenues comes from digital business, showing that the company has adapted better than most of its peers.

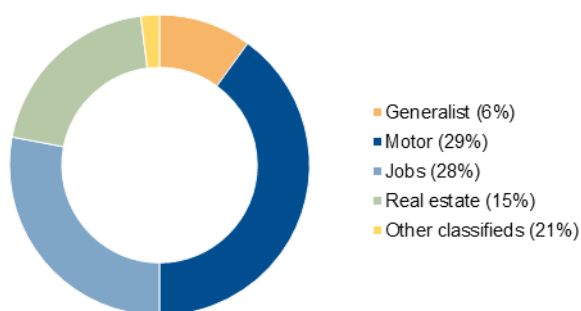
Limited diversification across geographies with strong Scandinavian focus

Schibsted activities are focused on the Nordic region. About 60% of revenues are generated in Norway, 37% in Sweden, and the rest in other parts of Europe. The revenue dependency in the Nordic region is balanced by that region's economic strength and Schibsted's participation in other markets via its associated company Adevinta.

The company has pursued rapid internationalisation, reflected in Adevinta's leadership in the digital marketplaces outside of the Nordic region.² Adevinta was spun off through an IPO in 2019, allowing Schibsted to focus on the Nordics and Adevinta to oversee online classifieds assets outside of Scandinavia. While this limits Schibsted's geographical footprint, its focus on mature markets with stable regulations and technologically savvy populations support medium-term growth targets.

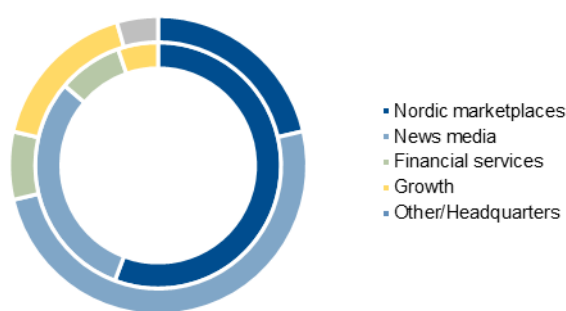
In addition, Schibsted aims to consolidate its market position in Finland through Tori and Oikotie, which merged with Schibsted in 2020. Schibsted also intends to strengthen its position in Denmark and closed the acquisition of eBay Classified's Danish operations (DBA.dk and bilbasen.dk) in the second quarter of 2021. The company's good record on mergers lessens the execution risk.

Figure 3: Classified revenues diversification by verticals, Q2 2021



Source: Schibsted, Scope

Figure 4: Diversification by segment, revenues (outer ribbon) and EBITDA (inner ribbon), Q2 2021



Source: Schibsted, Scope

Diversified by segment: digital marketplaces, media, and fast-growing digital operations

Schibsted's news media business still accounts for most revenues at about 60%. The digital marketplaces segment accounts for 25%. The rest comes from its financial and growth segment. However, in terms of EBITDA, the digital marketplaces segment dominates, contributing more than 60% of the total. This segment benefits from a well-diversified portfolio both through recognised brands in every segment and through verticals, exposing the company to different market patterns (e.g. jobs, real estate, cars).

² In the past years, it has invested significantly in digital and online media but has also grown through acquisitions. This has resulted in Adevinta's today presence in countries including France (Leboncoin.fr), Spain (Milanuncios.com) and Brazil (olx.com.br).

Furthermore, Schibsted is expanding to other growth areas including personal financial services (Lendo) and distribution channels including parcel and home delivery (Helt Hjem Netthandel, Morgenlevering). This segment has a small weight for now but has strong prospects and adds another growth angle for the long term. The rising demand in these growth areas somewhat counterbalances the challenges faced by the news media division.

Solid profitability supported by high-margin business

Profitability is solid and has remained above 15% as measured by the Scope-adjusted EBITDA margin in the last years (20% for the last twelve months to June 2021). Growth in recent years has been driven by the digital marketplaces segment, with its EBITDA margin of above 40%. The news media segment has margins of around 10%. At group level, margins are stable due to the considerable investment to develop the online presence. Going forward, we expect Schibsted to keep focusing on business growth and rapid adaptation to industry developments.

In the digital marketplaces segment, the company expects to benefit from a shift to a transactional model and improved core offerings on key verticals, which would allow it to implement a mix of transactional fees and traditional listing fees. This transition will require further investment and will create some pressure on profitability in the next few years. As such, we expect the EBITDA margin to decrease to slightly below 40%.

In the news media segment, profitability has benefited from the increase in digital subscriptions revenues, which have seen compound annual growth of about 33% in the last five years (to NOK 1bn in 2020 from NOK 0.4 in 2016). This bodes well for online revenues and should largely offset any revenue declines in traditional print. The cost-cutting programme of NOK 500m (NOK 330m of cost savings implemented as of Q2 2021) will further strengthen profitability, with the EBITDA margin expected to remain above 10%.

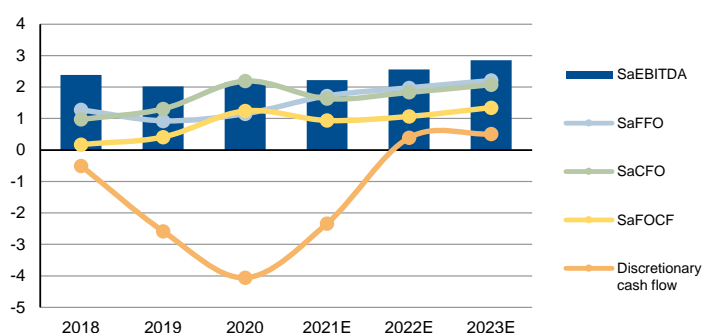
Financial risk profile: BBB

Historically good EBITDA interest expense cover expected to remain above 7x

Schibsted's debt protection, as measured by the Scope-adjusted EBITDA interest coverage ratio, stood at 13x in 2020. The consistently high debt coverage reflects i) the ongoing stable EBITDA generation; and ii) favourable financing conditions for the company (around 2.3% average interest rate in capital markets).

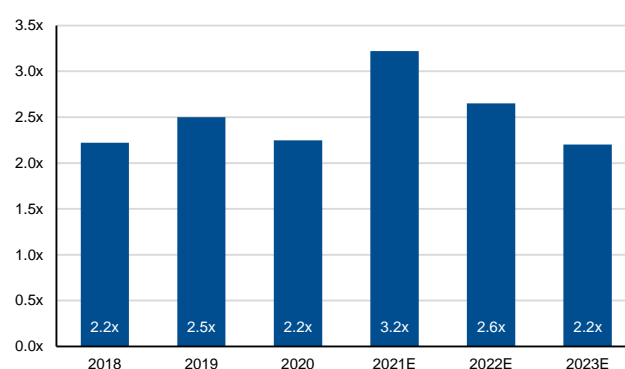
We forecast the Scope-adjusted EBITDA interest coverage to remain above 7x, with minor pressure in 2021 driven by the increase in debt to finance the acquisition of eBay Classifieds Denmark.

Figure 5: Cash flows (NOK bn)



Source: Schibsted, Scope estimates

Figure 6: Leverage (SaD/SaEBITDA)



Source: Schibsted, Scope estimates

Leverage under pressure after eBay Classifieds Denmark acquisition

Schibsted's leverage as measured by SaD/EBITDA and SaFFO/SaD have been below 3.0x and above 20%, respectively, in previous years.

The increase in the company's net financial debt to Q2 2021 is mainly due to financing activities related to the acquisition of eBay Classifieds Denmark. This resulted in SaD rising from around NOK 4.8bn in 2020 to NOK 7.1bn in 2021 and a higher leverage. We foresee leverage trending towards 2x from 2022 after this temporary increase.

This is because we expect the acquisitions to eventually strengthen operating cash flow, supported by the Oikotie consolidation in Finland and synergies from eBay Classifieds Denmark. In addition, as we deem Schibsted to pursue a conservative financial policy, we expect it to adhere to its leverage target of 1x-3x.

M&A to squeeze free operating cash flows

Schibsted has shown positive SaFOCF in the past years. This cash flow has been mainly absorbed by investments in organic growth and turned negative when adjusting for bolt-on acquisitions in the past (Oikotie in 2020). This pattern will continue into 2021 with the eBay acquisition.

For the next few years, we anticipate positive internal cash flow (Scope-adjusted EBITDA, Scope-adjusted FFO and Scope-adjusted Free Operating cash flows), based on a more diversified and broader business, particularly in digital marketplaces and the NextGen business financial services and distribution.

Adequate liquidity

Liquidity is adequate, with cash of NOK 0.7bn available at end-June 2021, further enhanced by NOK 3.1bn of undrawn revolving committed credit lines and positive FOCF from 2021. Short-term debt is very low and amounts to only NOK 79m after the repayment of the NOK 600m bond with maturity in May 2021. Schibsted's short-term obligations are fully covered by available credit facilities and internal cash. The company benefits as well from further potential liquidity that can also be sourced from its share in Adevinta (reduced to 33.1% from 59.3% after Adevinta-eBay transaction).

We forecast liquidity to remain ample for the next few years, supported by our forecast of positive and stabilised SaFOCF and good access to capital markets.

Figure 7: Liquidity

in NOK m	2020	2021E	2022E
Short-term debt (t-1)	1,089	678	681
Unrestricted cash (t-1)	3,866	1,306	1,947
Open committed credit lines (t-1)	3,946	3,021	3,051
Free operating cash flow (t) ³	1,240	936	1,064
Coverage	8.3x	7.8x	8.9x

Source: Scope estimates

Long-term and short-term debt ratings

Senior unsecured debt: BBB

Schibsted has issued senior unsecured debt of NOK 2.8bn as of June 2021. Senior unsecured debt is rated BBB, at the same level as the issuer rating.

Short-term debt: S-2

We have assigned an S-2 short-term rating, based on supportive internal and external sources of liquidity (e.g. access to credit facilities of NOK 3.1bn as at June 2021), positive cash flow generation, strong access to capital markets, and Schibsted's long-term issuer credit rating.

³ We exclude discretionary expansion capex from our liquidity calculation, as such investments are only made if external financing is available.



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