

# TOMRA Systems ASA

## Norway, Capital Goods


**A-** STABLE

### Key metrics

Scope credit ratios	2022	2023	Scope estimates	
			2024E	2025E
Scope-adjusted EBITDA/interest cover	37.4x	11.6x	11.2x	12.8x
Scope-adjusted debt (SaD)/EBITDA	1.3x	1.8x	1.9x	1.6x
Funds from operations (FFO)/SaD	58.3%	39.8%	39.5%	45.6%
Free operating cash flow (FOCF)/SaD	1.1%	-0.1%	-4.4%	8.8%

### Rating rationale

TOMRA's A- issuer rating is based on its BBB+ business risk profile and A financial risk profile. The rating is supported by: i) strong market positions, in particular in Collection and Recycling, bolstered by the company's technological knowhow, global reach and financial flexibility allowing it to undertake large implementations; ii) high and relatively stable margins in Collection and Recycling, with reported EBITDA margins of over 20% for the past five years; iii) supportive industry dynamics, such as the legislative push towards increased circularity and sustainability (positive ESG factor); and iv) a strong financial risk profile. The rating is constrained by: i) dilutive effects on overall profitability from TOMRA Food's lower profitability and ongoing restructuring at TOMRA Food, which further weighs on profitability in 2023-24; ii) limited diversification due to the relatively focused product offering and limited diversification of end markets; and iii) weak cash flow cover in 2022-24.

### Outlook and rating-change drivers

The Stable Outlook reflects TOMRA's supportive industry dynamics, such as the going-live of the new deposit return system markets in 2025, which drive TOMRA's revenue. The Outlook further reflects the expected recovery in TOMRA Food's profitability following the completion of restructuring in 2024, with the Scope-adjusted EBITDA margin trending back towards 20%. It also reflects our expectation that leverage, as measured by Scope-adjusted EBITDA/debt of 1.8x in 2023 and 1.9x expected for 2024, will improve towards 1.5x after 2024, driven by higher revenues and enhanced profitability following restructuring.

A positive rating action could be triggered by an improving financial risk profile, exemplified by Scope-adjusted debt/EBITDA sustained at below 1.0x.

A negative rating action could be triggered if TOMRA fails to meet our expectations of an improving Scope-adjusted debt/EBITDA ratio post restructuring and Scope-adjusted debt/EBITDA remains close to 2.0x in 2025.

### Rating history

Date	Rating action	Issuer rating & Outlook
4 June 2024	Affirmation	A-/Stable
2 June 2023	Affirmation	A-/Stable
23 June 2022	New	A-/Stable

### Rating & Outlook

Issuer	A-/Stable
Short-term debt	S-1
Senior unsecured debt	A-

### Analyst

Gennadij Kremer  
+49 69 6677389 84  
[g.kremer@scoperatings.com](mailto:g.kremer@scoperatings.com)

### Related Methodology

General Corporate Rating  
Methodology; October 2023

### Scope Ratings GmbH

Karenslyst allé 53  
N-0279 Oslo  
Phone +47 21 62 31 42

### Headquarters

Lennéstraße 5  
10785 Berlin  
Phone +49 30 27891 0  
Fax +49 30 27891 100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)





#### Positive rating drivers

- Strong market positions in particular in Collection and Recycling
- High and relatively stable margins in Collection and Recycling, with reported EBITDA-margins of over 20% for the past five years.
- Supportive industry dynamics, such as the legislative push towards increased circularity and sustainability and brand owners' commitments to meeting their sustainability goals (positive ESG factor)
- Strong financial risk profile supported by historically prudent financial governance
- Technological knowhow, global reach and financial flexibility to undertake large implementations

#### Negative rating drivers

- Dilutive effect on overall profitability from historically low profitability of TOMRA Food and ongoing restructuring at TOMRA Food, which further weighs on profitability in 2023-24
- Limited diversification due to the relatively focused product offering around sorting machines and reverse vending machines and the limited diversification of end markets
- Weak cash flow cover in 2022-23 to remain poor until at least 2024 due to growth investments

#### Positive rating-change drivers

- Improved financial risk profile, exemplified by Scope-adjusted debt/EBITDA sustained at below 1.0x.

#### Negative rating-change drivers

- Scope-adjusted debt/EBITDA remaining close to 2.0x post restructuring in 2025

## Corporate profile

Founded in 1972, TOMRA is a leading global supplier of sensor-based machines for the collection and sorting of beverage containers, food, waste, and minerals. It is headquartered in Asker, Norway, and listed on the Oslo Stock Exchange.

The company's four segments are Collection, Recycling, Food and Horizon.

Collection is TOMRA's largest segment, contributing over 50% to revenue and over 60% to total EBITDA, respectively. Collection consists of the development, production, sale, lease, and service of reverse vending machines (RVMs) for the automated collection of used beverage containers. Collection offers two types of models: i) sales and service; and ii) throughput. Around 80% of the collection business is made up of sales and service models, with the remaining 20% consisting of throughput models. Customers are primarily retailers in Europe and North America. Services account for approx. 40% of the segment's revenue, derived from servicing the installed base of approx. 85,000 RVM machines and throughput models.

Food provides sensor-based sorting and grading systems in the following food categories: potatoes, nuts and dried fruit, vegetables and fresh cut, protein, seeds and grains, citrus, blueberries, apples, kiwifruit, cherries, and avocados.

The Recycling segment provides sensor-based sorting solutions for the automation of valuable materials recycling from waste streams. Such materials are primarily plastics, non-ferrous metals, paper, organics, e-waste, wood, textiles, and other recyclables. The customers are waste management companies and specialised recyclers. In addition, it provides ore sorting systems for mining companies. TOMRA's recycling operations have an installed base of around 10,200 units in over 100 countries. Of the approx. 10,200 installations, around 65% are for waste sorting, 25% for recycling and 10% for mining.

Horizon is TOMRA's newly created platform for exploring new business areas and creating new business ventures that are adjacent to its three core divisions. These business ventures build on and complement the knowledge and technology developed in the company's core divisions. Currently TOMRA has initiated three new business ventures: TOMRA Feedstock, TOMRA Reuse and TOMRA Textiles.

TOMRA has around 5,400 employees with 110,000 installations in over 100 markets worldwide. In 2023, the company had revenue of around NOK 14.8bn (EUR 1.3bn) and Scope-adjusted EBITDA of about NOK 2.1bn (EUR 180m).



## Financial overview

	2021	2022	2023	Scope estimates		
Scope credit ratios	2021	2022	2023	2024E	2025E	2026E
Scope-adjusted EBITDA/interest cover	54.8x	37.4x	11.6x	11.2x	12.8x	14.8x
SaD/Scope-adjusted EBITDA	0.7x	1.3x	1.8x	1.9x	1.6x	1.5x
Funds from operations/SaD	126.2%	58.3%	39.8%	39.5%	45.6%	51.0%
Free operating cash flow/SaD	63.0%	1.1%	-0.1%	-4.4%	8.8%	13.1%
<b>Scope-adjusted EBITDA in NOK m</b>						
EBITDA	2,407	2,361	2,282	2,531	3,045	3,340
less: capitalised development costs	-104	-156	-157	-157	-157	-157
add: dividends received from at equity	15	5	11	15	15	15
<b>Scope-adjusted EBITDA</b>	<b>2,319</b>	<b>2,209</b>	<b>2,136</b>	<b>2,389</b>	<b>2,903</b>	<b>3,198</b>
<b>Funds from operations in NOK m</b>						
EBITDA	2,319	2,209	2,136	2,389	2,903	3,198
less: (net) cash interest paid	-42	-61	-183	-213	-225	-215
less: cash tax paid per cash flow statement	-312	-439	-416	-362	-511	-573
less: pension interest	-1	-1	-1	-1	-1	-1
Other items <sup>1</sup>	-37	-24	-14	0	0	0
<b>Funds from operations</b>	<b>1,927</b>	<b>1,685</b>	<b>1,522</b>	<b>1,812</b>	<b>2,165</b>	<b>2,409</b>
<b>Free operating cash flow in NOK m</b>						
Funds from operations	1,927	1,685	1,522	1,812	2,165	2,409
Δ working capital	-658	-925	-668	-254	-70	-112
Non-operating cash flow	380	163	390	0	0	0
less: capital expenditure (net)	-524	-761	-1,020	-1,530	-1,450	-1,450
add: capitalised development costs	104	156	157	157	157	157
less: amortisation of leases	-267	-287	-386	-386	-386	-386
<b>Free operating cash flow</b>	<b>963</b>	<b>32</b>	<b>-4</b>	<b>-200</b>	<b>416</b>	<b>618</b>
<b>Net cash interest paid in NOK m</b>						
Net cash interest per cash flow statement	42	59	183	213	225	215
add: interest component, operating leases	1	1	1	1	1	1
<b>Net cash interest paid</b>	<b>42</b>	<b>59</b>	<b>184</b>	<b>214</b>	<b>226</b>	<b>216</b>
<b>Scope-adjusted debt in NOK m</b>						
Reported gross financial debt	2,019	3,489	4,755	5,155	5,155	5,155
less: cash and cash equivalents	-632	-750	-1,168	-809	-642	-666
add: non-accessible cash	7	10	71	71	71	71
add: pension adjustment	54	55	47	47	47	47
add: asset retirement obligations <sup>2</sup>	79	85	119	119	119	119
<b>Scope-adjusted debt</b>	<b>1,528</b>	<b>2,889</b>	<b>3,824</b>	<b>4,583</b>	<b>4,750</b>	<b>4,726</b>







<sup>1</sup> Includes items such as the difference between pension expense and pension contribution paid and exchange rate effects

<sup>2</sup> 50% of warranty and service provisions for RVMs and sorters

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**Environmental, social and governance (ESG) profile<sup>3</sup>**

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency) 	Labour management	Management and supervision (supervisory boards and key person risk) 
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate) 
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity) 
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks 	Stakeholder management (shareholder payouts and respect for creditor interests) 

**Legend**

- Green leaf (ESG factor: credit positive)
- Red leaf (ESG factor: credit negative)
- Grey leaf (ESG factor: credit neutral)

We see opportunities in TOMRA's inherently environmentally friendly products. Megatrends like climate change, resource scarcity, a growing population, a growing middle class and increased urbanisation have led to a legislative push towards increased circularity and sustainability, particularly within plastics and packaging waste. In addition, market demand for high-quality recycled material is fuelled by commitments from brand owners to meeting their sustainability goals. As the current market leader with the technology, global reach and financial flexibility to undertake large-scale implementations when required, TOMRA is well positioned to benefit from this favourable ESG-driven tailwind, particularly in the waste sorting and plastics recycling business.

TOMRA's activities are governed to a significant degree by legislation such as deposit legislation or legislation for packaging waste. We see this as an opportunity, as legal measures to reduce waste and reuse resources continue to be implemented and boost demand for TOMRA's products.

We see a low governance risk. The TOMRA Board is composed of five shareholder-elected and three employee-elected directors (who are not part of senior management). All the five shareholder-elected directors are independent from management. However, Johan Hjertonsson, President and CEO of Latour AB, the largest shareholder in TOMRA, and Bodil Sonesson, President and CEO of AB Fagerhult, in which Latour AB is the largest shareholder, cannot be considered independent of major shareholders.

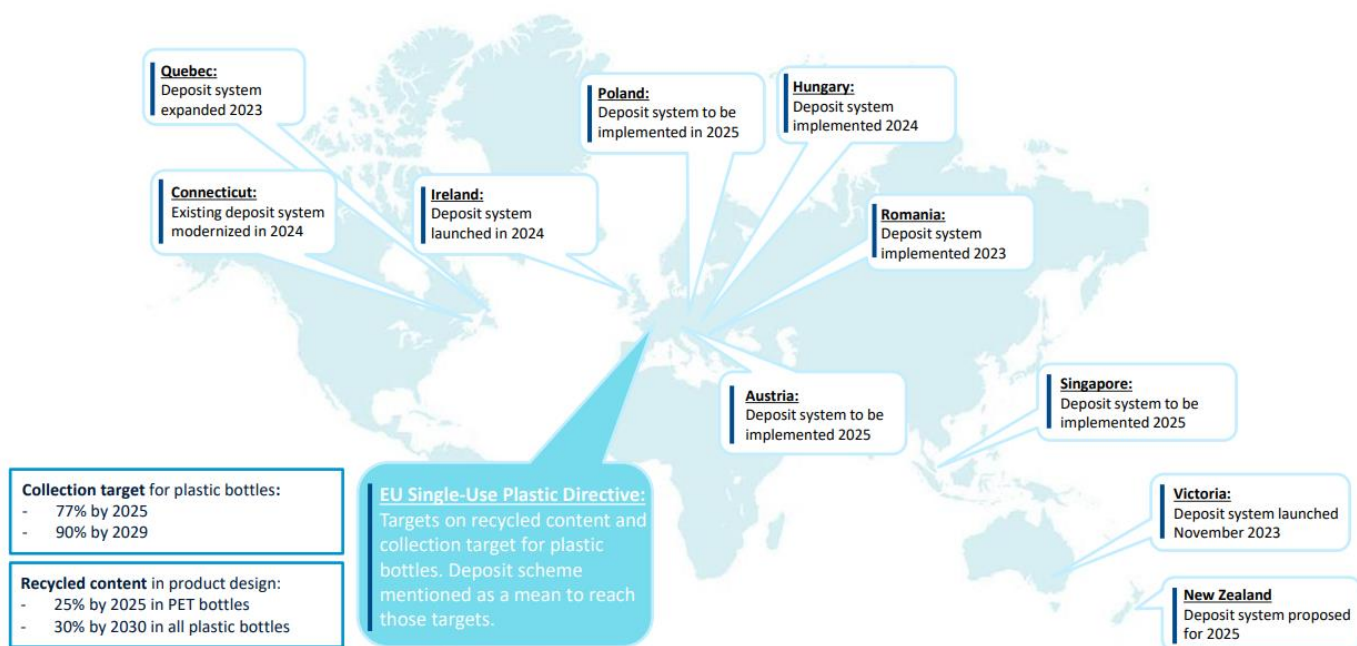
<sup>3</sup> These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e., those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

**Business risk profile: BBB+**

**Supportive industry dynamics continue to support TOMRA's business risk profile**

TOMRA's business risk profile continues to reflect supportive industry dynamics, such as the legislative push towards a more circular economy and sustainability, particularly in plastics and packaging waste (positive ESG factor). There are a number of markets that are expected to implement/expand deposit return systems (DRS) over the next two to three years. Austria, Singapore and Poland are expected to launch the DRS in 2025. Portugal could implement the deposit system after 2025, having passed all the necessary legislation. Moreover, the four governments in the UK have agreed to take a collective approach to developing and aligning a deposit return scheme across the UK. The objective is to have the regulations in place by spring 2025 and to go live in 2027.

**Figure 1: Recently launched and upcoming deposit markets**



Source: TOMRA Systems ASA, Scope

**TOMRA still a key beneficiary of new wave of upcoming DRS markets**

We expect TOMRA to remain a key beneficiary of the new wave of upcoming DRS markets, especially in Europe, thanks to its leading technology, global reach, and the financial flexibility to carry out large implementations. With around 85,000 RVMs in over 60 markets, Collection is the market leader with a global market share of approx. 70%.

**Niche recycling player with strong addressable market position**

Recycling is active in the sensor-based sorting equipment market, a very niche market with an accessible market value of around EUR 400m. Outside the market addressed by TOMRA: other non-sensor-based sorting equipment (magnets, ballistics, eddy currents) and other waste processing equipment. TOMRA has strong market positions in sensor-based waste recycling and sorting systems for mining companies, with market shares of 55%-60%. Recycling should continue to benefit from the growing activity in waste sorting (about 50% of the recycling business), which is driven by the legislative push and brand owners' commitments to meeting their sustainability goals. Unlike waste sorting, the metal and plastics recycling segments are dependent on commodity prices, such as PET prices, and are therefore more volatile.

**Food is weakest aspect of TOMRA's overall market position**

Although TOMRA Food is suffering in the short term due to lower fresh food customer willingness to make new investments because of higher interest rates and damaged harvests, we believe that the drivers of the food business, such as the need for automation and increased quality and safety requirements, are intact and will support the

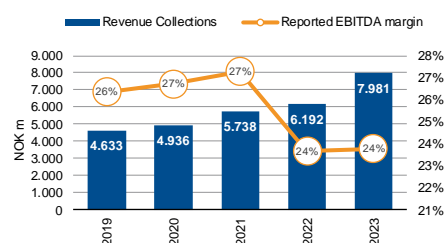


throughput and service business, both of which have a higher margin than equipment sales. Although the share of services in Recycling is lower than in Collection, the segment benefits from the very high-margin machine sales and the segment's lean organisation.

**TOMRA Food has a dilutive effect on TOMRA's overall profitability**

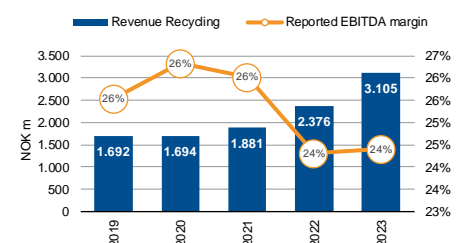
In contrast, the relatively low profitability of TOMRA Food, with a reported EBITDA margin of less than 15%, has had a dilutive effect on TOMRA's overall profitability. We see the main reasons in the lower profitability of TOMRA Food's end markets, especially in the fresh food industry (currently around 30% of the segment's sales; around 50% in 2021), where TOMRA supplies farmers who are relatively price sensitive. Profitability is also affected by the product mix, as the equipment TOMRA sells in the food industry is a combination of high value/margin sorters/graders with low margin peripherals (steel frames, belts, etc.).

**Figure 7: Collections – Revenue and reported EBITDA margin 2019-23**



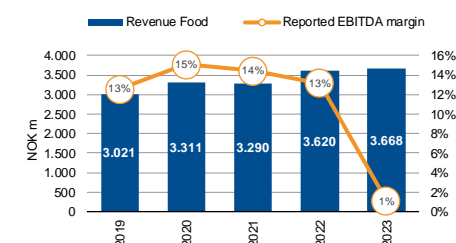
Sources: TOMRA Systems ASA Scope

**Figure 8: Recycling – Revenue and reported EBITDA margin 2019-23**



Sources: TOMRA Systems ASA, Scope

**Figure 9: Food – Revenue and reported EBITDA margin 2019-23**



Sources: TOMRA Systems ASA, Scope

**TOMRA Food headwinds weighed on Scope adjusted EBITDA margin in 2023**

The decline in demand at Food due to the difficult conditions for customers, particularly in the fresh food sector due to a combination of poor harvests and higher interest rates, made customers less willing to invest and led to weak market growth in 2023. This led to overcapacity as Food's organisation was geared towards higher volumes, creating pressure on the division's profitability in 2023. In Q3 2023, TOMRA initiated the restructuring of Food, which includes a reduction in headcount, the relocation of production from New Zealand to Slovakia, and the closure of a total of 11 sites. In 2023, TOMRA booked NOK 288m in restructuring costs. Due to Food's headwinds, the Scope-adjusted EBITDA margin declined from around 18% in 2022 to around 14% in 2023.

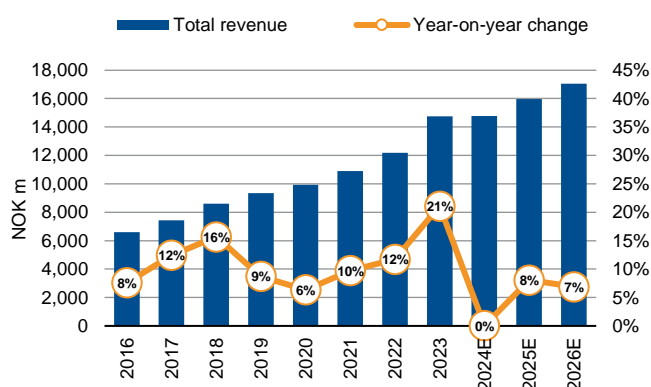
**Decline in the Scope-adjusted EBITDA margin in 2023 mitigated by revenue increase**

The decline in the Scope-adjusted EBITDA margin in 2023 was mitigated by revenue increase, with the result that Scope-adjusted EBITDA declined only slightly from NOK 2.2bn in 2022 to NOK 2.1bn in 2023. At NOK 14.8bn, revenues were up 21% YoY to an all-time high, driven by both Collection (up 29% YoY; up 18% currency adjusted) and Recycling (up 31% YoY; up 18% currency adjusted). Growth at Collection was largely driven by the rollout of reverse vending equipment in the new deposit systems in Romania, Hungary, and Ireland, as well as solid growth in existing markets such as the Netherlands. Moreover, Victoria went live with the deposit scheme late last year and is a throughput market. Overall, the new markets contributed approx. NOK 1.1bn to revenue growth in 2023. Growth in Recycling was driven especially by good momentum in the waste sorting segment. Food's revenue performance was clearly weaker due to the negative sentiment among fresh food customers, resulting in growth of only around 1.0% YoY (down 7% YoY currency adjusted).

**2024 to be more subdued after several years of strong growth**

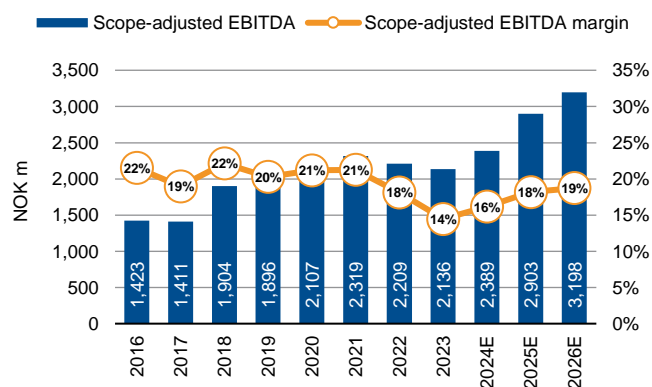
We expect 2024 to be more subdued after several years of strong growth due to: i) flatter revenue growth for Collection as fewer new markets are added in 2024; ii) softening demand for Recycling; and iii) declining revenue for Food. Overall, we have factored in an unchanged revenue of around NOK 14.8bn in 2024.

**Figure 10: Trend in revenue, 2016 to 2026E**



Sources: TOMRA Systems ASA, Scope (estimates)

**Figure 11: Trend in Scope-adjusted EBITDA, 2016 to 2026E**



Sources: TOMRA Systems ASA, Scope (estimates)

**Flatter revenue growth for Collection**

TOMRA's revenue increased by 2.6% YoY to NOK 3.3bn in Q1 2024, driven by growth in Collection but weighed down by lower revenue in Recycling and Food. In our full-year forecast, we expect Collection's revenue growth to slow down compared to Q1 2024 (up 15% YoY currency adjusted) with upside potential from operations in Poland. We expect activity related to Romania and Hungary, which recently went live with their DRS and drove revenue in Q1, to slow for the remainder of the year. It should be noted that typically around 80% is installed by the go-live date, with some variation from country to country. Therefore, only a small fraction will be delivered to a country after the go-live date. We expect three new markets to introduce deposit return schemes in 2025, namely Austria, Poland (both in January), and Singapore (in April). Austria, a market similar to Hungary, currently has the highest visibility with good activity already in Q1 2024. Singapore is a small market, similar in size to Ireland. Poland, on the other hand, is a large market with a population of 37 million. When it goes live, it will be the second largest deposit market after Germany. According to TOMRA, there is a risk of some delay in the go-live in Poland.

**Softening demand for Recycling**

Revenue declined in Recycling by 14% YoY (down 16% currency adjusted) in Q1 2024. Market sentiment in the plastics recycling segment remained weak due to lower raw material prices, especially rPET prices, resulting in an order intake of NOK 881m in Q1 2024, down 12% YoY on a currency-adjusted basis. We expect the completion of large projects and the execution of the order book (which was the highest ever at the end of Q1 2024, at NOK 1,459m) to support revenue after Q1 2024. We also expect Recycling revenue to be supported by growing activity in waste sorting, which is driven by policy rather than commodity prices.

**Declining revenue for Food**

Food revenue decreased 13% YoY (down 15% currency adjusted) due to the continued weakness of the fresh food market combined with seasonal effects. Food's order intake of NOK 924m was down 12% YoY currency adjusted, while the order book increased by 8% YoY to NOK 1,380m. We note that the restructuring process in Food will focus on profitability rather than on growth and foresee lower revenue in 2024.

For 2025 we have factored in revenue increasing to NOK 16.0bn (up 8.0% YoY), based on sound underlying trends.

**2024 Scope-adjusted EBITDA expected above 2023**

In Q1 2024, the reported EBITDA margin decreased to 11.3%, compared to 15.0% in Q1 2023, due to lower profitability in Recycling and Food, but supported by Collection. The lower profitability in Recycling was caused by lower fixed cost recovery from lower volumes and higher operating costs from business expansion, currency and inflation. We



anticipate that the execution of the order backlog will have a positive impact on the Recycling margin and expect Recycling to maintain its profitability level for the full year.

While Food's opex decreased in Q1 2024 on the back of the cost reduction programme, the division's profitability fell due to the negative impact of seasonally lower volumes and less sales in fresh categories. We expect the positive effects of the restructuring to be fully realised in Q4 2024, in line with TOMRA's guidance that it will achieve an EBITA run rate of 10%-11% in Food by the end of 2024. Supported by the increasing impact of the Food restructuring towards Q4 2024, we expect the Scope-adjusted EBITDA margin in 2024 to improve to around 16%, which corresponds to Scope-adjusted EBITDA of NOK 2.4bn.

In 2025, we expect a further improvement in the Scope-adjusted EBITDA margin to around 18% amid the full-year impact of the restructuring measures. In combination with the assumption of higher sales, this results in an increase in Scope-adjusted EBITDA to NOK 2.9bn.

Significant increase in Scope-adjusted EBITDA expected in 2025

Strong leverage supports financial risk profile; weak cash flow cover is a restraint

### Financial risk profile: A

Our unchanged assessment of TOMRA's financial risk profile reflects our expectation that the elevated leverage seen in 2023, and also expected for 2024, will not persist but will improve towards 1.5x after 2024, driven by higher revenue and improved profitability post restructuring.

### Financial debt composition

Reported financial debt amounted to NOK 3.2bn at end-December 2023, of which NOK 1.6bn were bonds and NOK 1.6bn bank loans. The bank loans comprise NOK 1.2bn drawn under the EUR 150m revolving credit facility and NOK 344m drawn under a EUR 40m (approx. NOK 480m) export credit line.

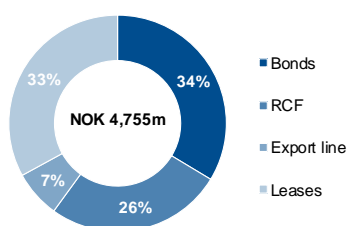
Scope-adjusted debt increase to around NOK 3.8bn in 2023

In order to calculate Scope-adjusted debt, we added: i) pensions of EUR 47m; and ii) leases of NOK 1.6bn. We have also added 50% of the warranty provision for RVMs and sorters in the amount of NOK 119m at YE 2023 as asset retirement obligations. In addition, NOK 71m of the cash on balance, mainly restricted bank deposits, is trapped. Overall, we calculate Scope-adjusted debt of NOK 3.8bn at YE 2023. The increase compared to NOK 2.9bn at YE 2022 primarily reflects negative Scope-adjusted free operating cash flow (FOCF) of NOK -4m, an M&A related cashout of NOK 110m, dividends of NOK 598m and an increase in leases by around NOK 271m, particularly due to the new leases of office buildings.

Scope-adjusted debt expected to increase in 2024-25

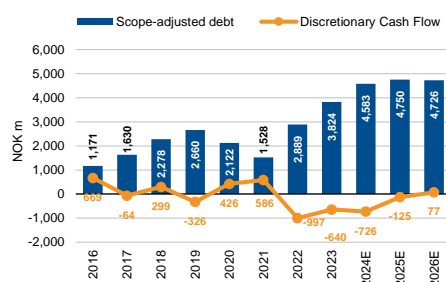
We expect Scope-adjusted debt to reach around NOK 4.6bn in YE 2024 and around NOK 4.7bn in YE 2025. This is because expected increasing investments in new plants and throughput markets, together with assumed dividend payments, are likely to weigh on TOMRA's liquidity.

Figure 12: Funding structure at end-December 2023



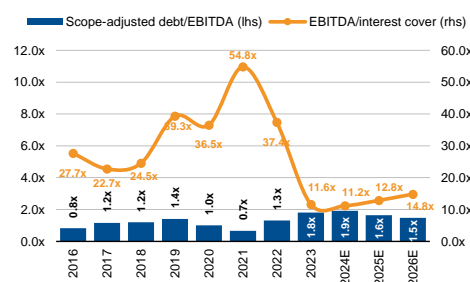
Sources: TOMRA Systems ASA Scope

Figure 13: Scope-adjusted debt, 2016 to 2026E



Sources: TOMRA Systems ASA, Scope (estimates)

Figure 14: Scope-adjusted debt/EBITDA EBITDA/interest cover, 2016 to 2026E



Sources: TOMRA Systems ASA, Scope (estimates)



**We expect leverage to improve from high levels in 2023-24**

Historically, TOMRA's leverage as measured by Scope-adjusted debt/EBITDA has been in the 0.7-1.3x range. Scope-adjusted debt/EBITDA increased from 1.3x in 2022 to 1.8x in 2023, as Scope-adjusted debt, combined with lower Scope-adjusted EBITDA, weighed on the ratio. We expect the assumed higher Scope-adjusted EBITDA to dampen the increase in debt, resulting in a Scope-adjusted debt/EBITDA ratio in 2024 similar to the 2023 level. We also anticipate that the projected increase in Scope-adjusted EBITDA in 2025 should improve the leverage ratio towards 1.5x in 2025.

**Interest cover weaker but still strong at well above 11x in 2023-25**

Cash interest increased to NOK 183m in 2023 compared to NOK 61m in 2022, largely driven by higher interest rates and additional debt financing. Combined with lower Scope-adjusted EBITDA, this led to a drop in interest coverage to 11.6x, compared to 37.4x in 2022. Here, we note that TOMRA's group policy is to primarily follow a floating interest strategy. In addition, the interest rates for the revolving credit facility and the export credit line depend on TOMRA's NIBD/EBITDA ratio. We expect interest cost to rise to around NOK 215m in 2024 and NOK 225m in 2025, driven by the higher debt level and the higher margin after the recent rise in NIBD/EBITDA. However, in our base scenario we continue to see interest coverage remaining very strong, at above 11x in 2024-25, supported by the assumed improvement in Food's profitability.

**Highly profitable Collection and Recycling support cash flow**

We continue to view TOMRA's ability to generate cash flow as solid, supported by the highly profitable Collection and Recycling businesses. In 2023, due to a lower Scope-adjusted EBITDA and higher interest expenses, Scope-adjusted funds from operations (FFO) decreased slightly to around NOK 1.5bn from NOK 1.7bn in 2022. The decline in Scope-adjusted FFO/debt from around 58% in 2022 to about 40% in 2023 was more pronounced due to the increase in Scope-adjusted debt. The assumed recovery in profitability at Food should be positive for Scope-adjusted FFO in 2024-25. We have therefore factored in an increase in Scope-adjusted FFO to around NOK 1.8bn in 2024 and roughly NOK 2.2bn in 2025. We expect Scope-adjusted FFO/debt to remain at about 40% in 2024 and to improve to approx. 45% in 2025. This is because we assume that the higher Scope-adjusted FFO will counteract the increase in Scope-adjusted debt.

**Scope-adjusted FOCF weakened significantly in 2022-23**

Unlike Scope-adjusted FFO, Scope-adjusted FOCF has weakened significantly over the last two years. This is due to net working capital-related outflows and increased investments in the installed base of RVMs related to the throughput business model. In general, the throughput model is more capital intensive than the sales and service model. This is because TOMRA acts as the operator of the machines, requiring an upfront investment and subsequent maintenance of the machinery. Overall, Scope-adjusted FOCF turned negative at NOK -4m in 2023, after NOK 32m in 2022. The decline in Scope-adjusted FOCF has led to a decline in cash flow cover from 63% in 2021 to 1% in 2022 and -0.1% in 2023, making it the weakest credit metric.

**We expect a significant increase in capex in 2024-25**

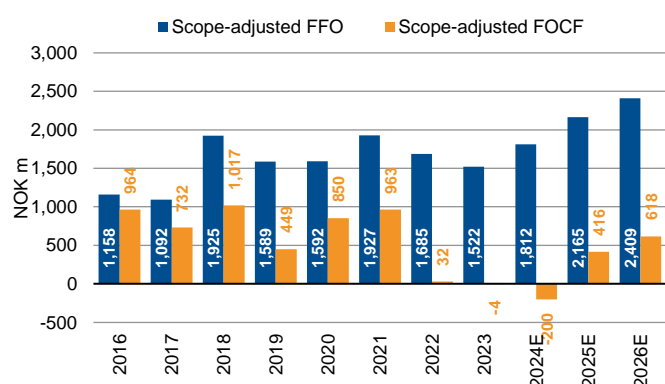
We do not expect cash flow coverage to return to pre-2022 levels during 2024-26, because investments in feedstock plants and throughput markets will increase capex significantly. We project that capex will rise to NOK 1.6bn in 2024. While the investments in plants should be completed in 2024, we expect the investments in throughput markets to keep capex high in 2025 and have factored in capex of NOK 1.5bn for 2025.

The ratio of inventories to revenue depends on new market launches and the speed/pattern of these launches. We expect inventories to temporarily increase in 2024-25 ahead of a rollout, particularly in Poland.

**Cash flow cover will remain weak**

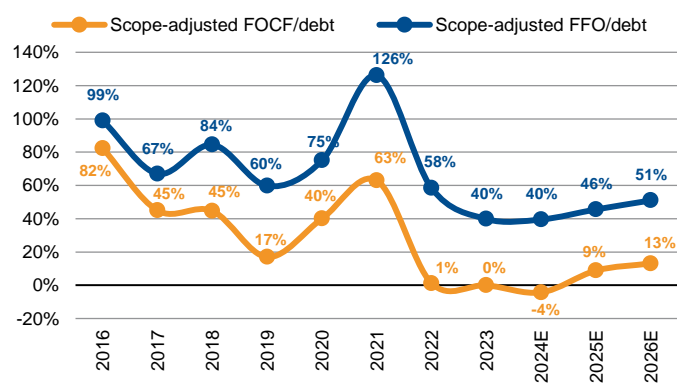
Overall, we forecast Scope-adjusted FOCF of around NOK -200m in 2024 and NOK 415m in 2025. We see cash flow coverage remaining negative at around -4% in 2024 and becoming positive at about 9% in 2025.

**Figure 15: Scope-adjusted FFO and Scope-adjusted FOCF, 2016 to 2026E**



Sources: TOMRA Systems ASA, Scope (estimates)

**Figure 16: Scope-adjusted FFO/debt and Scope-adjusted FOCF/debt, 2016 to 2026E**



Sources: TOMRA Systems ASA, Scope (estimates)

**Neutral view on capital allocation**

TOMRA's financial policy is credit-neutral. The company's definition of an investment grade profile is ample liquidity as well as NIBD/EBITDA of less than 2.0x. Although dividends of 40%-60% of earnings are relatively high, they tend to be well covered by Scope-adjusted FOCF. We note that TOMRA does not buy back shares in order to distribute cash to shareholders. All past share buyback programmes have focused solely on facilitating the annual employee share purchase programme within the company.

TOMRA is not actively looking for M&A but may make bolt-on acquisitions or even larger acquisitions if interesting opportunities arise. The company may consider some add-on acquisitions, especially in complementary technologies or in the food market.

**Adequate liquidity**

We consider TOMRA's liquidity to be adequate as the company's available cash sources cover its short-term debt over the next 12-18 months from YE 2023 by well over 100%.

Balance in NOK m	2023	2024E	2025E
Unrestricted cash (t-1)	739	1,097	738
Open committed credit lines (t-1)	1,010	1,010	1,010
Free operating cash flow (t)	-4	-200	416
Short-term debt (t-1)	No ST debt	609	509
<b>Coverage</b>	<b>No ST debt</b>	<b>~150%</b>	<b>&gt;200%</b>

**Cash sources**

**Principal cash sources comprise:**

- Cash on the balance sheet of NOK 1.2bn at YE 2023 (NOK 1.1bn at end-March), of which NOK 71m is trapped cash
- Undrawn credit facilities of around NOK 1bn: NOK 573m under the EUR 150m revolving credit facility, which matures in December 2025, which we expect to be refinanced; NOK 136m under the EUR 40m (approx. NOK 480m) export credit line maturing in 2029; and a NOK 300m unutilised international overdraft facility
- Expected Scope-adjusted FFO of around NOK 1.8bn in 2024 and NOK 2.2bn in 2025.

In April 2024, TOMRA Systems ASA issued a total of NOK 1bn in new senior unsecured green bonds split between two tenors: i) NOK 750m maturing in 2029; and ii) NOK 250m maturing in 2031.



#### Cash uses

#### Expected cash uses comprise:

- Net working capital-related cash outflow of around NOK 255m in 2024 and around NOK 70m in 2025
- Capex of about NOK 1.6bn in 2024 and around NOK 1.5bn in 2025
- Dividend payment of roughly NOK 576m in 2024 and NOK 591m in 2025
- Debt maturities according to TOMRA's debt maturity profile: NOK 600m in bonds due in 2024; and a NOK 500m and EUR 150m revolving credit facility due in 2025. We expect TOMRA to refinance upcoming bond maturities with new bonds and to refinance the revolving credit facility.
- Payments under leases of around NOK 350m per year in 2024-25

#### Covenant associated with revolving credit facility and export line

The company's revolving credit facility and the credit line provided by Export Finance Norway (Eksfin) are conditional upon an equity covenant of at least 30% of total assets, measured at the end of each quarter. TOMRA had ample headroom under its financial covenant and we expect TOMRA to comply with the covenant in our base case.

#### Debt ratings

#### Senior unsecured debt rating: A-

We affirm TOMRA's rating for senior unsecured debt at A-, in line with the issuer rating.

All TOMRA's NOK 3.2bn in debt at end-December 2023 was senior unsecured and pari passu. Debt comprises three tranches of corporate bonds with a total amount of NOK 1.6bn (NOK 600m due in November 2024; NOK 500m due in November 2025; NOK 500m due in November 2027). Debt also comprises committed credit lines of around NOK 2.4bn, of which about NOK 1.6bn were utilised at YE 2023: NOK 1.2bn drawn under the revolving credit facility and NOK 344m drawn under the export credit line.

#### All debt is managed centrally; no cross guarantees

All debt is issued centrally by TOMRA Systems ASA with no cross guarantees from subsidiaries. TOMRA Systems ASA and its subsidiaries participate in an international multi-currency cash-pool and zero-balancing cash pools.

#### Short-term debt rating: S-1

We continue to rate TOMRA's short-term debt at S-1. This is based on the issuers A-/Stable rating, supportive internal and external sources of liquidity (e.g. access to credit facilities and cash on hand), positive cash flow generation, strong access to capital markets, and TOMRA's long-term issuer credit rating.



## Scope Ratings GmbH

### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin  
Phone +49 30 27891-0

### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main  
Phone +49 69 66 77 389 0

### Paris

10 avenue de Messine  
FR-75008 Paris  
Phone +33 6 6289 3512

### Oslo

Karenslyst allé 53  
N-0279 Oslo  
Phone +47 21 62 31 42

### Madrid

Paseo de la Castellana 141  
E-28046 Madrid  
Phone +34 91 572 67 11

### Milan

Via Nino Bixio, 31  
20129 Milano MI  
Phone +39 02 30315 814

## Scope Ratings UK Limited

### London

52 Grosvenor Gardens  
London SW1W 0AU  
Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

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