

CREDIT OPINION

20 December 2022

Update



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RATINGS

Elisa Corporation

Domicile	Helsinki, Finland
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Elisa Corporation

Update to credit analysis

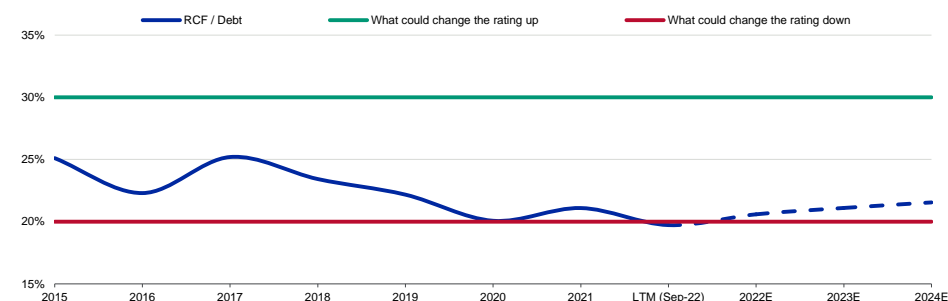
Summary

[Elisa Corporation's](#) (Elisa) Baa2 rating reflects the company's integrated business profile and leading positions in Finland's fixed and mobile markets; the stable operating environment in [Finland](#) (Aa1 stable), which supports a rational pricing environment; the company's solid financial profile; its track record of operating with predictable financial policies, including a target leverage (net reported debt/EBITDA) of 1.5x-2.0x; and solid and stable cash flow metrics for the Baa2 rating.

The rating also factors in Elisa's small scale and revenue concentration in Finland, except for its increasing exposure to Estonia; and the company's limited free cash flow generation because of the generous shareholder remuneration policy.

Exhibit 1

Elisa's RCF/debt is well within the expected range for the Baa2 rating Evolution of Moody's-adjusted retained cash flow (RCF)/debt



Source: Moody's Financial Metrics™

Credit strengths

- » Strong market position in Finland
- » Integrated business model and moderate technology risk
- » Elisa operates in the most advanced mobile market in the world with best-in-class mobile service revenue growth due to its unique pricing model
- » Stable market structure, despite keen pricing competition in the mobile segment
- » Relatively high EBITDA margin and low capital spending intensity, which support cash flow generation
- » Predictable financial policies, which support stable and conservative credit metrics

Credit challenges

- » Small scale
- » Revenue concentration in Finland, notwithstanding increased exposure to Estonia
- » A competitive domestic market, which limits growth opportunities
- » Persistently high inflation

Rating outlook

The stable rating outlook takes into consideration the fact that Elisa will perform according to its business plan while maintaining its credit metrics for the current rating category. In addition, the stable outlook factors in our expectation that the company will maintain adequate liquidity at all times.

Factors that could lead to an upgrade

Positive pressure could be exerted on Elisa's rating if the company's credit metrics improve, such that its Moody's-adjusted gross debt/EBITDA remains well below 2.0x and retained cash flow (RCF)/adjusted debt remains above 30%.

Factors that could lead to a downgrade

Negative rating pressure could result from any unexpected deterioration in market conditions; or larger-than-expected investments and further returns to shareholders, causing the company's Moody's-adjusted gross debt/EBITDA to rise above 2.5x and RCF/adjusted debt to trend towards 20%, without any prospect of recovery.

Key indicators

Exhibit 2

Key Indicators for Elisa Corporation

	2017	2018	2019	2020	2021	LTM (Sep-22)	2022 (E)	2023 (E)	2024 (E)
Revenue	1,787	1,832	1,844	1,895	1,998	2,102	2,088	2,175	2,266
Debt / EBITDA	2.0x	2.0x	1.9x	2.1x	1.9x	2.0x	1.9x	1.9x	1.8x
RCF / Debt	25.2%	23.4%	22.2%	20.1%	21.1%	19.7%	20.6%	21.1%	21.5%
(EBITDA - Capex) / Interest Expense	12.7x	12.9x	17.7x	23.5x	31.7x	28.8x	26.2x	25.1x	25.9x
Net debt / EBITDA	1.9x	1.9x	1.9x	1.8x	1.8x	1.9x	1.7x	1.7x	1.6x
RCF / Net debt	26.1%	24.9%	23.1%	23.7%	23.1%	20.9%	23.1%	23.8%	24.4%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. RCF calculated as funds from operations less dividends.

Source: Moody's Financial Metrics™

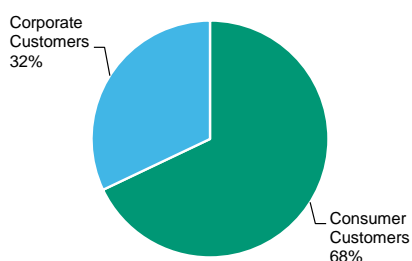
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

Elisa Corporation (Elisa) is an integrated provider of telecommunication services in Finland, with around 5.1 million mobile and over 1.4 million fixed subscriptions as of Q3 2022. Elisa holds leading positions in Finland, in both mobile and fixed-line segments, with a 39% subscriber market share in mobile and 29% in fixed broadband as of June 2022 (last available). The company also operates in Estonia as the second-largest integrated telecommunications operator, with a total subscription market share of 33% in mobile and 23% in fixed broadband. The company offers fixed broadband, mobile, pay-TV and corporate network services. As of December 2021, the Finnish state, through its investment arm, Solidium, owns a 10% stake in Elisa. In addition, the State Pension Fund owns a 0.66% stake in the company. In the 12 months ended September 2022, Elisa generated revenue and EBITDA of €2.1 billion and €726 million, respectively.

Exhibit 3

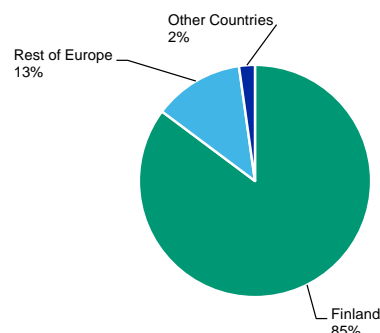
Elisa provides fixed and mobile services to consumers and businesses in Finland and Estonia
Q3 2022 EBITDA breakdown by segment



Source: Company data

Exhibit 4

Elisa's operations are concentrated in Finland, which accounted for ca. 85% of revenue in FY 2021
FY 2021 revenue breakdown by geography



Source: Company data

Detailed credit considerations

Small size and limited geographical diversification, partially offset by a strong market position in Finland

With revenue of €2.1 billion and EBITDA of €726 million in the 12 months that ended September 2022, Elisa is a relatively small incumbent telecom operator in Europe. The company's operations are concentrated in Finland, which accounted for ca. 85% of its revenue in 2021, and where it holds leadership positions in mobile and fixed broadband. In Estonia, accounting for almost 10% of Elisa's revenue as of Q3 2022, the company historically operated as a wireless network operator. However, Elisa's competitive position has improved in Estonia after the acquisition of Starman in 2016 and Santa Monica in 2017, creating an integrated operator offering fixed broadband, mobile and pay-TV services. In the near term, we expect Elisa's management to remain focused on building a competitive position in its core markets, Finland and Estonia. Furthermore, we expect a conservative M&A policy focused on small bolt-on acquisitions designed to strengthen the company's market position in strategic segments, such as the digital services business; this has been confirmed also by the recent 50.1% acquisition of TenForce, a Belgium-based software company which provides operational risk management software, occurred in September 2021. Additionally, in the first quarter of 2022, Elisa acquired FRINX s.r.o for a total consideration of €14.2 million, a Slovak telecom network automation software supplier which will attempt to enhance analytics offerings and process automation. In July 2022, Elisa also entered in an agreement to acquire Cardinality Ltd, which is a global supplier of cloud-native data management, service assurance and customer experience analytics based in UK.

An integrated business model and moderate technology risk

Elisa is an integrated operator in Finland. Overall, we view integrated operators more favorably than standalone fixed-line operators or mobile-only companies. As markets converge, integrated operators are better positioned to benefit from growth trends in either the fixed-line or mobile business, while hedging their exposure to slowing sub-segments, such as fixed voice. Similarly, converged operators tend to merge corporate functions, such as sales, marketing and network operations, thereby enhancing operating efficiency.

We view Elisa's technology risk as moderate, given its leading position in 4G networks, in terms of both coverage and speed. The company has made heavy investments in its 4G LTE network, reaching over 99% coverage in Finland and 98% coverage in Estonia.

Elisa is also leading in 5G: as of September 2022, Elisa's 5G network has the widest coverage in Finland, reaching ca. 83% population in approximately 200 locations. In June 2020, Elisa won 800 MHz of spectrum licences in the 26 GHz band to continue expanding its 5G network. In Finland, the firm has secured all main frequencies until 2033, and from 2019 it has had the largest amount of spectrum in the country. Because of its large spectrum ownership and the low population density in Finland, Elisa has more spectrum per capita than other European operators. As a result, it is one of the few European companies that differentiate their offers by speed rather than the size of data buckets. In Estonia, Elisa achieved its target, winning 130 MHz of spectrum under the Estonian auction for the 3.5 GHz spectrum ended on 27 May 2022 and 2x10 MHz of spectrum under the Estonian 700 MHz spectrum auction completed on 8 November 2022. The new spectrum is being used to build Elisa's 5G network.

The governments of Estonia and the US signed a memorandum of understanding that will restrict the use of Huawei equipment in Estonia's 5G mobile core networks. However, although Elisa's suppliers for Radio Access Network are [Nokia Oyj](#) (Ba2 positive) and Huawei, the company's core equipment is provided by Ericsson and Nokia.

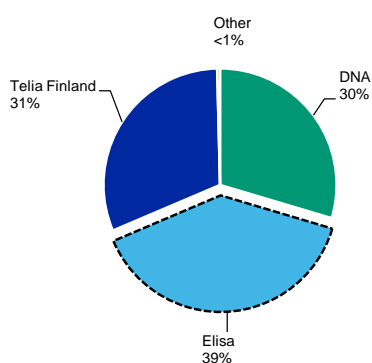
Stable market structure supports a rational pricing environment

Elisa is one of the more stable operators in the European telecom peer group in terms of operating performance and cash flow generation. This stability stems from Elisa's long-term strategy, its execution and unchanged capital allocation policies, and a favorable operating environment where the three established national operators — Elisa, [Telia Company AB](#) (Telia, Baa1 stable) and DNA Oyj (DNA, owned by [Telenor ASA](#) [Baa1 stable]) — own fixed broadband and mobile assets, and try to take their fair share of modest market growth, with no major shifts in market position. Average prices are relatively low by the European market standard, leaving little room for discounted offers by mobile virtual network operators, which only have a less than 1% share of the market.

The Finnish mobile market remains dominated by Elisa, which has a 39% market share in terms of subscribers, followed by Telia with 31% and DNA with 30%. As of Q2 2022, in fixed broadband, Elisa has a strong position with a 29% market share, DNA is market leader with 33%.

Exhibit 5

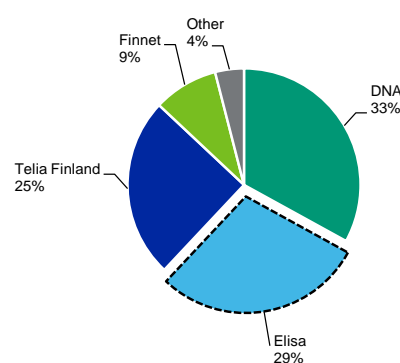
Mobile subscriptions market shares Figures as of June 2022



Source: Finnish Transport and Communications Agency

Exhibit 6

Fixed broadband subscriptions market shares Figures as of June 2022



Source: Finnish Transport and Communications Agency

Despite deteriorating macroeconomic environment in Finland and intense competition in mobile and in fixed broadband in the Finnish telecommunications market, Elisa believes that its ability to continue to defend its market share depends on its superior network quality; wider portfolio of digital services businesses; premium packages that are unique to the market; and lean cost structure, which provides it with the capacity to invest more in customer acquisitions, if required.

Upselling to higher speeds supported good operating performance, despite intense competition

In the first nine months of 2022, Elisa's operating performance was solid; compared to the same period of last year, with revenue and EBITDA growth of 7.1% and 5.1%, respectively. Revenue was supported by both corporate (+11%) and consumer (+5%) segments on the back of mobile, fixed (only for corporate segment), digital services and equipment sales as well as by recent acquisition of Frinx and

Cardinality. Rising energy costs and high inflation weighed on EBITDA, which was to some extent mitigated by efficiency measures as well as positive impact from higher restructuring costs booked in the same period of 2021.

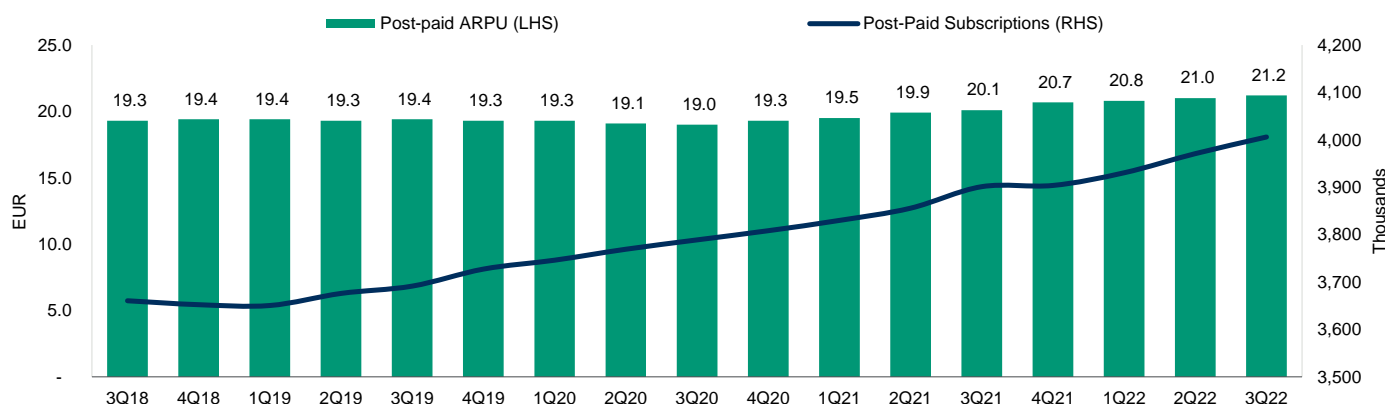
In the mobile segment, Elisa has been successful in upselling higher speeds to customers at higher prices; during 2021, upselling of mobile subscriptions is still continuing, mainly driven by 5G. In Finland, mobile post-paid ARPU increased to EUR 21.2 in Q3 2022 from EUR 20.1 in Q3 2021, and mobile post-paid churn increased to 18.6% from 16.3%. In the same 12-months period, mobile subscriptions in Finland increased 3% to over 4 million (of which, 92% are post-paid subscriptions). The shift to higher speeds has been accelerated by the rapid uptake of smartphones in Finland (as of Q3 2022, 93% of Elisa's customers used smartphones, with 4G/5G speed penetration now reaching 83%), greater demand for online TV and videos, and the company's unlimited mobile data pricing model, among others. In addition, Elisa continues to record strong demand for premium subscriptions in Finland, with 90% of post-paid subscriptions being fixed-monthly-fee, unlimited bundles.

For the full year 2022, Elisa estimates its revenue to be slightly higher than in 2021, and the same guidance applies also to EBITDA. Mobile data and digital services are expected to increase revenue, along with productivity improvement and quality enhancement measures that will likely increase customer satisfaction and efficiency, while reducing costs. However, competition in the Finnish telecommunications market remains intense and greater promotional activity might be needed.

In the next 12-18 months, we expect revenue to increase at low single digit and reported EBITDA margin at 34%-35%. Earnings growth should be supported by continued upselling of customers from 3G to 4G and from 4G to 5G, as well as growth in digital services revenue, and further productivity improvements.

Exhibit 7

Post-paid subscriptions and ARPU have increased over the past 12 months Evolution of post-paid subscriptions and ARPU in Finland



Source: Company data

Predictable financial policies drive stable and conservative credit metrics

Elisa has a track record of a stable financial policy. The company's medium-term financial targets as of Q3 2022 remain unchanged from previous year and include reported net debt/EBITDA of 1.5x-2.0x, equity above 35%, and maximum capital spending/sales of 12% excluding leases and spectrum licences. Elisa's capital spending intensity is lower than the European average of around 15%, which management attributes to the company's strict capital spending policy, lean strategy focused on market demand and effectiveness in actively managing its network.

Elisa's stable financial policy provides good cash flow visibility and supports a generous dividend policy aimed at distributing 80%-100% of net profit, provided net debt/EBITDA remains within 1.5x-2.0x. Given the fact that the vast majority of the excess cash flow is distributed to shareholders, this policy leaves little capacity to accommodate extraordinary capital spending plans (beyond Elisa's 12% capital spending/sales target) or sizeable debt-financed M&A. Furthermore, in light of its generous dividend policy, we expect Elisa to continue to exhibit credit metrics most closely associated with a Baa2 rating.

ESG considerations

Elisa Corporation's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 8

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Elisa's ESG Credit Impact Score is Neutral-to-Low (**CIS-2**). ESG attributes have low credit impact on Elisa's rating, as the company has historically maintained a conservative financial policy while environmental and social risks are limited. The company's ability to innovate and adapt to customers' sustainability requirements helps mitigate its exposures to energy consumption, data privacy and societal trends over time.

Exhibit 9

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

The company's exposure to environmental risks is Neutral-to-Low, in line with exposures of the telecommunications industry. The company's objectives to increase renewable power usage is in line with telecommunications industry trends. The nature of its telecommunications activities, with limited exposure to physical climate risk and very low emissions of pollutants and carbon, results in low environmental risk.

Social

In terms of social risks, data security and data privacy issues these are prominent in Elisa. The company exchanges large amounts of data, and a breach could cause legal, regulatory or reputation issues. In addition, a breach could result in increased operational costs to mitigate cyberattacks and reduce exposure to the loss of private data. Electromagnetic radiation (for example, from mobile antennas or mobile handsets) has repeatedly been said to be potentially harmful to the environment and health. While the need for higher mobile data speeds will increase electromagnetic radiation, we do not see it as a significant environmental risk for Elisa, given the existing regulatory radiation limits in Finland and ongoing technology improvements.

Governance

Elisa has neutral exposure to governance factors. In terms of governance, Elisa has a long track record operating under a well-defined, predictable financial policy, which provides good cash flow visibility and supports a generous dividend policy aimed at distributing

80%-100% of net profit, provided net debt/EBITDA remains within 1.5x-2.0x. The company is listed and while the Finnish state, through its investment arm, Solidium, owns a 10.0% stake in Elisa, this is not considered a concentrated ownership.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

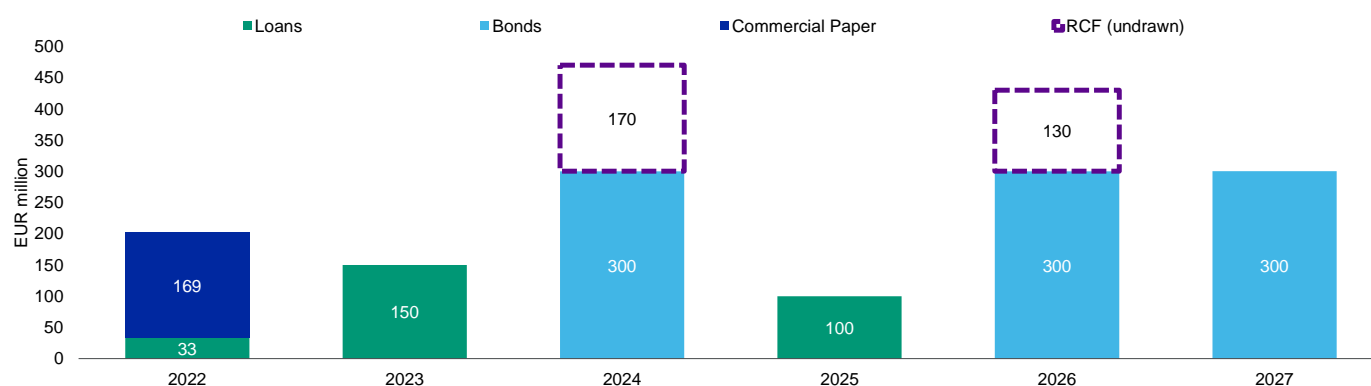
Liquidity analysis

Elisa's liquidity is adequate, supported by cash and cash equivalents of €78 million as of September 2022 and full availability under its €300 million committed revolving credit facilities, including the €170 million RCF maturing in 2024 and the €130 million sustainability-linked RCF issued in Q3 2021 and maturing in 2026 (with two years extension option). These sources, together with expected annual funds from operations of €620 million-€630 million, will more than cover Elisa's cash needs over the next 12-18 months, including €169 million in commercial paper maturities and maturing in 2022, around €250 million in capital spending and around €330 million in dividends.

Exhibit 10

We expect available sources of liquidity to more than cover debt maturing over 2022-2023

Debt maturity profile as of 30 September 2022



RCFs are fully undrawn as of September 2022

Source: Company data

Methodology and scorecard

The scorecard-indicated outcome for Elisa, according to the Telecommunications Service Providers rating methodology and based on our forecasts for the next 12-18 months, is in line with the actual rating of Baa2. The outcome reflects the company's status as an integrated incumbent in a highly competitive domestic market, as well as its small scale compared with that of its industry peers. The outcome also incorporates the company's strong interest expense coverage ratio and modest leverage for its rating category

Exhibit 11

Rating factors

Elisa Corporation

Telecommunications Service Providers Industry Scorecard [1][2]			Current LTM 9/30/2022		Moody's 12-18 Month Forward View As of 12/12/2022 [3]	
Factor 1 : Scale (12.5%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$2.3	B	\$2.3	B		
Factor 2 : Business Profile (27.5%)						
a) Business Model, Competitive Environment and Technical Positioning	Baa	Baa	Baa	Baa		
b) Regulatory Environment	Ba	Ba	Ba	Ba		
c) Market Share	Baa	Baa	Baa	Baa		
Factor 3 : Profitability and Efficiency (10%)						
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa		
Factor 4 : Leverage and Coverage (35%)						
a) Debt / EBITDA	2.0x	A	1.8x - 1.9x	A		
b) RCF / Debt	19.7%	B	20.6% - 21.5%	Ba		
c) (EBITDA - CAPEX) / Interest Expense	28.8x	Aaa	26.2x - 25.9x	Aaa		
Factor 5 : Financial Policy (15%)						
a) Financial Policy	Baa	Baa	Baa	Baa		
Rating:						
a) Scorecard-Indicated Outcome		Baa3		Baa2		
b) Actual Rating Assigned				Baa2		

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions or divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
ELISA CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 13

Peer comparison

Elisa Corporation

	Elisa Corporation Baa2 Stable			Telenor ASA Baa1 Stable			Telia Company AB Baa1 Stable			Koninklijke KPN N.V. Baa3 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
(in USD million)	Dec-20	Dec-21	Sep-22	Dec-20	Dec-21	Sep-22	Dec-20	Dec-21	Sep-22	Dec-20	Dec-21	Jun-22
Revenue	2,162	2,364	2,281	12,347	12,828	12,120	9,718	10,304	9,374	6,030	6,236	5,990
EBITDA	790	826	787	5,290	5,348	5,134	3,277	3,456	3,178	2,813	2,931	2,833
Total Debt	1,757	1,530	1,419	17,934	15,263	12,772	12,366	10,164	7,541	9,291	8,748	7,423
Cash & Cash Equivalents	269	130	77	2,382	1,725	1,488	985	1,582	872	1,061	1,243	458
EBITDA margin %	36.5%	34.9%	34.5%	42.8%	41.7%	42.4%	33.7%	33.5%	33.9%	46.7%	47.0%	47.3%
(EBITDA - Capex) / Interest Expense	23.5x	31.7x	28.8x	7.3x	6.7x	7.3x	3.9x	4.4x	3.6x	4.7x	4.9x	5.6x
Debt / EBITDA	2.1x	1.9x	2.0x	3.1x	2.9x	2.9x	3.4x	3.1x	2.7x	3.1x	3.1x	2.8x
FCF / Debt	2.4%	0.2%	-2.1%	2.6%	0.6%	-1.9%	1.9%	2.4%	-2.1%	3.6%	3.1%	4.8%
RCF / Debt	20.1%	21.1%	19.7%	18.8%	18.4%	17.2%	14.9%	17.4%	19.5%	21.0%	17.7%	21.4%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics TM

Exhibit 14

Moody's-adjusted sebt breakdown

Elisa Corporation

	FYE	FYE	FYE	FYE	FYE	LTM
(in EUR million)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Sep-22
As Reported Total Debt	1,118	1,149	1,236	1,427	1,333	1,436
Pensions	15	14	15	10	13	13
Leases	166	173	0	0	0	0
Non-Standard Adjustments	18	34	36	0	0	0
Moody's Adjusted Total Debt	1,317	1,369	1,287	1,436	1,346	1,448

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics TM

Exhibit 15

Moody's-adjusted EBITDA breakdown

Elisa Corporation

	FYE	FYE	FYE	FYE	FYE	LTM
(in EUR million)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Sep-22
As Reported EBITDA	655	641	660	692	698	726
Unusual Items - Income Statement	(48)	(7)	(0)	0	0	0
Leases	55	58	0	0	0	0
Non-Standard Adjustments	0	0	0	0	0	0
Moody's Adjusted EBITDA	663	692	660	692	698	726

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics TM

Exhibit 16

Selected historical and projected Moody's-adjusted financial data

Elisa Corporation

	FYE	FYE	FYE	FYE	FYE	LTM	Proj	Proj	Proj
(in EUR million)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Sep-22	Dec-22	Dec-23	Dec-24
INCOME STATEMENT									
Revenue	1,787	1,832	1,844	1,895	1,998	2,102	2,088	2,175	2,266
EBITDA	663	692	660	692	698	726	732	745	770
BALANCE SHEET									
Cash & Cash Equivalents	44	81	52	220	114	78	153	160	163
Total Debt	1,317	1,369	1,287	1,436	1,346	1,448	1,392	1,392	1,392
CASH FLOW									
Capital Expenditures	(304)	(285)	(254)	(270)	(282)	(276)	(274)	(284)	(295)
Dividends	240	263	280	296	311	328	333	337	352
Free Cash Flow (FCF)	7	17	21	35	3	(30)	11	7	3
RCF / Debt	25.2%	23.4%	22.2%	20.1%	21.1%	19.7%	20.6%	21.1%	21.5%
PROFITABILITY									
EBITDA margin %	37.1%	37.8%	35.8%	36.5%	34.9%	34.5%	35.1%	34.3%	34.0%
INTEREST COVERAGE									
EBITDA / Interest Expense	23.4x	22.0x	28.7x	38.6x	53.1x	46.4x	41.8x	40.5x	41.9x
(EBITDA - CAPEX) / Interest Expense	12.7x	12.9x	17.7x	23.5x	31.7x	28.8x	26.2x	25.1x	25.9x
LEVERAGE									
Debt / EBITDA	2.0x	2.0x	1.9x	2.1x	1.9x	2.0x	1.9x	1.9x	1.8x

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. This Represents Moody's forward view, not the view of the issuer

Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

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