S&P Global Ratings

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Elisa Oyj

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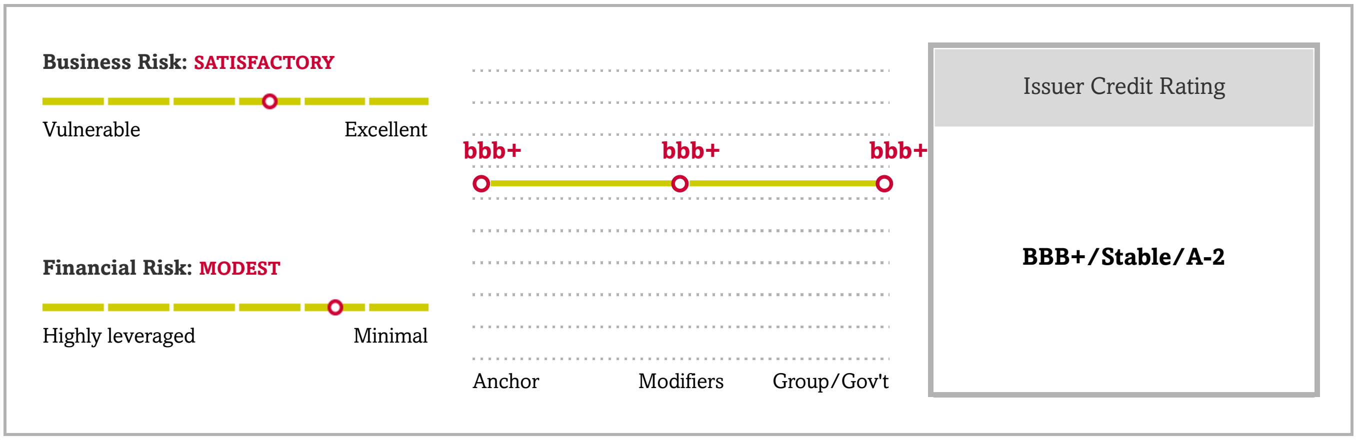


Credit Highlights

Overview

Key strengths	Key risks
Leading telecommunications operator in Finland, with a 39% subscriber market share in mobile and 29% in fixed broadband, and No. 2 in Estonia with 35% and 23%, respectively.	Limited scale and geographical presence versus many European peers, with annual EBITDA of about €700 million in 2021, predominantly generated in Finland.
Overall stable competitive environment in the three-player Finnish and Estonian telecom markets.	Intense competition in certain parts of the residential broadband and business-to-business (B2B) segments.
Well-invested networks and expansion toward digital services spur revenue growth.	Commercial paper maturing in less than 12 months typically constituting 12%-14% of total debt.
Conservative financial policy, targeting net debt to EBITDA of 1.5x–2.0x, translating into S&P Global Ratings-adjusted debt to EBITDA of less than 2.0x.	
Relatively low capital expenditure (capex), of about 12% of sales, supporting strong free operating cash flow (FOCF) generation and FOCF to debt of about 30%.	

Elisa Oyj maintains a No. 1 position in the mobile segment in Finland and No. 2 in Estonia, competitive but stable markets. Based on 2021 data by Finnish regulator Traficom, in Finland, Elisa holds a leading 39% mobile subscriber market share, ahead of Telia, and DNA (owned by Telenor), and it is also No. 2 in fixed services (29%), while DNA is now leading with 33%. In Estonia, where Elisa generates about 10% of its revenue, it is No. 2 (35% in mobile services and 23% in fixed broadband) with Telia the leading player (43% and 53%, respectively).

The Finnish mobile market, and Elisa in particular, has good quality networks, and Finland is a global leader in the use of mobile data. According to Traficom, in 2021 the volume of data transferred via the mobile network per capita and month was nearly 56 gigabytes in Finland. The three operators hold close amounts of spectrum in all key bands; however, Elisa has the widest spectrum availability among the three peers.

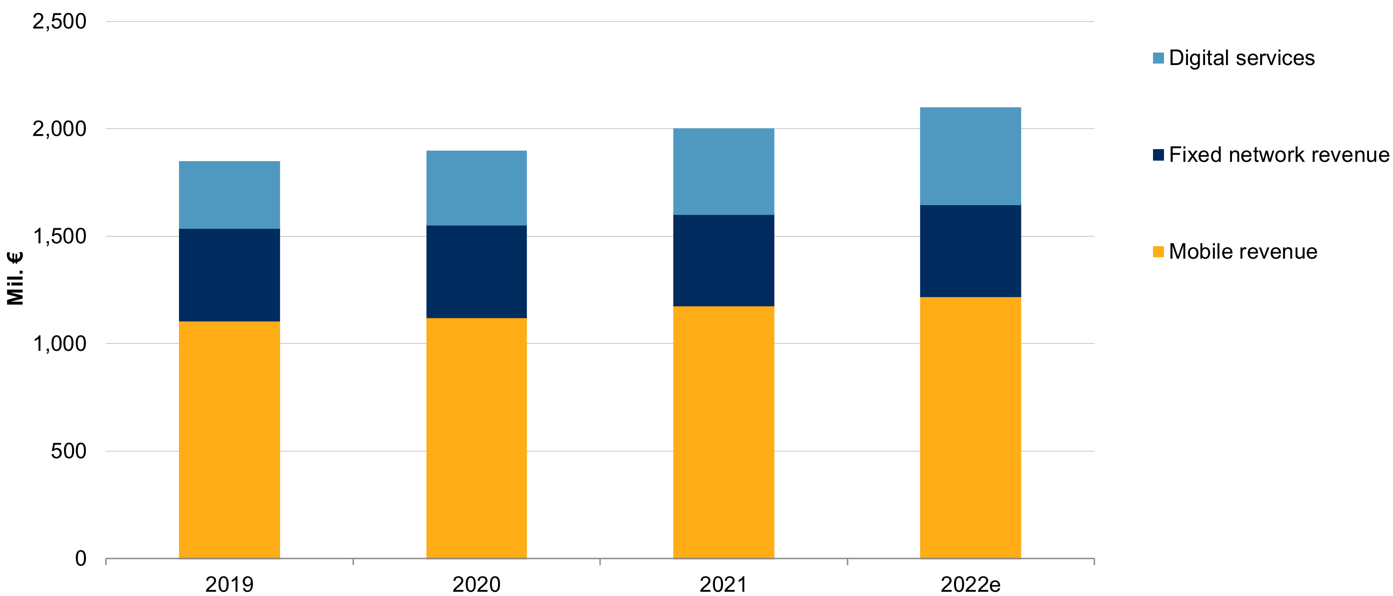
Growth prospects in Estonia are underpinned by limited investment needs due to population density and high spectrum available, and opportunities to monetize data-consumption increases in the stable three-player market. In Estonia, Elisa participated in the 3.5 gigahertz (GHz) band 5G spectrum auction and won efficient 130 megahertz

(MHz) spectrum, which supports the company's strategy of building a 5G network in the country.

Elisa reported strong financial results amid a challenging operating environment due to COVID-19 and S&P Global Ratings expects solid 2022 metrics despite pressure on margins. We forecast that Elisa's mobile service revenue (excluding equipment sales, roaming, and interconnection) will likely expand 4%-5% in 2022 following 4% in 2021, mainly boosted by 5G services. Consequently, we expect consolidated revenue to expand about 5% in 2022 while EBITDA margin will slightly weaken to about 34.5% from 35.0% in 2021 due to pressure on operating expenditure (opex) from the challenging macroeconomic environment.

Chart 1

Mobile Data And Digital Services To Drive Revenue



e--Estimate. Source: Elisa and S&P Global Ratings.

Development of 5G services and international expansion of digital services is continuing in 2022, underpinning Elisa's solid competitive position. Elisa was one of the first companies in the world to launch a commercial 5G network, at the very beginning of 2019, and the first in Finland to adopt a strategy of unlimited data with speed tiers. As of Oct. 5, 2022, Elisa's 5G network coverage exceeded 80% of the Finnish population in 207 locations versus 150 at year-end 2021. According to Elisa's data, average monthly billing for new 5G customers increased more than €3.00 over 2021, underpinning revenue growth. Besides traditional telecom services, Elisa offers a wide range of digital services: from TV production to manufacturing software and network automation. The company is expanding its digital service businesses domestically and internationally with expected segment revenue growth of 10%-15% in 2022 versus 17% in 2021. Elisa executes its growth strategy in the segment through international acquisitions, targeting manufacturing software companies and systems integrators. We forecast the share of digital services in revenue will reach about 21% in 2022, from 16% in 2019.

Elisa has a conservative financial policy and solid FOCF generation. The company has a publicly defined net leverage (net debt to EBITDA) target of 1.5x-2.0x, which we expect it will continue to follow. Furthermore, management has indicated that if the company exceeds this, perhaps due to an acquisition, it will not tolerate net leverage above 2.2x and will focus on reducing leverage to the target. Elisa's reported net leverage target translates into S&P Global Ratings-adjusted leverage of 1.5x-2.0x. We anticipate relatively low capex of about 12% of revenue, in accordance with the company's public target. This remains lower than that of most European peers, which often exhibit 15% on average. Elisa's relatively lower capex to revenue and neutral working capital flows over the medium term, translate in structurally solid annual FOCF. We forecast the group will generate FOCF of about €350 million in 2022 and €360 million in 2023, gradually expanding thereafter.

Outlook: Stable

The stable outlook reflects our expectation that the company will report stable adjusted EBITDA margins of about 35% and revenue growth of 4%-5% in the next 12 months, mainly thanks to higher revenue from mobile and new digital services. We further anticipate that adjusted debt to EBITDA will be below 2.0x and FOCF to debt of about 30%.

Downside scenario

We could lower our ratings if Elisa's EBITDA or FOCF weakens, for example, if intense competition causes a pronounced revenue decline or weaker margins, or if unexpected competitive developments force the company to significantly step up its capex. We could also downgrade Elisa if its adjusted debt to EBITDA increases to 2.0x or higher, or adjusted FOCF to debt decreases toward 20% for a prolonged period, for instance, due to debt-financed acquisitions or high shareholder returns.

Upside scenario

Rating upside is remote, given Elisa's limited scale and diversification and its financial policy, under which it targets net debt to EBITDA of 1.5x-2.0x.

Our Base-Case Scenario

Assumptions

- Slow real GDP growth of 1.3% in Finland in 2022 and 1.0% in 2023, down from 3.5% in 2021, reflecting the effects of the Russia-Ukraine conflict on the Finnish economy.
- About 5% annual revenue growth in 2022, supported by strong 5G momentum and expanding digital services; moderating to 2%-3% in 2023 linked to the company's expectation of mobile segment performance.
- A slight decline in adjusted EBITDA margin to about 34.5% in 2022-2024, from 35% in 2021. This reflects pressure on opex from higher labor and energy costs, but we expect Elisa's quality improvement measures should support efficiency and help mitigate pressure from high inflation (expected at 6.2% in 2022 and 2.7% in 2023, compared with 2.1% in 2021). Moreover, a new 10-year energy agreement starting 2023 and covering about half the mobile network's needs is below current market prices.
- Capex to sales of 12% (excluding spectrum and one-offs) from 2022, the same as 2021, in line with management guidance.
- A dividend payout ratio of about 95% in 2023-2024 (94% in 2022), in line with Elisa's stated financial policy of distributing 80%-100% of net profit.
- Up to a €100 million cash outflow for potential expansion through acquisitions per year in 2022-2023.

Key metrics

Elisa Oyj--Key Metrics*

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Revenue	1,895	1,998	2,080-2,110	2,130-2,170	2,170-2,210
EBITDA margin (%)	36	35	34-35	34-35	34-35
Funds from operations (FFO)	598.3	603.9	610-640	630-650	640-660
Capex to sales (%)	13	12	~12	~12	~12
Free operating cash flow (FOCF)	351	337	340-360	350-370	360-380
Debt to EBITDA (x)	1.5	1.5	~1.6	~1.7	1.7-1.9
FFO to debt (%)	57	57	53-55	50-53	48-52
FOCF to debt (%)	34	32	30-31	28-30	27-30

*S&P Global Ratings-adjusted metrics, after captive finance adjustments where applicable. a--Actual. f--Forecast. Capex--Capital expenditure.

We expect consolidated revenue growth of about 5% in 2022 and 2%-3% in 2023 will be supported by increasing mobile data consumption and an expanding digital services segment. Elisa's first-half 2022 results demonstrated solid customer demand for data bundles, driven by 5G expansion amid a gradual transition from 4G. This growth offset lower roaming revenue given travel patterns haven't fully recovered to pre-COVID-19 levels. As of June 30, 2022, Elisa reported 86% of subscriptions were fixed-monthly-fee, all-inclusive bundles, up from 81% in fourth-quarter 2020. The local and international digital services segment is another revenue growth spur, supported by numerous acquisitions completed in recent years. As a result, the share of digital services in total sales increased to 20% in 2021 from 16.5% in 2019 and the company will continue its international expansion.

Company Description

Elisa is an incumbent operator in Finland, where it provides fixed and mobile telecom services to consumers (62% of revenue in 2021) and corporate customers (38%), as well as information and communications technology and digital services in adjacent segments, such as information technology (IT) security for enterprise clients or internet protocol TV (IPTV) for consumers. Elisa is represented on international markets primarily through its digital services segment. In 2021, it reported revenue of about €2 billion and employed 5,300 people in more than 20 countries, with Finland and Estonia being core markets. At year-end 2021, Elisa had about 4.92 million mobile subscribers, of which about 90% were postpaid, and approximately 1.5 million fixed-line subscriptions, including about 670 thousand in broadband and more than 600 thousand in cable TV.

Elisa is listed on the Nasdaq Helsinki Large Cap with approximately 179,000 shareholders. Elisa's largest shareholder is the Finnish government with a 10% stake.

Peer Comparison

Table 1

Elisa Oyj--Peer Comparison				
Industry sector: Diversified telecom				
	Elisa Oyj	**Telenor ASA**	**Tele 2**	**Telia Co. AB**
Ratings as of Oct. 7, 2022	BBB+/Stable/A-2	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2021--			
(Mil. €)				
Revenue	1,997.9	11,002.7	2,605.0	8,590.7
EBITDA	697.0	4,973.4	1,032.1	2,782.5
Funds from operations (FFO)	603.9	4,100.3	925.3	2,321.0
Interest expense	15.7	314.9	45.7	288.9
Cash interest paid	17.4	263.0	38.4	272.3
Cash flow from operations	589.1	4,219.0	1,001.3	2,650.6
Capital expenditure	252.2	1,940.9	323.6	1,510.1
Free operating cash flow (FOCF)	336.9	2,278.1	677.7	1,140.6
Discretionary cash flow (DCF)	26.0	666.6	74.3	322.8
Cash and short-term investments	114.1	1,551.0	85.6	1,396.2
Debt	1,235.2	12,400.1	2,987.6	6,902.4
Equity	1,204.1	3,143.9	3,028.3	8,999.1
Adjusted ratios				
EBITDA margin (%)	34.9	45.2	39.6	32.4
Return on capital (%)	17.5	13.7	7.7	5.3
EBITDA interest coverage (x)	44.4	15.8	22.6	9.6
FFO cash interest coverage (x)	35.7	16.6	25.1	9.5
Debt/EBITDA (x)	1.8	2.5	2.9	2.5

Table 1

Elisa Oyj--Peer Comparison (cont.)				
Industry sector: Diversified telecom				
	Elisa Oyj	**Telenor ASA**	**Tele 2**	**Telia Co. AB**
FFO/debt (%)	48.9	33.1	31.0	33.6
Cash flow from operations/debt (%)	47.7	34.0	33.5	38.4
FOCF/debt (%)	27.3	18.4	22.7	16.5
DCF/debt (%)	2.1	5.4	2.5	4.7

Our rating on Elisa is on par with that on Telia and the stand-alone credit quality of Telenor, reflecting Telia's and Telenor's much larger scale and geographical diversity but Elisa's stronger credit metrics. It is rated higher than Tele2, reflecting lower leverage.

Business Risk: Satisfactory

The Finnish mobile and broadband markets have relatively stable structures, but competition is intermittently intense. Networks in the Finnish mobile market are of good quality and mobile subscriptions as a proportion of the population are the highest in the EU, at 150%.

Elisa maintains a leading position in the Finnish three-player mobile market. Its 5G expansion has reached over 80% of the Finnish population in over 200 municipalities. Annualized churn fluctuates at 18%-20%, which is at the higher end of the range for European peers. The company is now No. 2 in the more fragmented broadband market after being passed by DNA in 2021, with Telia coming in third place. Although the fixed broadband market leader has changed, competition remains intense, especially in certain pockets, such as for multi-dwelling units. Elisa also maintains a No. 2 position in the same segments in Estonia.

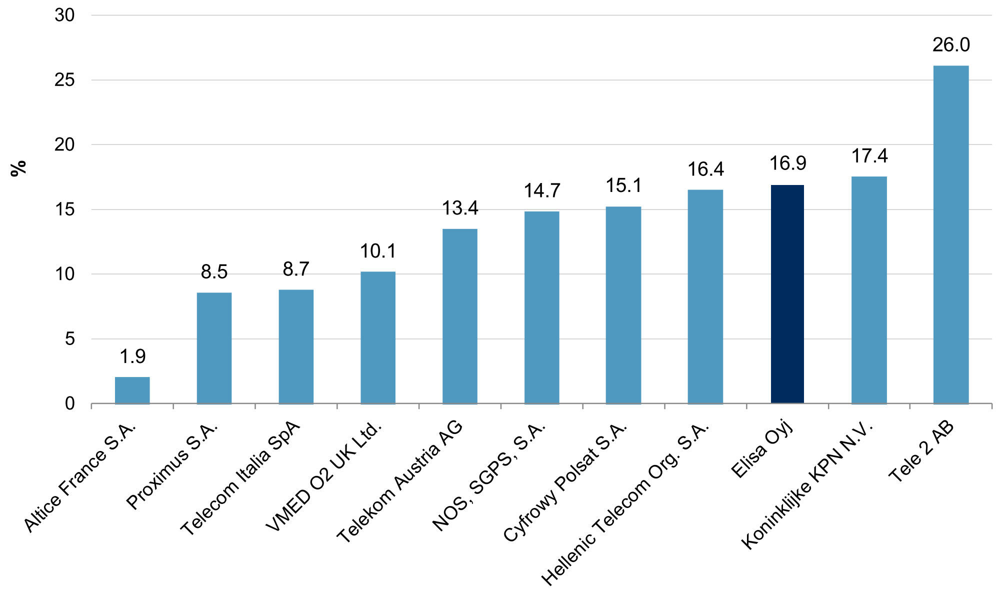
In addition to telecom, Elisa provides several other digital services, such as IPTV, cloud—based IT, videoconferencing, and internet of things (IoT). Elisa is actively expanding its portfolio of adjacent products via international acquisitions, since these are an important contributor to growth.

Financial Risk: Modest

In our view, Elisa displays a conservative leverage policy with net debt to EBITDA of 1.5x-2.0x and solid FOCF generation. Elisa's capex pattern has been fairly stable for many years, with a moderate risk of unexpected and significant deviations from its medium-term target capex-to-sales ratio of 12%, which the company forecasts for 2022-2023. This supports healthy FOCF generation that compares favorably to that of Western European telecom peers with similar business risk profiles.

Chart 2

Elisa's S&P Global Ratings-Adjusted FOCF To Revenue Is Solid Versus Peers'



FOCF--Free operating cash flow. Source: S&P Global Ratings.

Financial summary

Table 2

Elisa Oyj--Financial Summary

Industry sector: Diversified telecom

	--Fiscal year ended Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
(Mil. €)					
Revenue	1,997.9	1,894.6	1,843.5	1,831.5	1,787.4
EBITDA	697.0	683.7	663.0	670.2	641.5
Funds from operations (FFO)	603.9	598.3	569.6	576.1	551.7
Interest expense	15.7	19.7	22.9	30.2	29.1
Cash interest paid	17.4	17.8	24.4	25.8	26.2
Cash flow from operations	589.1	592.0	547.3	529.1	515.0
Capital expenditure	252.2	241.2	225.0	227.4	246.6
Free operating cash flow (FOCF)	336.9	350.8	322.3	301.7	268.4
Discretionary cash flow (DCF)	26.0	55.1	42.7	38.6	28.8
Cash and short-term investments	114.1	220.1	52.0	80.9	44.3

Table 2

Elisa Oyj--Financial Summary (cont.)

Industry sector: Diversified telecom

	--Fiscal year ended Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
Gross available cash	114.1	220.1	52.0	80.9	44.3
Debt	1,235.2	1,228.9	1,211.1	1,159.7	1,226.1
Equity	1,204.1	1,184.2	1,150.3	1,126.9	1,039.8
Adjusted ratios					
EBITDA margin (%)	34.9	36.1	36.0	36.6	35.9
Return on capital (%)	17.5	17.2	17.2	17.6	17.1
EBITDA interest coverage (x)	44.4	34.7	29.0	22.2	22.1
FFO cash interest coverage (x)	35.7	34.6	24.3	23.3	22.1
Debt/EBITDA (x)	1.8	1.8	1.8	1.7	1.9
FFO/debt (%)	48.9	48.7	47.0	49.7	45.0
Cash flow from operations/debt (%)	47.7	48.2	45.2	45.6	42.0
FOCF/debt (%)	27.3	28.5	26.6	26.0	21.9
DCF/debt (%)	2.1	4.5	3.5	3.3	2.3

Reconciliation

Table 3

Elisa Oyj--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2021--							
Elisa Oyj reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	1,241.6	1,197.8	697.4	430.8	15.6	697.0	595.7	258.8
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(75.7)	--	--
Cash interest paid	--	--	--	--	--	(17.4)	--	--
Reported lease liabilities	91.5	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	11.4	--	0.1	0.1	0.1	--	--	--
Accessible cash and liquid investments	(114.1)	--	--	--	--	--	--	--
Capitalized development costs	--	--	(6.6)	(6.6)	--	--	(6.6)	(6.6)
Share-based compensation expense	--	--	8.0	--	--	--	--	--
Nonoperating income (expense)	--	--	--	2.0	--	--	--	--
Noncontrolling interest/minority interest	--	6.3	--	--	--	--	--	--

Table 3

Elisa Oyj--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)								
Debt: Guarantees	0.4	--	--	--	--	--	--	--
Debt: Contingent considerations	4.4	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(1.9)	(1.9)	--	--	--	--
Total adjustments	(6.4)	6.3	(0.4)	(6.4)	0.1	(93.1)	(6.6)	(6.6)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	1,235.2	1,204.1	697.0	424.4	15.7	603.9	589.1	252.2

PP&E--Plant, property, and equipment.

Elisa offers customers so-called equipment instalment plans to finance the cost of their mobile handsets and certain other devices. These plans qualify as captive finance operations under our criteria (see "Standard & Poor's Analytical Approach To Wireless Equipment Installment Plans," published March 30, 2016, on RatingsDirect). In line with our criteria, "The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers," published Dec. 14, 2015, we exclude captive finance operations from Elisa's consolidated financials. We do not publish our captive finance adjustments for Elisa in table 3, but we report their effect on selected credit metrics. As of Dec. 31, 2021, our captive finance adjustment resulted in improvements of about 0.3x to adjusted debt to EBITDA, approximately eight percentage points to adjusted funds from operations (FFO) to debt, and five percentage points to FOCF to debt.

Liquidity: Adequate

The short-term rating is 'A-2'. We assess Elisa's liquidity as adequate because we expect its sources of liquidity will cover uses by at least 1.2x over the 12 months from June 30, 2022. We note that a significant portion of Elisa's funding frequently consists of commercial paper with terms shorter than 12 months. We think that Elisa has solid relationships with banks and benefits from a generally satisfactory standing in credit markets.

Principal liquidity sources	Principal liquidity uses
• Cash on the balance sheet of about €87 million. • €300 million available under undrawn long-term revolving credit facilities (RCFs) maturing in July 2024 and September 2026. • FFO of about €580 million-€600 million.	• Debt maturities of €280 million (in the following 12 months starting June 30, 2023: €150 million of loans and €300 million of bonds). • Capex of €250 million-€270 million (about 12% of sales). • A dividend payout ratio of about 95%.

Debt maturities

As of June 30, 2022:

- 2022: €100 million
- 2023: €150 million
- 2024: €300 million
- 2025: €100 million
- Thereafter: €600 million

Figures exclude finance leases, commercial paper, and RCFs.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Elisa. The company achieved carbon neutrality in 2020, making it the first carbon-neutral Nordic telecom operator. Elisa committed to become one of the first Finnish companies to reduce its emissions in line with the 1.5-degree climate target by 2025 (Science Based Targets). Elisa's carbon footprint (both scope 1 and 2) already decreased more than 82% in 2021 versus 2016 (fully met target). The company's updated sustainability targets for 2022-2024 focus on the availability of fast connections, cyber security, increasing its carbon handprint (actions that have a positive impact), the energy efficiency of the mobile network, innovations, and promoting equality.

Issue Ratings - Subordination Risk Analysis

At June 30, 2022, with the exception of about €95 million in lease liabilities, Elisa's capital structure consisted entirely of senior unsecured debt, of which €900 million is bonds, €350 million loans from financial institutions, and €180 million commercial paper. We assess the subordination risk for group-level creditors as limited and rate Elisa's senior unsecured debt at the same level as the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Standard & Poor's Analytical Approach To Wireless Equipment Installment Plans , March 30, 2016
- The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry , June 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks , Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 7, 2022)*

Elisa Oyj	
Issuer Credit Rating	BBB+/Stable/A-2
Issuer Credit Ratings History	
18-Mar-2015	BBB+/Stable/A-2
17-Mar-2014	BBB/Positive/A-2
26-Oct-2006	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.