Dansk Landbrugs Grovvareselskab a.m.b.a. Issuer Profile

Sector (GICS): Agricultural Products
Denmark

Key info

Ticker (Bloomberg)	898123Z DC
Market Cap	na
5Y CDS (mid)	na
5Y iTraxx Main (mid)	94
Website	www.dlg.dk
Next report date	na

Nordea Markets – analysts

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Company Rating

Nordea	**BB- Credit Trend Stable**
S&P	NR
Moody's	NR
Fitch	NR

Owners

Mutually owned by approximately 28,000 Danish farmers

Source: 2012 company website.

Company Data

CEO	Asbjørn Børsting /Kristian Hundebøll
CFO	Lars Sørensen
Chairman	Niels Dengsø Jensen
Employees	5,956

Source: 2012 company report.

Well-positioned and diversified

We see Dansk Landbrugs Grovvareselskab a.m.b.a. (DLG) as a BB-rated issuer with a stable credit trend benefitting from a strong position in its core markets and businesses, fairly high barriers of entry, strong underlying demand, a limited number of competitors, prudent risk management, stability in margins and earnings as well as diversification across geographies and business lines. Credit concerns include high debt ratios, non-organic growth into new geographical markets and non-core businesses as well as a fairly complex legal and organisational structure including a number of minority interests.

Ownership structure and legal structure

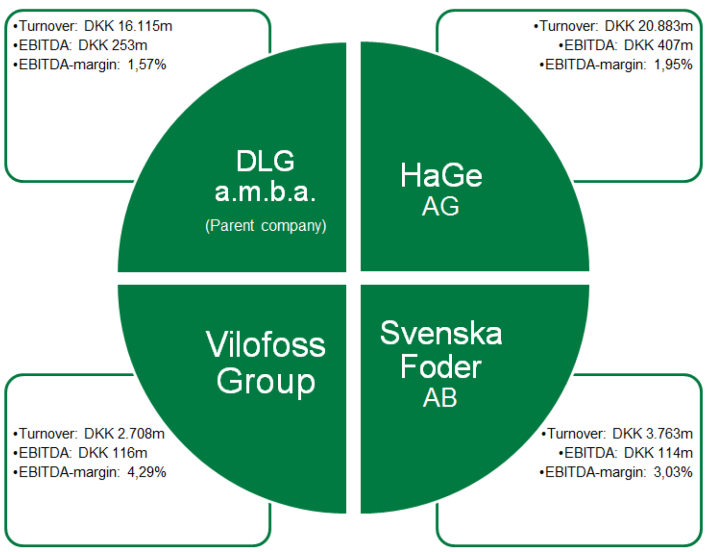
DLG is one of the largest agricultural companies in Europe owned by about 28,000 Danish farmers. In addition to agricultural products, DLG's activities include supplying vegetables to the catering and retail trades, electricity trading, telecom and pot plant sales. Following a number of mergers and acquisitions DLG is located in more than 20 countries and the Danish market now represent less than half of the total turnover. DLG expects the German market to surpass the Danish market in terms of turnover from 2013 and onwards. This Issuer Profile (including credit metrics) focuses on the **DLG Group**. DLG Finance is the legal entity expected to issue senior bonds in 2013. The bond will be guaranteed by the operative parent (and holding) company DLG a.m.b.a.

DLG - geographical distribution of turnover

	Denmark	Germany	Sweden	Other
2012	45%	42%	8%	5%
2011	50%	38%	8%	4%
1999	91%	5%	1%	3%

Source: DLG

DLG Group 2012: Significant Businesses (90% of total turnover)



Source: DLG

DLG's key credit observations include…

- **Strong business model in a stable industry.**
- Tailwind from several megatrends including population growth and changing diet patterns.
- Strong diversification effects across geography business segments and industries.
- Market leader, significant economies of scale benefits, strong intra-group synergies within core activities and control over several different parts of the value chain.
- High entry barriers, high customer loyalty and oligopolistic competition in core markets.
- Management and ownership structure support Danish core activities.
- Low profit distributions and high retention of existing capital.
- Low market risks (including currency risks) and weather related risks.
- Political risks relatively low and food safety well managed.
- Cash flow fluctuations well managed.
- Positive and non-volatile profit trend.

- **High debt ratios** (which is a general feature of the industry)**.**
- Limited access to new capital.
- Relatively high group complexity and less obvious intra-group synergies between non-core activities and the rest of the group.
- Significant minority interests.
- Ambitions growth target within various areas including non-cores areas.
- Low but stable margins.

Business profile

Stable industry and tailwind from several megatrends

DLG operates within the agricultural products (and related) industries which benefits from several global megatrends including:

- **Population growth**. Due to the world's population growth of approximately 80m people annually (Germany 2011 census 82m) the underlying demand for livestock feed solutions, vitamins and fertilizer is mounting.
- **Changing diet patterns**. The demand for livestock feed solutions, vitamins and fertilizer is further accelerated by high economic growth in several populous developing countries leading to changes in nutrition patters towards a more protein-rich diet.

Thus, the underlying demand for DLG's main products clearly benefits from the demographic explosion and increased living standards in developing countries.

Strong diversification effects

DLG supplies farmers with feed from own factories, seed grain, fertilizer, agricultural lime, crop protection, fuel and more articles to be used in daily operations. DLG is also one of Europe's biggest exporters of seed, feed and milling grain, malting barley and oilseed rape. Via its associated companies DLG is involved in activities such as the processing of crops and vegetables. DLG has its own chain of outlets which market and provide advice concerning products in the areas of home & garden, pets, telecom and more. The brand of this chain is "Land & Fritid" in Denmark and "Djur & Natur" in Sweden.

Activities across geographies (Denmark, Germany, Sweden and other countries) are grouped into following four divisions:

- **Livestock Nutrition** (29% of 2012 turnover)
- **Crop Production** (29% of 2012 turnover)
- **Crops and Vegetables** (34% of 2012 turnover)
- **Service and Energy** (8% of 2012 turnover)

DLG does not disclose distribution of EBIT across divisions. However, due to the common nature of business (low margins, high physical volumes and overlapping business relationships) we assume that the EBIT distribution is not materially different from the distribution of turnover. On the margin we have the impression that EBIT contribution from the Crops and Vegetables division may be somewhat lower than 34% (e.g. 25%-30%) whereas EBIT contribution from the Livestock Nutrition division could be somewhat higher than 29% (e.g. 35%-40%) due to higher margins within the vitamins and minerals activities.

Thus, DLG enjoys strong diversification benefits across geographies, business segments (value chain) and industries. We regard DLG’s business risk related to any single market and/or sub segment to be low.

- **Geography** (primarily Denmark, Germany and Sweden) lowers weather related operational risks. In addition, the lion’s share of weather related risks is carried by the farmers, not DLG.
- **Various business segments** such as food solutions for pigs, cattle, poultry, vitamins and minerals, fertilizer sales, plant protection, seed-grain, agricultural machinery – lower overall market risks.
- **Various industries** including agricultural machinery, flowers, international grain transport, food oil refinery, telecom, insurance sales of diesel fuel, biofuels and alarm and security solutions – lowering overall dependency on any single market and industry.

Drawbacks. The diversification benefits come at a price in terms of organisational, business and legal complexity as well as significant minority interests.

Management and ownership structure

Danish farmers. In line with many other mutually owned cooperatives DLG’s management structure is heavily influenced by its historic origin, which can be traced back to 1898. Thus, all nine non-employee representative members of the board are Danish farmers and part of DLG’s 28,000 owners. In addition, the selection of members of the Board is done via a Committee of Representatives where all 118 non-employee representative members are chosen from the same pool of Danish farmers.

Pros. This type of management structure is credit supportive in terms of securing continuity and existing corporate culture. In addition, it facilitates loyalty between DLG and its owners who are also DLG's core clients on the Danish market.

Cons. However, the advantages of the current setup seem less obvious regarding DLG's non-domestic activities and DLG's expansion into other industries such as electricity trading and telecom. Also, in times of stress the current structure may be an obstacle to needed changes.

Key people. Current management has a good track record of creating stable earnings during the past five years of changing market conditions, which we find important given DLG's ownership structure.

Low profit distributions and high retention of existing capital. Net profit is transferred to the company´s reserve fond of which a part is declared to members (owners) in proportion with their commerce within selected product areas. Over the past ten years between 25% and 40 % of net profit has been declared to the members and transferred to the membership capital. In 2012 total membership capital amounted to DKK 731m corresponding to 25% of DLG's total equity of DKK 2,869m exclusive minorities. Membership capital is paid out only if:

- the member ceases to be an active business owner,
- resignation of DLG membership (in this case the membership capital is paid out over a period of ten years), or
- in part if individual membership capital exceeds DKK 150.000.

Thus no ordinary dividends are paid out of DLG's annual profits, as distributions are only declared to the members' accounts, where the latter can only be withdrawn under the conditions just mentioned. Over the past five years less than 10% of DLG's accumulated earnings has been paid out. In 2012 DKK 26m (8.5%) was paid out of the DKK 304m net profit.

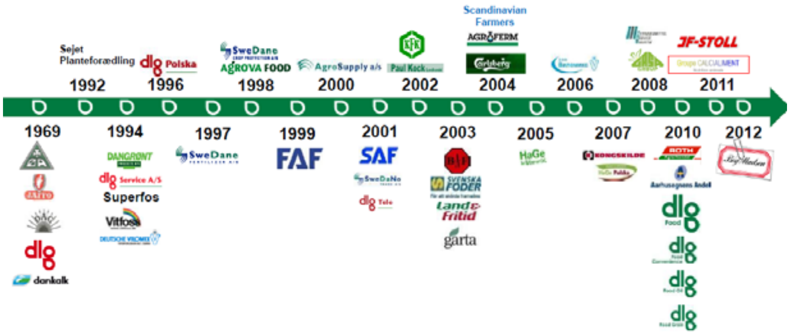
Access to capital, minority interests and Group complexity

Access to new capital is generally better for listed than for non-listed companies such as mutually owned DLG.

Minority interests. Nevertheless DLG has managed to grow its activities by mergers and acquisitions, which have been partially financed by equivalently growing minority interests. Thus over the past five years minority interests' share of DLG Group's equity and pre-tax profit averaged 31% and 30% respectively (2012: 30% and 28% respectively), cf. table below.

Complexity. Significant minority interests distributed across several subsidiaries bring complexity, potential conflict of interests and administrative expenses to the table. Minority interests may also restrict intra-group cash flows and bondholders' access to group cash flows. However, DLG has a good track record of managing these challenges, which include alignment of interests as well as contractually pre-agreed terms of exit - such as the parties holding a mutual option to ask for a binding offer for their share-holding, which (if deemed too low) can be reversed into an option to buy out the other party. This ensures that terms of exit are fair to all parties.

Most important mergers and acquisitions

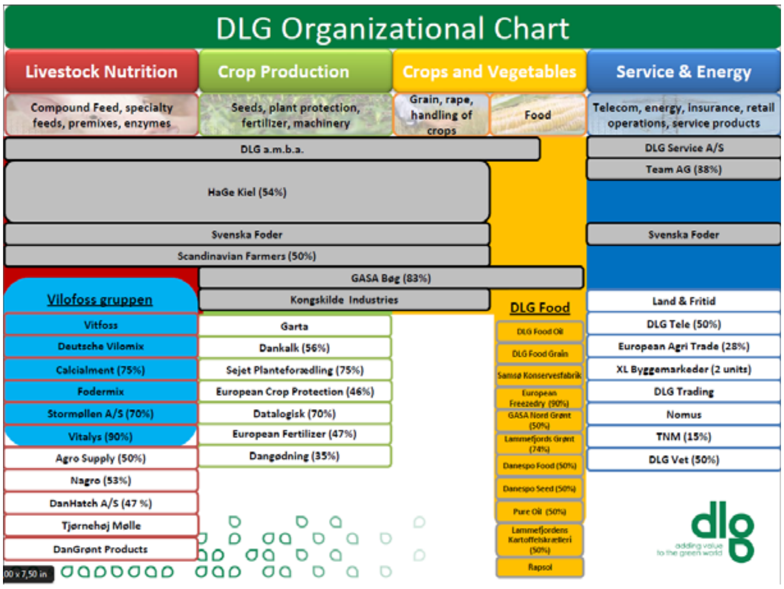


Source: DLG

Minority interests in DLG

		2008	2009	2010	2011	2012	Avg.
Group equity	(DKKm)	2.769	2.980	3.358	3.651	4.104	
Minority interests	(DKKm)	922	959	1.023	1.121	1.234	
Minority interests	(%)	33	32	30	31	30	31
Group PTP	(DKKm)	431	323	452	470	561	
Minority interests	(DKKm)	169	108	109	114	154	
Minority interests	(%)	39	33	24	24	28	30

Source: Company reports and Nordea Markets



Source: DLG

Intra-group synergies

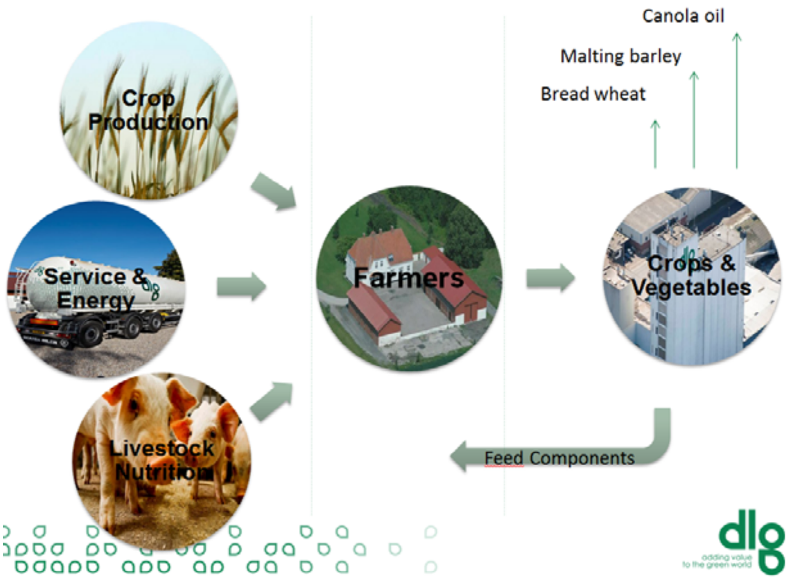
Apart from the clear diversification benefits DLG makes a continuous effort to realise operational synergies across its four divisions and many different business units.

Obvious synergies. Some of those synergies are obvious such as…

- **ring-fencing** and consolidating the very close relationship with farmers being owners of DLG, clients of DLG (Crop Production and Service and Energy) and suppliers to DLG (Crops and Vegetables) – and in this way control several different parts of the value chain

- **economies of scale** including optimisation of physical production capacity utilisation lowering unit production costs
- **joint procurement** increasing the buying power of DLG's individual business units (eg purchases/sales of crude oil, coordination of logistics and joint loadings aka mixed cargo as well as purchases of transport services)
- **product development**
- **shared IT** solutions
- **combined market intelligence** across business units

…between DLG's high production and sales volumes within feed solutions, complementary production and sales of vitamins and minerals, products for crop production as well as crop handling (drying, storage, transport and trade). All synergies mentioned *contribute to the fairly high barriers of entry* enjoyed by DLG within its three major divisions. The ring-fencing of the close relationship with farmers can be illustrated like this.

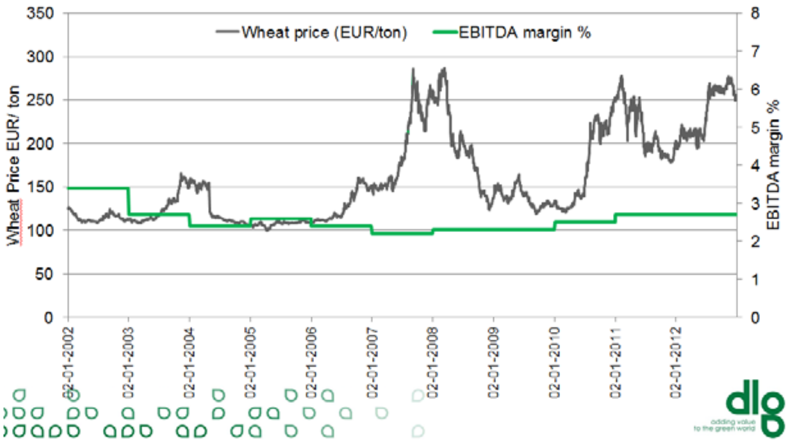


Synergies are less obvious regarding the Service and Energy division – both in relation to DLG's three other divisions as well as between operations within the Service and Energy division. However, DLG focuses on realising the following types of intra-group synergies:

- **Customer and market access**. DLG uses the existing distribution power and customer base of its three core divisions (Livestock nutrition, Crop Production and Crops & Vegetables) to market other products and services. In this way the companies of the Service and Energy division can boost revenue by reaching new markets and clients at relatively moderate marginal costs. In addition, DLG increases off-peak capacity utilisation on its sales forces of the three major divisions.

Risk factors

Low market risks and weather related risks. The agricultural industry generally benefits from high harvest volumes and high agricultural commodity prices. However, the impact on DLG's earnings is only moderate, as high value / high volume harvests primarily benefit the farmers. Thus DLG has a long track record of efficiently hedging off commodity market related risks. This can be illustrated by the past ten years of highly volatile agricultural commodity prices (eg wheat), which have had no material impact DLG's EBIDA margins.



Political risk relatively low. Political risks related to regulatory changes and changes to various forms of EU agricultural subsidies are also primarily carried by the farmers, not DLG. The reason being that fields need fertilizer and the harvest needs to be dried, transported, stored and converted into feed and exportable food regardless of the level of EU's agricultural subsidies being raised or lowered. Thus the past ten years of political changes have not materially impacted DLG's EBIDA margins.

Food safety well managed and a key credit positive. Food safety across the group is a key focus area for DLG. DLG continuously peruses best practices and various official certifications including traceability, contract production and quality control throughout the entire chain from farm to fork. DLG also has a management system to document its food production across its factories. DLG's management systems are continually being audited both externally and internally to ensure their implementation within the organisation. Danish (and German and Swedish) authorities are vigilant in their pursuit of food safety and regulatory control is tight. We regard the high regulatory food safety standards as key credit positive for DLG for several reasons.

- **Entry barriers**. High regulatory standards contribute to raising entry barriers to DLG's core markets.
- **Lowers operational risk**, as high standards and food safety culture contribute to minimising product liabilities and potential damage to the DLG brand.
- **Supports overseas sales**, as the various certifications and Denmark's (and DLG's) international reputation for high food safety standards is an important factor for overseas export – especially in markets where food safety cannot be taken for granted.

Fairly low currency risks. With 88% of group activities located in Denmark and Germany (and 8% in Sweden) DLG's currency risks are mainly tied to the EUR/DKK exchange rate. Currency risks related to overseas export contracts in other currencies are hedged.

Cash flow fluctuations. Harvest volumes and crop prices impact DLG's cash flow. Increasing prices of up to 30-40% in 2012 on some of DLG's important products are reflected in the 2012 cash flow statement. However, due to effective hedging of market risk the impact on DLG's profit and loss account is significantly reduced. In addition, DLG manages cash flow by the timing of the physical sale of tradable goods (inventory). And cash flow volatility stemming from farmers' behaviour is managed via economic incentives (eg payment conditions).

Ambitions growth target. DLG aims to reach a turnover of DKK 60.0bn in 2015, up DKK 11.5bn/24% from 2012 turnover of DKK 48.5bn. This growth ambition is subject to a minimum ROE requirement of 8.0% after tax, which is lower than DLG's current (2012 group ROE: 10.8%) and historic ROE (2008-2012 average ROE: 11.1%) levels. Even though we find DLG's growth ambitions founded on sound business decisions, they are more likely to benefit the owners of DLG than the credit short and medium term. Combined with DLG's high financial leverage and a ROE requirement below the existing ROE level, we would welcome less ambitious growth targets from a narrow credit perspective.

Various growth areas. Part of DLG's top line growth is expected to come from higher activity within the vitamins and minerals area, which is well within DLG's core area of business. We expect this type of growth to be associated with low implementation and operational risks as well as strengthened intra-group synergies - which we find likely to be credit supportive. The credit impact of DLG's growth ambitions in Germany, France, Sweden and Poland/the Baltic countries is more uncertain. And DLG's aim to expand the activities in the Service & Energy division abroad is likely to be associated with higher average implementation and operational risks than the rest of the group. Thus expansion within this area is likely to contribute negatively to the credit short and medium term.

Main business areas

In 2012, DLG generated a turnover of DKK 48.5bn and a profit before tax of DKK 561,5m. The DLG Group has approximately 6,000 employees, half of whom work in Denmark.

Livestock nutrition (29% of 2012 revenue)

Strong and stable position. DLG sold feed compounds totalling almost 3.9m tonnes in 2012 on a par with 2011. This makes DLG one of the five biggest in Europe according to Feed International and one of the 20 biggest in the world. Europe's four largest feed manufactures (Nutreco, ForFarmers, Agfifirm Feed and De Heus) are all headquartered in the Netherlands. The main markets are Denmark, the Northern and Eastern part of Germany and Sweden where DLG holds market shares of above 50%, about 30-40% (our estimate) and 20%, respectively.

The three main segments are feed solutions for pigs (the largest), cattle and poultry. DLG holds significant market shares within all three segments in all three markets.

DLG's total feed production (thousand tonnes)

	2010	2011	2012
Pig feed	1.865	1.952	1.850
Cattle feed	1.207	1.259	1.315
Poultry feed	598	614	636
Special feed	60	61	70
Total	3.730	3.886	3.871

Source: DLG

High entry barriers. Market shares tend to be relatively stable as entry barriers are high both in the overall market and on a local level, cf. four bullets below. Movements in market share are more often a result of existing capacity changing hands, than new players entering the market by investing in new capacity.

- **Proximity of physical capacity**. Market shares closely depend on the physical handling, processing and storage facilities situated in relative close proximity to the producing fields as well as the buyers of livestock feeds. DLG owns and operates twelve feed factories in Denmark, four in Sweden, nine in Germany and one in Estonia.
- **Transport costs**. It is difficult for more distant capacity to compete, as the market nature of high physical volumes and low margins makes relative transport costs important.
- **High volumes, low margins and low opex** also make entry difficult, expensive, time-consuming and generally unattractive for potential new players to enter the market.
- **Ownership supports customer loyalty** in the Danish market, as DLG is owned by about 28,000 Danish farmers.

Low losses on debtors. Losses on debtors are kept low by DLG by tight payment conditions and vigilant local risk management. This is supported by contractual set-off rules allowing netting of payments to individual farmers who often are both creditors and debtors to DLG. Lastly, farmers have a strong incentive to honour commitments to DLG before any other claims as missing payments lead to a cut in supply of livestock supplies. Over the past five years losses on debtors average less than 0.1% of turnover.

Vitamins and minerals (6% of 2012 group turnover). DLG's production and sale of vitamins and minerals is marketed under the Vilofoss brand. Vitamins and minerals are added to the feed for pigs and cattle representing about 1-2% of volumes but up to 20% of the value of the ready for use feed (margins are about eight times higher than margins on the feed). DLG has a total of 13 factories, which are located in Denmark (4), Sweden (1), France (3), Germany (3), Russia (1) and Poland (1). Controlling this important part of the value chain adds to DLG's overall profitability within the Livestock Nutrition division and plays a positive part in keeping entry barriers fairly high. This business area also represents relatively low risk growth opportunities outside DLG's core markets, as the content of knowledge and value is so much higher per tonnes so transport costs play a much smaller role than in the case of the feed production. Thus rising sales of vitamins and minerals outside DLG's core markets (eg China, Vietnam or Brazil) do not necessarily imply the risks, costs and capex associated with establishing production facilities in those markets.

Crop Production (29% of 2012 revenue)

DLG's Crop Production division includes the production and sale of:

- **Fertilizer** including agricultural lime where DLG is the market leader in Denmark and ranks second in Germany and Sweden.
- **Plant protection** where DLG is the market leader in Denmark and ranks third in Germany and fifth in Sweden. DLG focuses on crop protection solutions, which optimise results under different growth conditions and which also take account of the individual varieties' resistance properties.

- **Seed-grain** where DLG is the market leader in Denmark and ranks third in Germany and Sweden. Early 2013 all production facilities were upgraded with the latest fungicide seed-treatment technology. Combined with investments in recent years, DLG now has some of Europe’s most efficient seed-grain production facilities enjoying very high capacity utilisation and thus low unit costs.
- **Other** activities include plant breeding, flower products for retailers aimed at private households as well as production and sale of agricultural machinery and equipment for grain handling and transportation.

Crop Production Division, Sales per market (thousand tonnes)

	Denmark	Germany	Sweden	Poland	Baltics	Total
Fertilizer	464	1.279	134	109	107	2.093
Crop Protection	844	2.554	86	89	151	3.724
Seed Grain	123	51	34	4	7	219
(%)						
Fertilizer	22	61	6	5	5	100
Crop Protection	23	69	2	2	4	100
Seed Grain	56	23	16	2	3	100

Source: DLG

Entry barriers are positively impacted by some of the same reasons as mentioned regarding the Livestock Nutrition division. However, in general we deem entry barriers to be somewhat lower regarding the activities included in the Crop Production division, as the relative size of the non-Danish markets is bigger and where ownership of DLG does not support customer loyalty.

Crops and Vegetables (34% of 2012 revenue)

Within the Crops and Vegetables division DLG operates different brands including DLG in Denmark, HaGe in Germany and Svenska Foder in Sweden. Almost 90% of sales is grain and the remaining 10% rapeseed. Distributed by sales channel the German HaGe contributed with about half of volumes in 2012, cf. table below. DLG holds a dominant position in Denmark with market shares of more than 50% within both the grain and rapeseed segments.

Crop Handling by Sales Channel in 2012 (thousand tonnes)

	Denmark	Germany	Sweden	Poland	Baltics	Total
Crop Handling	3.073	3.983	694	187	203	8.140
(%)	38	49	9	2	2	100

Source: DLG

Economies of scale benefits. By combining the strong position in both the Livestock Nutrition area and Crops and Vegetables area DLG enjoys significant economies of scale benefits when it comes to on-shore crop handling (drying, storage, transport and trade). In addition, DLG manages significant logistics and harbour facilities as well as deploying “an armada of grain ships” in the months after the harvest, transporting very large grain stocks from the Baltic Sea Region to export markets both in Europe and overseas. In 2011 the total amount shipped was 1.3m tonnes. By controlling so many parts of the value chain DLG enjoys synergies in terms of low unit costs, high capacity utilisation, availability of capacity, buying power (procurement) and business intelligence.

Certification. Food and feed safety plays an important role for DLG. And through its efforts to produce and market certified products DLG has a competitive edge, especially in market where food safety is in question.

2012 harvest. In 2012 DLG benefitted from a near-perfect harvest in and around the Baltic Sea Region with generally high yields and good quality. Overall, DLG took in 8.1m tonnes of crops, compared to 7.0m tonnes in 2011. The harvest weather also behaved well and enabled non-stop harvesting for a few very intense weeks. In contrast the 2012 harvest partly failed in several other parts of the world, which drove up prices and prompted more (DLG affiliated) farmers to sell their crops forward compared to previous years.

Other activities within the Crops and Vegetables division (5% of 2012 turnover) include DLG Food Oil and mills, DLG Food Grain, production of preserved vegetables (eg marmalade, mustard and ketchup), convenience greens and potatoes, potatoes, freeze-dried products (eg herbs, spices, meat, fish and fruit) as well as fresh vegetables.

Service and Energy (8% of 2012 revenue)

'Miscellaneous' division. Even though DLG's Service and Energy division only accounts for 8% of group revenue the number and range of activities are widespread.

Service	Energy	Misc. Products	Retail stores	Staff function	Procurement organizations	Subsidiaries
• Telecom-munications • Insurances • Security • Electrical products	• Oil • Biofuel • Coal • Elec-tricity	• Grass seed • Disinfection • Pest control • Veterinary medicine • Plastic • Binding twine	• Land & Fritid • XL-DIY markets • Team AG • Djur & Natur • Equsana • Internet store	• Group marketing • Group procure-ment	• European Agri Trade • Intercoop House & Garden	• DLG Tele (50%) • Svenska Tele (50%) • Land & Freizeit Raiffeisen Markt (75%) • Nomus (50%) • TNM (15%)

Source: DLG

Business rationale. DLG's key business rationale for operating such a vast number of basically non-core activities is that DLG uses its close relationship with Danish farmers (customers/owners) to market other products and services to this group as wells as 'country people' and private and small businesses located in rural areas of Denmark. In addition, DLG increases off-peak capacity utilisation on its sales force.

Drawbacks include added legal, organisational and operational complexity of DLG group. In addition rural areas are burdened by decreasing population density and low economic growth due to continued urbanisation. As mentioned earlier DLG's current management and ownership structure may not be ideal in the long run for leading those types of businesses.

Growth ambitions. Part of the proceeds from the expected bond issue is earmarked for increasing DLG's current shareholding of 37.5% in the German service and energy company, Team AG, to at least 50.1% via a capital increase. Team AG operates in the north-western part of Germany running more than 100 gasoline filling stations and several DIY markets. Team AG also has activities within sales of mineral oil and fuel, construction of machinery halls and sale of insurances. In 2012 Team AG's turnover amounted EUR 1,6m (DKK 12.0bn). Assuming a 50.1% shareholding Team AG would lift DLG's 2012 turnover of DKK 48.5bn by about DKK 6.0bn/13% if consolidated into DLG's accounts. DLG expects to be able to grow Team AG's activities within markets where

DLG has an existing customer base. Even though we find those initiatives to be sound business decisions, they are more likely to benefit the owners of DLG than the credit short and medium term.

Profitability, covenants, credit metrics and rating rationale

Satisfactory and stable profitability

Profitability and debt. During the 2008-2012-period net profit increased to DKK 304m from DKK 176m and DLG's equity rose to DKK 2,869m from DKK 1,847m corresponding to compounded annual growth rates of 14.6% and 11.6% respectively. In the same period gross interest bearing debt increased only to DKK 8,999m from DKK 6,725m (CAGR of 7.4%). By including additional DKK 750m of debt from a bond issue in the 2012 numbers (and without including any the earnings contribution from the proceeds) gross interest bearing debt increases to DKK 9,749m, which would lift the CAGR to 9.7%.

DLG - Net profit, equity and debt development (DKKm)

	2008	2009	2010	2011	2012	CAGR
Net profit after minorities	176	180	282	292	304	14.6%
Equity exclusive minorities	1.847	2.021	2.335	2.530	2.869	11.6%
Gross interest bearing debt	6.725	6.809	7.717	7.533	8.999	7.4%
+ DKK 750m issue					9.749	9.7%

Source: DLG annual reports and Nordea Markets

Low but stable margins. Over the past five years the gross margin, EBITDA and EBIT margins averaged 9.3%, 2.5% and 1.8% respectively, which reflects the low margin/high volume nature in DLG's major business segments. However, margins are also fairly stable, as other parts of the value chain (primarily farmers) bear the lion's part of the risks associated with fluctuations in harvest volumes and value. Combined with DLG's diversification benefits and ability to manage operational risks, volatility stayed low on all three measures.

DLG - EBITDA and EBIT margins (%)

	2008	2009	2010	2011	2012	Avg.
Gross profit / Revenue	9,2	9,7	9,4	9,4	8,6	9,3
EBITDA / Revenue	2,3	2,3	2,5	2,7	2,7	2,5
EBIT / Revenue	1,9	1,5	1,8	2,0	1,9	1,8

Source: DLG annual reports and Nordea Markets

ROE and Group ROE. Low volatility also characterises DLG's profitability. Thus during the past five years of economic slowdown DLG and DLG Group realised an annual after tax return on equity averaging 11.2% and 11.1% respectively – fluctuating within narrow bands of 9.3%-13.0% and 9.2%-12.1%, respectively. Combined with stable margins, this also reflects a high degree of earnings stability in spite of changing market conditions as well as rapid growth (primarily through mergers and acquisitions). This implies that DLG has the ability to decrease financial leverage through earnings retention simply by slowing down the acquisitive growth.

DLG - Group ROE after tax and ROE after tax (%)

	2008	2009	2010	2011	2012	Avg.
Group ROE after tax	12,1	9,2	12,1	11,1	10,8	11,1
ROE after tax	10,6	9,3	13,0	12,0	11,3	11,2

Source: DLG annual reports and Nordea Markets

Covenants

Related to the expected DKK 750m bond issue, the following covenants are to be included:

- Solvency (Total group equity/Total group assets) of minimum 20.0% at year-end and 18.5% at June 30 of any year (due to seasonality).
- Debt/EBITDA ratio not to exceed 8.5x at year-end.

Current ratios are as follows, reflecting a general picture of high leverage on both measures, which is somewhat balanced by high stability over time.

DLG - Group Solvency and Debt/EBIDA ratios

	2008	2009	2010	2011	2012	Avg.
Group equity inclusive minorities / Total assets	21,1	22,5	22,5	24,5	23,5	22,8
Gross interest bearing debt / EBITDA	7,7	8,7	7,7	6,8	7,0	7,6

Source: DLG annual reports and Nordea Markets

Issuer rating rationale, business model and debt ratios

Based on the above our BB-/Stable rating can be broken down into building blocks:

We rate the **Business Risk Profile** as ‘Strong’ based on DLG’s stable margins and satisfactory profitability as well as the attractive nature of the industry including the competitive landscape, the high entry barriers and the tailwind from global megatrends. The geographical diversification and intra-group synergies within DLG’s core businesses also support the credit, whereas DLG’s growth ambitions and non-agricultural activities pull in the other direction. We consider group complexity and the size of minority interests as credit negatives, which to a large extend are mitigated by the effective alignment of interests across subsidiaries and across owners of the subsidiaries (c.f. the paragraph about complexity on page 4, where the concept of contractually pre-agreed terms of exit is explained).

We rate the **Financial Risk Profile** as ‘Highly leveraged’ based on the Debt/EBITDA ratio of 7.0x (7.6x when including new debt of DKK 750m from a new bond issuance), FFO/Debt of 3.5% (3.2% including the DKK 750m bond issue) and Debt/Capital ratio of 68.7% (70.4% including the DKK 750m bond issue). Credit matrix both with and without the DKK 750m bond issue points towards a ‘Highly leveraged’ Financial Risk Profile (which is a general feature of the industry).

This can be illustrated by the following table where the features of DLG are plotted into Standard and Poor’s (rather crude) rating matrix with red markings including the DKK 750m bond issue (please note that we have *not included any the earnings contribution* from the proceeds in our debt ratios).

Rating matrix

			- Financial Risk Profile -			
Business Risk Profile	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA	AA	A	A-	BBB	
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair		BBB-	BB+	BB	BB-	B
Weak			BB	BB-	B+	B-
Vulnerable				B+	B	CCC+
Indicative Ratios	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
FFO/Debt (%)	> 60	45-60	30-45	20-30	12-20	< 12
Debt/EBITDA (x)	< 1.5	1.5-2.0	2.0-3.0	3.0-4.0	4.0-5.0	> 5.0
Debt/Capital (%)	< 25	25-35	35-45	45-50	50-60	> 60

Source: Standard & Poor's and markings by Nordea Markets.

Bond rating rationale

Anchor. Our BB- issuer rating serves as an anchor for any rating of bonds issued by DLG. Specific security provided and/or any preferred position compared to existing debt could pull the bond rating (typically one notch) higher than BB-. Conversely any (legal and/or structural) subordination of the bond to the existing debt could push the bond rating (typically one notch) lower than BB-.

Rank. We have reason to assume that a new bond issue will be structured to rank pari passu with existing debt throughout the tenor. Thus ranking will not call for any notching away from the BB- issuer rating.

Structural subordination. DLG Finance is to be the legal entity of a new bond issue supported by a guarantee from the operative parent and holding company DLG a.m.b.a. Group debt is distributed across the group's legal entities. On the margin we find debt in the holding company (i.e. the bond) to be better positioned than debt in the subsidiaries due to three factors listed below. However, we find the combined effect of those factors insufficient to change the bond rating from the BB- issuer rating.

- **Closer to the cash flow stemming from the Danish activities**. Debt in the operative parent and holding company does not have direct access to the cash flow generated by the activities in DLG's subsidiaries in contrast to the debt sitting on the subsidiaries' balance sheets. On the other hand the bondholders are closer to the cash flow generated by the activities in DLG's operative parent and holding company than the debt in the subsidiaries. We find this marginally credit positive, as the activities in DLG's operative parent and holding company are mainly located in Denmark, where DLG has the strongest overall market position and enjoys the full benefits related to its ownership structure.
- **Closer to the centre of power**. The operative parent and holding company has the power to influence the business decisions of the subsidiaries whereas the opposite is not the case.
- **Higher equity ratio**. Group equity inclusive minorities to total assets amounted to 23.5% in 2012. Measured on the operative parent and holding company only the equity to total assets ratio was 31.8% in 2012.

DLG - Reported numbers and calculated ratios

Profit, DKKm	2008	2009	2010	2011	2012	
Revenue	37.589	34.138	39.364	40.842	48.532	
Gross profit	3.470	3.318	3.705	3.830	4.178	
EBITDA	879	782	1.003	1.115	1.288	
Depreciation and amortization	180	262	296	304	379	
EBIT	699	520	707	810	909	
Pre-tax income	431	323	452	470	561	
Net profit before minorities	307	264	383	391	419	
Net profit after minorities	176	180	282	292	304	
Balance sheet, DKKm	**2008**	**2009**	**2010**	**2011**	**2012**	
Balance sheet total	13.119	13.220	14.955	14.902	17.479	
Group equity inclusive minorities	2.769	2.980	3.358	3.651	4.104	
Equity exclusive minorities	1.847	2.021	2.335	2.530	2.869	
Gross interest bearing debt	6.725	6.809	7.717	7.533	8.999	
Gross interest bearing debt + DKK 750m issue					9.749	
Long-term liabilities	3.490	3.249	2.995	3.093	2.812	
Short-term liabilities	6.184	6.340	8.036	7.568	10.033	
Cash flow, DKKm	**2008**	**2009**	**2010**	**2011**	**2012**	
Cash flows from operating activities	547	1.550	502	1.279	315	
Cash flows from investing activities	-636	-911	-1.156	-846	-781	
Net investments in associated companies	-34	-243	-415	-175	-24	
Cash flows from financing activities	206	-763	682	-453	483	
Change in cash and cash equivalents for the year	117	-124	29	-21	17	
Ratios, %	**2008**	**2009**	**2010**	**2011**	**2012**	Average
Gross profit / Revenue	9,2	9,7	9,4	9,4	8,6	9,3
EBITDA / Revenue	2,3	2,3	2,5	2,7	2,7	2,5
EBIT / Revenue	1,9	1,5	1,8	2,0	1,9	1,8
Group equity inclusive minorities / Total assets	21,1	22,5	22,5	24,5	23,5	22,8
Return on Group equity after tax	12,1	9,2	12,1	11,1	10,8	11,1
Return on equity after tax	10,6	9,3	13,0	12,0	11,3	11,2
More ratios	**2008**	**2009**	**2010**	**2011**	**2012**	Average
Gross short term debt and long term debt / EBITDA	11,0	12,3	11,0	9,6	10,0	10,8
Gross interest bearing debt / EBITDA	7,7	8,7	7,7	6,8	7,0	7,6
Gross interest bearing debt + DKK 750m issue / EBITDA					7,6	
EBITA / Interest expense	2,6	3,3	2,5	2,4	2,9	2,7
Funds from operations / Interest bearing debt (%)	8,1	22,8	6,5	17,0	3,5	11,6
Funds from operations / Interest bearing debt + DKK 750m issue (%)					3,2	
Interest bearing debt / Equity and Interest bearing debt (%)	70,8	69,6	69,7	67,4	68,7	69,2
Interest bearing debt + 750m issue / Equity and Interest bearing debt + 750m issue (%)					70,4	
EBITA / Average assets (%)		5,9	7,1	7,5	8,0	7,1
Funds from operations + Interest expense / Interest expense	2,6	7,5	2,2	3,7	1,7	3,6
Funds from operations + Net interest expenses / Net interest expenses	2,6	7,5	2,5	4,2	1,8	3,7

Source: DLG annual reports and Nordea Markets

Income statement
(DKKm)

	2008	2009	2010	2011	2012
Revenue	**37.589**	**34.138**	**39.364**	**40.842**	**48.532**
Production costs	-34.119	-30.820	-35.659	-37.012	-44.354
Gross profit	**3.470**	**3.318**	**3.705**	**3.830**	**4.178**
Sales- and distribution costs	-2.265	-2.327	-2.511	-2.464	-2.709
Administration costs	-609	-667	-665	-696	-791
Other operating income	170	239	276	241	320
Other external expenses	-67	-43	-98	-101	-89
EBIT	**699**	**520**	**707**	**810**	**909**
Income from investments in associated companies	44	27	75	49	17
Income from other investments and securities	22	14	12	11	6
Financial income	-	-	62	74	80
Financial expences	-334	-237	-404	-474	-451
Profit before tax	**431**	**323**	**452**	**470**	**561**
Tax	-124	-60	-69	-80	-142
Group profit	**307**	**264**	**383**	**391**	**419**
Minority interests' share of profit	-169	-108	-109	-114	-154
Minority interests' share of tax	39	24	8	16	39
Net profit	**176**	**180**	**282**	**292**	**304**
Tax rate, Group	29%	19%	15%	17%	25%
Tax rate, Minorities	23%	22%	7%	14%	25%
Profit before tax	431	323	452	470	561
Minority interests' share of profit	169	108	109	114	154
Minority interests' share of PTP (%)	39%	33%	24%	24%	28%

Assets *(DKKm)*	**2008**	**2009**	**2010**	**2011**	**2012**
Group goodwill	117	124	98	112	161
Other intangible assets	240	282	359	395	444
Intangible assets in progress	118	132	145	144	110
Intangible assets	**476**	**538**	**603**	**651**	**715**
Land and buildings	2.782	3.081	3.549	4.000	4.250
Plant and machinery	949	1.056	1.279	1.392	1.606
Other fixtures and equipment	163	162	189	204	234
Property, plant and equipment in progress	176	177	192	192	213
Tangible fixed assets	**4.070**	**4.476**	**5.209**	**5.788**	**6.302**
Investments in associated companies	401	491	950	1.077	1.044
Other investments (stocks incl)	278	281	238	259	254
Other receivables	-	-	46	67	177
Deferred tax assets	158	173	168	140	138
Investments	**837**	**945**	**1.402**	**1.544**	**1.613**
Fixed assts	**5.382**	**5.959**	**7.215**	**7.982**	**8.630**
Inventories	**3.440**	**3.608**	**3.508**	**3.450**	**5.040**
Receivables from sales and services	3.401	2.822	3.374	2.776	2.911
Receivables from group enterprises	216	131	23	85	150
Other receivables	232	288	525	293	318
Prepayments	233	313	239	247	335
Receivables	**4.081**	**3.555**	**4.161**	**3.402**	**3.713**
Cash	**215**	**99**	**72**	**68**	**96**
Current assets	**7.737**	**7.261**	**7.741**	**6.920**	**8.850**
Assets	**13.119**	**13.220**	**14.955**	**14.902**	**17.479**

Liabilities *(DKKm)*	**2008**	**2009**	**2010**	**2011**	**2012**
Minority interests	922	959	1.023	1.121	1.234
Equity	**2.769**	**2.980**	**3.358**	**3.651**	**4.104**
Deferred tax	205	237	234	235	257
Pension obligations and similar obligations	155	163	161	156	161
Other provisions	317	249	171	197	110
Provisions	676	649	566	588	529
Suordinated debt		1	1	2	2
Mortgage debt*	1.439	1.430	2.022	2.024	1.995
Leases	57	118	101	50	118
Credit institutions	1.825	1.574	730	846	525
Other payables	169	127	142	173	173
Long-term liabilities	**3.490**	**3.249**	**2.995**	**3.093**	**2.812**
Short-term part of long-term debt	508	962	1.677	484	310
Credit institutions	2.428	1.457	1.787	2.611	4.024
Prepayments from customers	468	1.266	1.399	1.516	2.024
Trade payables	1.291	1.573	1.568	1.404	1.811
Debt to assoiciated companies	117	94	191	222	169
Corporation tax	9	3	21	6	51
Negative goodwill	113	34	36	79	53
Other payables	1.177	875	1.299	1.170	1.535
Prepayments	72	77	57	75	56
Short-term liabilities	**6.184**	**6.340**	**8.036**	**7.568**	**10.033**
Liabilities	**9.674**	**9.590**	**11.031**	**10.661**	**12.845**
Liabilities and equity	**13.119**	**13.220**	**14.955**	**14.902**	**17.479**
Gross interest bearing debt	6.725	6.809	7.717	7.533	8.999
Gross interest bearing debt + DKK 750m issue					9.749
Group equity	2.769	2.980	3.358	3.651	4.104
Minority interests	922	959	1.023	1.121	1.234
Minority interests share of Group equity	33%	32%	30%	31%	30%

Cash flow

(DKK million)	2008	2009	2010	2011	2012
Net profit	699	520	707	810	909
Adjustments for non-cash items	230	280	225	263	303
Change in working capital	2	1.042	-37	712	-491
Cash flows from operating activities before financial items and tax	930	1.842	895	1.785	722
Interest received, etc.	166	263	62	74	80
Interest paid, etc.	-500	-500	-404	-474	-451
Cash flows from ordinary activities	596	1.605	554	1.385	350
Corporation tax paid	-85	-57	-50	-97	-72
Adjustments etc	35	3	-2	-9	36
Cash flows from operating activities	**547**	**1.550**	**502**	**1.279**	**315**
Purchase of intangible assets	-807	-752	-939	-797	-898
Sale of intangible assets	191	86	196	149	142
Purchase of associated companies	-136	-245	-477	-216	-30
Sale of associated companies	102	2	62	40	6
Purchase of other investments	-11	-14	-8	-30	-6
Sale of other investments	27	11	9	6	4
Other	-2	2	-	-	-
Cash flows from investing activities	**-636**	**-911**	**-1.156**	**-846**	**-781**
Repayment of long-term loans	-0	0	0	0	0
Raising of long-term loans	618	222	413	-1.120	-853
Change i bank debt	-482	-930	330	730	1.409
Minorities	145	-35	-42	-40	-46
Overskudsudbetaling og udbetalt andelskapital ifm. fusion	-59	-2	-3	-	-
Udbetalt andelskapital	-16	-18	-16	-24	-26
Cash flows from financing activities	**206**	**-763**	**682**	**-453**	**483**
Change in cash and cash equivalents	**117**	**-124**	**29**	**-21**	**17**
Cash and cash equivalents 1 January	96	215	99	72	68
Additions by merger and change of corporate structure	2	8	-56	16	11
Cash and cash equivalents 31 December	**215**	**99**	**72**	**68**	**96**

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Market perform

Over the next three months, the fixed income instrument's total return is expected to be in line with the total return of the relevant benchmark.

Underperform

Over the next three months, the fixed income instrument's total return is expected to be below the total return of the relevant benchmark.

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Market perform	87	66
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As of January 9, 2012

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Material interest held by the issuer in shares issued by Nordea

Sampo currently owns 21% in Nordea (as of the end of August 2011).

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