

## RESEARCH

# Research Update: Outlook On Sweden-Based Investor AB Revised to Negative; Ratings Affirmed

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**Credit Rating:** AA-/Negative/A-1+

## Rationale

On April 4, 2006, Standard & Poor's Ratings Services revised its outlook on Sweden-based investment holding company Investor AB to negative from stable. At the same time, Standard & Poor's affirmed its 'AA-' long-term corporate credit and unsecured debt ratings and its 'A-1+' short-term ratings on Investor. The 'K-1' Nordic scale rating was also affirmed.

The outlook revision follows Investor's announcement that it is to participate in an LBO of one of its core holdings, Gambro (not rated). This signals a potential change in Investor's investment strategies and policies, including an apparent willingness to have a higher share of majority-owned, unlisted, and leveraged investments in its portfolio. This would reduce portfolio liquidity and increase equity risk.

The ratings on Investor reflect its strong capital structure and excellent financial flexibility. At Dec. 31, 2005, Investor could have covered its net debt (including its Swedish krona [Skr] 4.2 billion loan guarantee to Hi3G) 26x by liquidating its core holdings. At the same date, the company had total on-balance-sheet debt of about Skr23.3 billion (€2.5 billion).

Investor principally comprises a portfolio of listed shares. At year-end 2005, the company's portfolio of 11 listed core holdings had a market value of Skr115 billion, representing about 86% of its total investment portfolio. The core holdings are largely international companies, predominantly with investment-grade ratings, that are only modestly exposed to economic conditions in Sweden. Furthermore, the core holdings include shares in companies spanning different industries. These holdings enjoy strong liquidity, being among the most traded stocks on the Stockholm stock exchange. In addition, several holdings are listed on foreign stock exchanges.

Although Investor regards most of its holdings as strategic, they can be sold if necessary, providing the company with very strong financial flexibility to compensate for its weak operating cash flow. For example, during 2005, the company divested, net, about Skr9.4 billion worth of shares from its core holdings.

The company's private-equity investment portfolio (primarily in technology and health care) and its 40% stake in mobile communications operator Hi3G are relatively illiquid and high-risk (although the portfolio is spread over a large number of holdings). Nevertheless, we do not expect these types of investments to represent more than 20%-25% (about 14% excluding Gambro) of Investor's total portfolio, which is consistent with the ratings. Investor's current ownership structure--with the Wallenberg Foundations controlling almost 50% of voting rights--provides long-term stability for the company and supports the ratings.

We expect Investor to maintain relatively low leverage in the long term, with net debt unlikely to exceed 25% of the investment portfolio's estimated market value. The company is currently very strongly capitalized and was virtually (net) debt free at Dec. 31, 2005 (the net-debt-to-portfolio value was 4%, including guarantees, however), reflecting strong equity markets and large net divestments.

## Short-term credit factors

The short-term rating on Investor is 'A-1+', reflecting a large portfolio of listed, very liquid holdings, which provides a high degree of financial flexibility. The company's liquidity is very strong, with Skr23 billion in cash and equivalents at year-end 2005 and a Skr10 billion syndicated back-up facility due in 2012, which is currently undrawn. This compares with only about Skr8.2 billion in debt maturing between 2006 and 2008. In addition, the company has no financial covenants that could restrain its borrowing capacity in the event of a stock market decline.

## Outlook

The negative outlook reflects our concerns that a potential gradual shift in Investor's investment strategies toward less liquid and increasingly leveraged portfolio investments could slightly weaken its credit profile over the long term. The maintenance of the investment portfolio's quality--including factors such as liquidity, the risk profile of investments, and diversification, balanced with a sound financial structure--is critical to the current rating being maintained, as financial flexibility is the key rating driver.

An outlook revision to stable is possible if we are reassured that Investor will limit relatively illiquid and higher-risk investments so that they do not significantly alter the risk profile of the investment portfolio. For the current ratings, net debt to estimated portfolio value is not expected to exceed 25%. If it does, because of a large investment opportunity, this is expected to be marginal and only for a temporary period.

## Ratings List

|                            | To                | From            |
|----------------------------|-------------------|-----------------|
| Corporate credit rating    | AA-/Negative/A-1+ | AA-/Stable/A-1+ |
| Senior unsecured debt      | AA-               |                 |
| Senior unsecured bank loan | AA-               |                 |
| CP                         | A-1+              |                 |
| Nordic national scale      | K-1               |                 |
| Nordic scale CP            | K-1               |                 |

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