



# Orkla Capital Markets Day 2023

*Turning growth into profits*



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# HSNG is the prominent Nordic Sports Nutrition player with market leading D2C platforms and own brands cross all markets

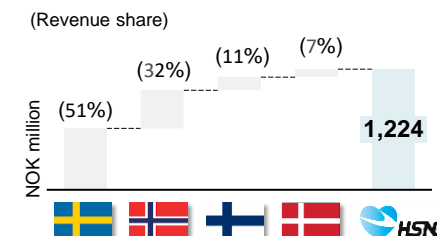
Retail brand	Position	Geographical footprint
<b>GYMGROSSISTEN</b>	Online sports nutrition + adjacencies	   
 <b>PROTEINFABRIKKEN</b>	Online sports nutrition + adjacencies	   
<b>BODYMAN</b>	Online sports nutrition + adjacencies	   
<b>Bodystore</b>	Health and wellness	   
<b>FITNESSMARKET</b>	B2B sports nutrition	   

## Own brands portfolio



## Key facts<sup>1</sup>

### Operating revenue

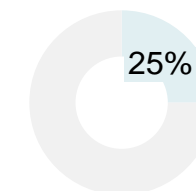


### EBIT adj.

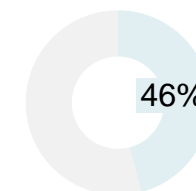


**NOK 34 million**

### Est. Nordic market share



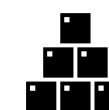
### Own brands share



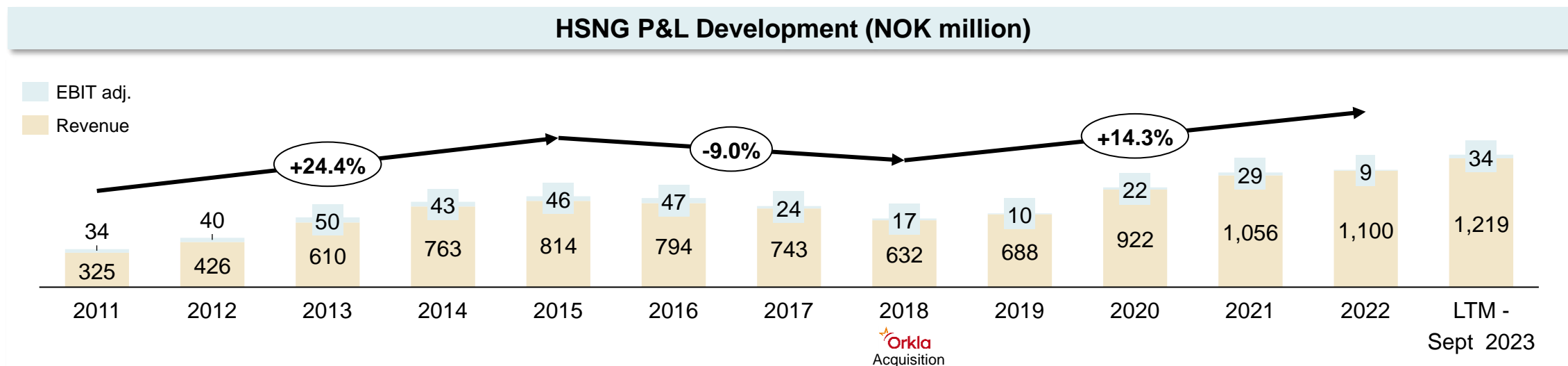
**120 FTE's**



**1,400 Own brands SKU's**



# Over the last 5 years, HSNB has achieved a 14% sales CAGR, significantly surpassing market growth with improved EBIT in 2023



## **Strong consistent growth**

- Growing online shopping trend
- Market growth in key product categories
- Market expansion (launched in DK and continental Europe)
- Strong position and brand
- Few competitors

## **Tough years with new challenges**

- Lower consumer loyalty
- Higher marketing and acquisition costs
- Faded brand strength and relevance
- New delivery formats

## **Turnaround**

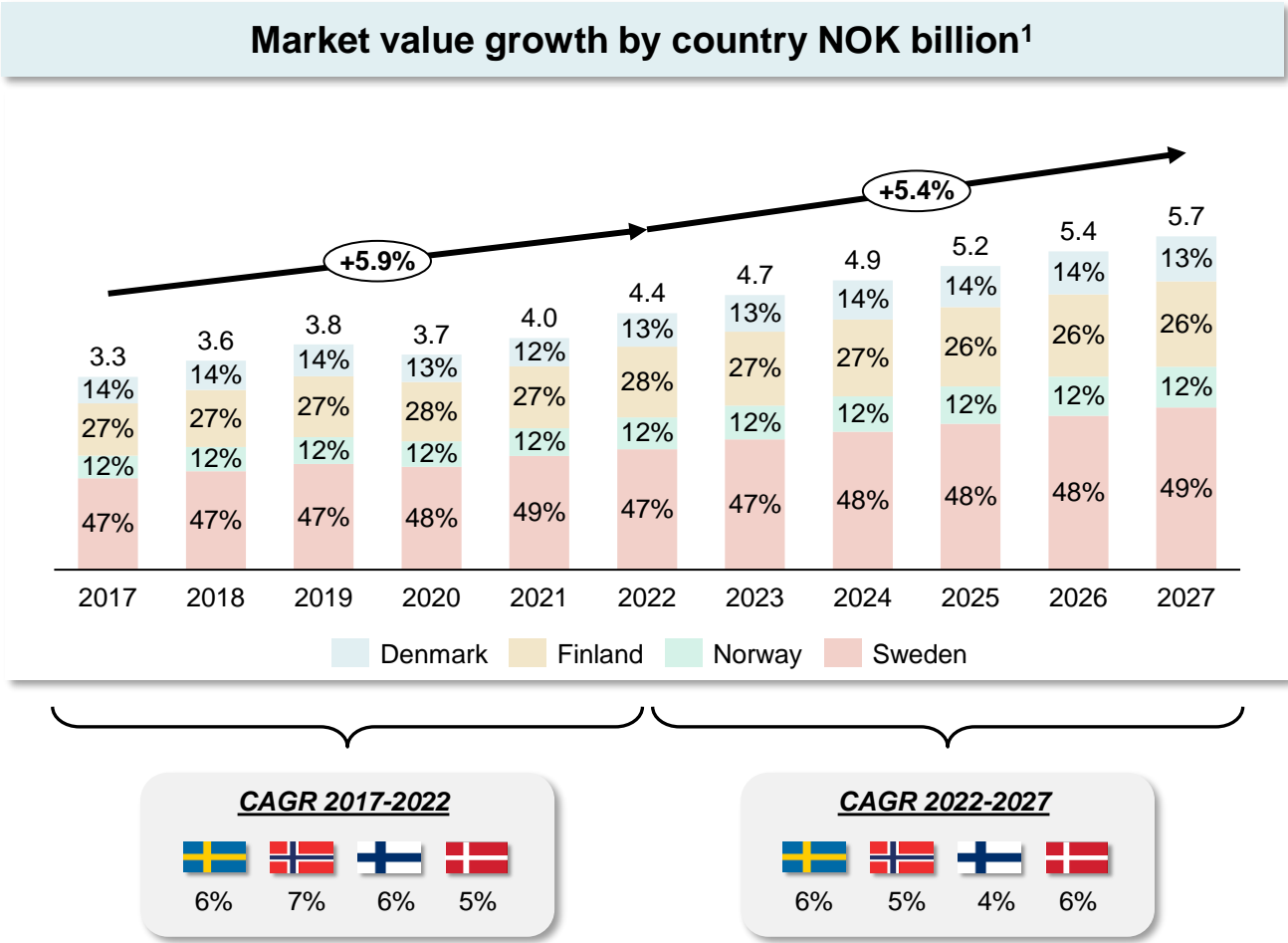
- Implementation of turn-around initiative including customer experience enhancements in D2C offering through tech stack and fulfilment investments
- Successful new business initiatives in offline sales
- Capability development and focus on operational excellence

## **Strong pace in 2023**

- Solid growth from most parts of the business driven by volume and price
- Significantly improved variable cost structure
- COGS still on high levels hampering margins



# Growth in sports nutrition is fuelled by health trends and innovation which has driven the total Nordic sports nutrition to NOK ~4,4 billion



- Comments
- The growth is fueled by long-term trends such as awareness about health and wellness and nutritional science progress and innovation
  - As these health trends and innovation continues, the demand for sports nutrition is expected to carry on
  - Collaborations with gyms and endorsements from athletes, paired with research, are enhancing the credibility of sports nutrition
  - As the market shifts towards e-commerce strategies and offers tailored nutritional solutions, sports nutrition is becoming accessible to all. Sports nutrition caters both to athletes and fitness enthusiasts, as well as occasional exercisers



# HSNG's competitive edge is centered around its strong product and retail brands, unparalleled scale and route to market capabilities

## Leading sports nutrition D2C platforms and brands

- 6 different D2C brands catering to multiple of segments in the Nordic sports nutrition market
- 46% own brands share cross channels through 8 leading product brands
- Launching ~100 innovative SKUs per year while following the highest standards in food safety

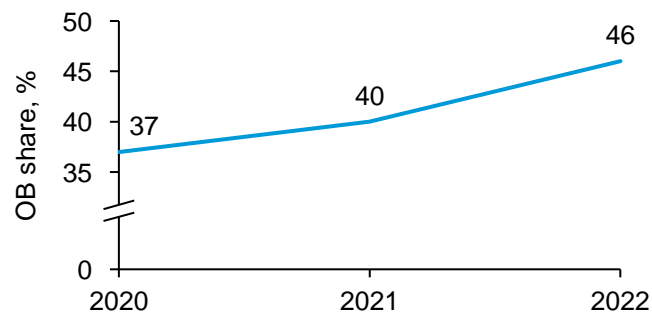
## Unparalleled scale in the Nordics

- ~3x larger than the #2 competitor in the Nordic sports nutrition market<sup>1</sup>
- ~50% share in the D2C space<sup>1</sup>
- Leading positions in Nordic Grocery trade (e.g., 74,8 % of Swedish protein powder market<sup>2</sup>)
- Market leading distribution partner in sports retail and fitness centers
- Largest own brands portfolio in the Nordics

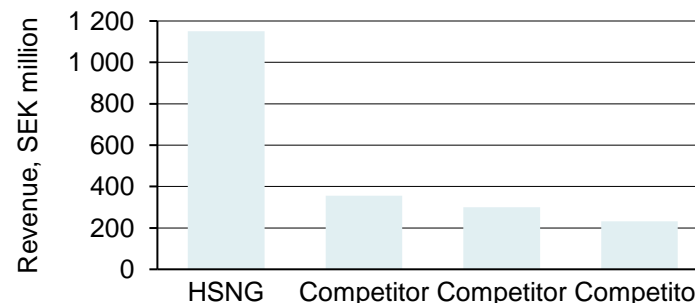
## Unique route to market capabilities

- HSNG has ideal cost-efficient Nordic distribution capabilities with capacity to grow in years to come
- Due to scale, HSNG has unmatched technological capabilities enabling a superior customer experience
- In total, by far the biggest buyer of sports nutrition in the Nordics enabling buying power and capabilities to drive profitable growth cross channels

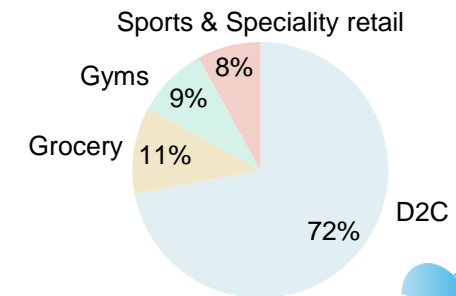
HSNG Own Brands Share



HSNG revenue vs. competition



Channel revenue split



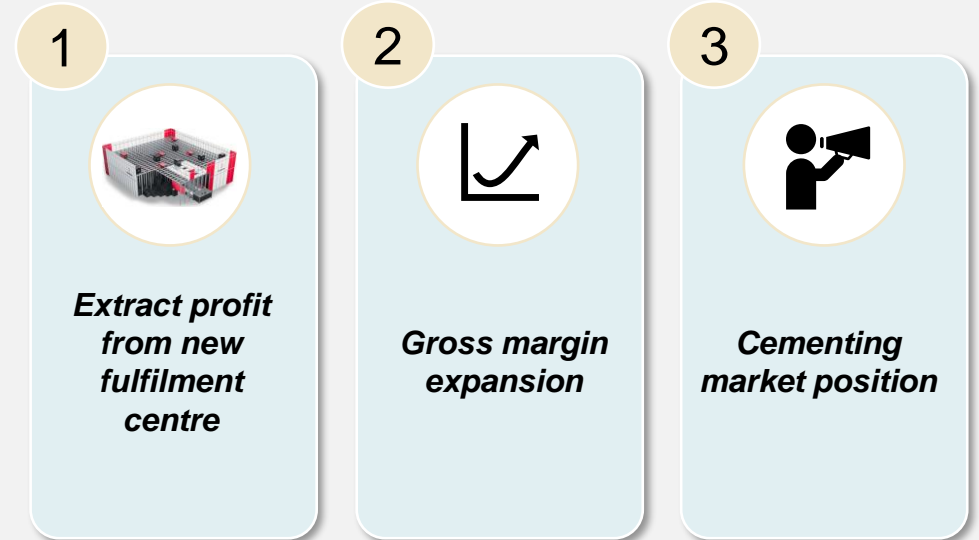
# Moving forward HSNG will shift focus from growth and investments to profit and cash through 3 key initiatives

## Shifting from topline growth and building scale...

- HSNG has robust brands and hold a commanding market position across the Nordics
- After several years of robust top-line growth, HSNG have now achieved the scale necessary to convert this growth into enhanced profitability
- The necessary investments are already made, including a fully automated warehouse to meet the heightened demand from consumers and ensure an optimal customer experience



## ...towards driving profitability through 3 major initiatives



# 1 Automating HSNB's warehouse operations will not only elevate the customer experience but also yield cost savings

*Extract profit from new fulfilment centre*

## Implemented automated warehouse live from Q3 2023...

### Improving profitability

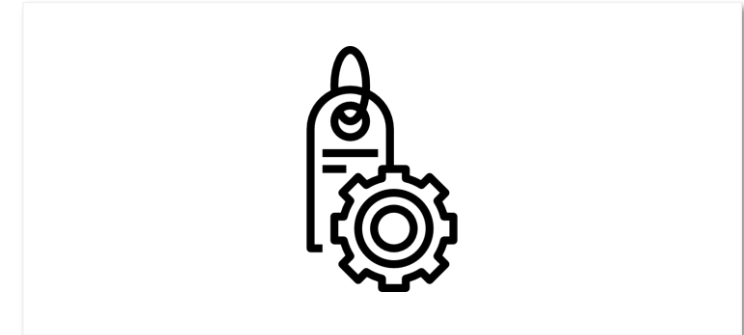
- Investment in warehouse automation technology (Autostore) has already been successfully implemented as of Q3 2023 and warehouse move has been successfully implemented
- Automation will enable a 50% headcount reduction of warehouse staff
- Further cost improvements related to:
  - Reduced freight forwarder costs due to new ideal warehouse location
  - Reduced total parcel volume through automated package closures thereby reducing shipping costs
  - Dramatically shortened delivery lead time will reduce customer service enquiries

### Further developing competitive edge

- Total lead time expected to be reduced with 50% significantly enhancing customer experience
- Substantial unit economics improvement
- Located in Eskilstuna for optimal Nordic distribution
- Only Nordic player in the industry vertical with automation capabilities
- Capacity for future growth with 21,000 sqm installation with an option to expand with a further 10,000 sqm
- Faster order fulfillment represents a significant competitive advantage

## 2 Gross Margin expansion through increased Own Brands share, extracting costs in supply chain and optimizing pricing

*Gross margin expansion*



### Increase Own Brands share of sales

- Capture potential in significant margin advantage on own brand products
- Drive demand and sales on own brands through brand building, visibility and priority in sales channels
- Strengthen own brands product portfolio by addressing product category weak spots
- Accelerate innovation agility by streamlining development processes

### Gross Margin improvements through supply chain efficiency gains

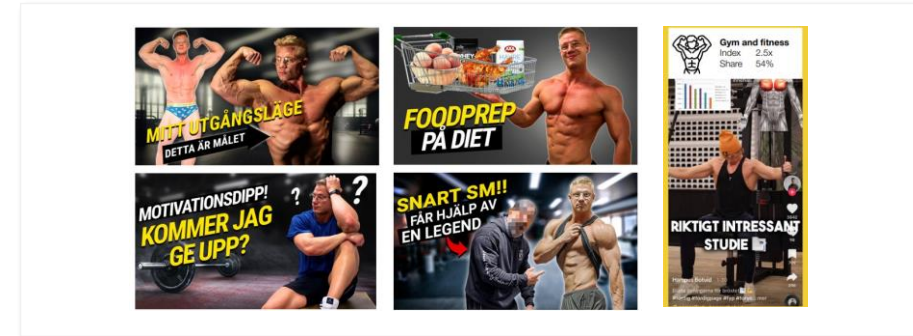
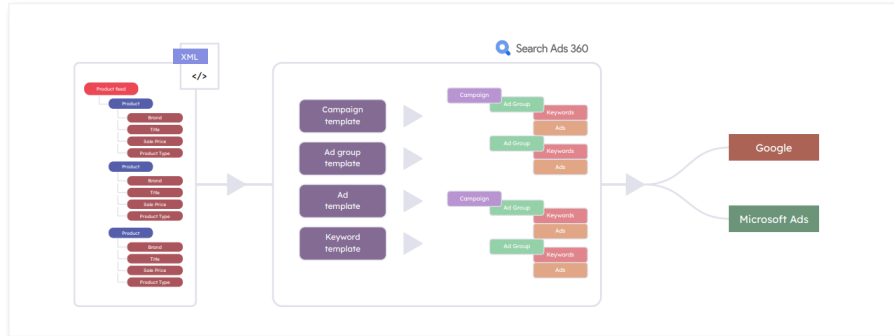
- Leverage scale and market position for improved commercial terms, cost reductions and increased supplier investments
- Enhance speed to market with innovations through increased efficiency in internal and external processes
- Implement refined category and assortment strategies to drive gross margin and assortment relevance

### Revenue management and price optimization

- Adopt a systematic, data-driven approach to revenue management and pricing optimization across sales channels
- Improved systems and tools for pricing and price monitoring enabling improvements in pricing strategy and execution
- Revenue management focus to in tune commercial offering to improve margin

### 3 HSNB aims to save resources in lower funnel marketing channels and attracting new customers using new marketing tactics

*Cementing market position*



#### Drive profitable growth through profit-based performance marketing

- Implement bidding with higher profitability targets and prioritize keywords and campaigns that attract new customers with high Customer Lifetime Value
- Limit bidding on products with low margin (GM3) by data model follow up
- CRM activities to further segment the offering and communication through full funnel analysis and tactics
- Continues work with securing top-ranking positions for top key words

#### Attract new customers through new marketing tactics

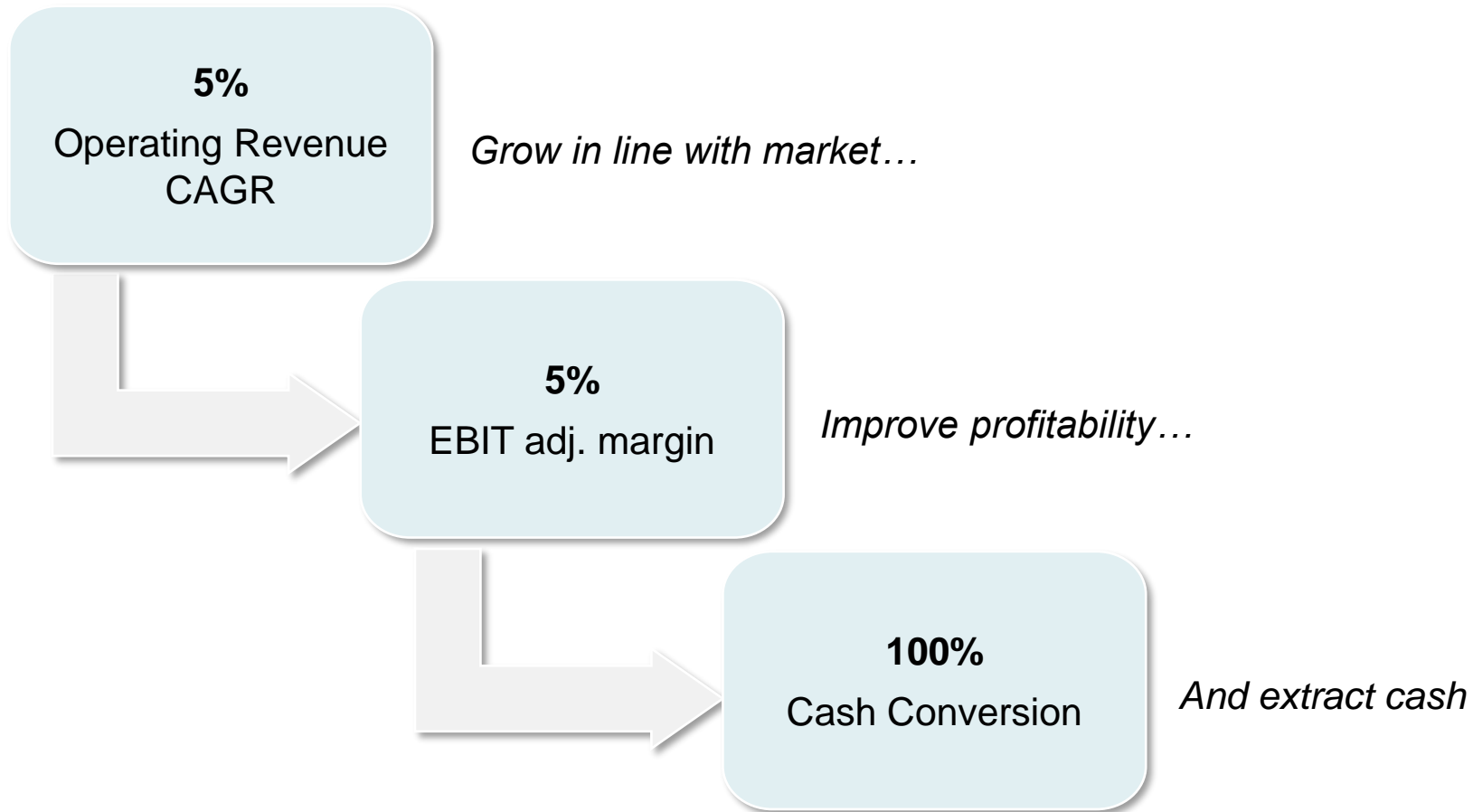
- Strengthen capabilities in video based social media platforms such as TikTok to secure new penetration
- Optimize content according to social search trends for YouTube to support Google Ranking, stay top of mind among core consumers and build brand preference
- Focus on influencer marketing, collaborations and offline activation to reach new potential customers and gain attraction, especially within Gen Z, to evolve long term Brand Loyalty



***Increased customer base and reduced average customer acquisition cost***



**During 2024 – 2026 HSNG will grow in line with market while improving EBIT and free cash flow**



# HSNG Investment highlights

- 1 Estimated total addressable market (Nordic sports nutrition) of NOK 4.4 billion in 2022 with an expected annual growth of 5.4% until 2027<sup>1</sup>
- 2 Clear Nordic market leader cross all major channels with leading brands and distribution
- 3 Unique Nordic and multi-channel footprint combining leading brands with D2C and B2B platforms creating a clear competitive edge
- 4 HSNG has grown organically significantly above market growth over the past 4 years
- 5 Just launched a fully automated fulfillment center creating unique distribution capabilities, offering an advantage in the market and further strengthening the competitive edge
- 6 All major capital expenditures made which will enable focus on cash conversion ahead
- 7 Ambition to deliver 5% operating revenue CAGR, 5% EBIT adj. margin and 100% cash conversion by 2026

# Alternative Performance Measures (APM)

## **Contribution ratio**

Contribution ratio is calculated by dividing the contribution margin by operating revenues. Operating revenues minus variable operating expenses constitute the contribution margin. Variable operating expenses are reported on the financial statement line “operating expenses” and consist of expenses directly related to sales volume. Variable expenses include the costs of input factors such as raw materials and packaging, and variable production costs such as electricity related to production and variable pay. They also include incoming and outgoing freight costs directly related to sales volume. Costs related to finished goods purchased for resale are included as part of variable operating expenses. Production costs that are relatively constant over time and do not vary according to production volume are not included in the computation of contribution margin; such costs include warehouse costs, wages of factory administration and management staff, and depreciation of production equipment.

Contribution Margin is a key internal financial figure that shows how profitable each portfolio company’s product mix is and hence the company’s ability to cover fixed expenses. Contribution margin is an important financial figure with regard to product innovation and product portfolio optimisation.

## **Organic growth**

Organic growth shows like-for-like turnover growth for the group’s business portfolio and is defined as the group’s reported change in operating revenues adjusted for effects of the purchase and sale of companies, the re-conclusion and loss of distribution agreements of a material nature, and currency effects. Intra-group transfers of companies and changes in distribution agreements between portfolio companies are also taken into account. When calculating organic growth, acquired companies will be excluded 12 months after the transaction date. Sold companies will be excluded pro forma 12 months prior to the transaction date. Currency effects are neutralised by translating this year’s turnover at last year’s exchange rates.

Organic growth is included in segment information and used to identify and analyse turnover growth in the consolidated portfolio companies. Organic growth provides an important picture of the portfolio companies’ ability to carry out innovation, product development, correct pricing and brand-building.

Segment information for each consolidated portfolio company shows how large a part of organic growth is related to price effects and how large a part is linked to volume/mix effects. Price effects are defined as net changes in prices to customers, i.e. changes in prices to customers adjusted for factors such as discounts, campaigns and price reductions. The price effects are calculated based on the assumption of unchanged volume. Volume/mix effects are calculated as a residual, and are organic growth minus price effects. Volume/mix effects consist of changes in sales volume and/or changes in the product mix sold.

## **EBIT (adj.)**

EBIT (adj.) shows the group’s current operating profit before items that require special explanation, and is defined as reported operating profit or loss before “Other income and expenses” (OIE). Items included in OIE are disclosed in Note 3. These include M&A costs, restructuring or integration expenses, any major gains on and write-downs of both tangible and intangible assets, and other items that only to a limited degree are reliable measures of the group’s current profitability. EBIT (adj.) margin and growth are derived figures calculated in relation to operating revenues.

EBIT (adj.) is one of the group’s most important financial figures, internally and externally. The figure is used to identify and analyse the group’s profitability from normalised operations and operating activities. Adjustment for items in OIE which to a limited degree are reliable measures of the group’s current operating profit or loss increases the comparability of profitability over time.

# Alternative Performance Measures (APM)

## **Change in underlying EBIT (adj.)**

Change in underlying EBIT (adj.) shows like-for-like EBIT (adj.) growth for the group's business portfolio and is defined as the group's reported change in EBIT (adj.) adjusted for effects of the purchase and sale of companies and the re-conclusion and loss of distribution agreements of a material nature and currency effects. Account is also taken of intra-group transfers of companies and changes in distribution agreements between portfolio companies. In calculating the change in underlying EBIT (adj.), acquired companies will be included pro forma 12 months prior to the transaction date. Sold companies will be excluded pro forma 12 months prior to the transaction date. Currency effects are neutralised by translating this year's EBIT (adj.) at last year's currency exchange rates. Where underlying profit performance is mentioned in the report, reference is made to underlying EBIT (adj.) performance. Underlying EBIT (adj.) margin and change therein are derived figures calculated in relation to operating revenues.

Underlying EBIT (adj.) growth is used for internal management purposes, including for identifying and analysing underlying profitability growth in the existing business portfolio, and provides a picture of the portfolio companies' ability to improve profitability in their existing operations. The measure is important because it shows the change in profitability on a comparable structure over time.

## **Return on Capital Employed (ROCE)**

ROCE is calculated by dividing a 12-month rolling EBITA (adj.) by the average capital employed in the consolidated portfolio companies.

EBITA (adj.) consists of EBIT (adj.) plus depreciation and write-downs of intangible assets. In the calculation a 12-month rolling EBITA (adj.) is used. Since depreciation and write-downs of intangible assets are not included in EBITA (adj.), they are also excluded from the capital base. Thus the historical cost of intangible assets is used in capital employed (see next paragraph).

Capital employed represents working capital in the consolidated portfolio companies and consists of:

- Net working capital - consists of the statement of financial position items "Trade receivables", "Trade payables" and "Inventories". It also includes public charges payable and some minor receivables and payables related to operations from "Other receivables and financial assets" and "Other current liabilities".
- Fixed assets
- Intangible assets at historical cost - consist of the statement of financial position line "Intangible assets" plus accumulated depreciation and write-downs
- Net pension liabilities - Pension assets are included in the statement of financial position line "Associates, joint ventures and other financial assets", while pension liabilities are included in "Provisions and other non-current liabilities"
- Deferred tax on excess value - This item is included in deferred tax which is part of the statement of financial position line "Provisions and other non-current liabilities"

# Alternative Performance Measures (APM)

## **Return on Capital Employed (ROCE) cont.**

Average capital employed is at all times an average of the closing balance for the five last reported quarters.

ROCE shows the return that the Orkla group receives on the capital invested in the various consolidated portfolio companies. This is an important measurement parameter for assessing whether the portfolio companies' return exceeds the group's weighted average cost of capital (WACC), and for comparing the return on the current portfolio with another alternative return.

## **Net replacement and expansion investments**

When taking decisions regarding investments, the group distinguishes between replacement and expansion investments. Expansion investments are the part of overall reported investments considered to be investments either in new geographical markets or new categories, or which represent significant increases in capacity. Net replacement investments include new leases and are reduced by the value of sold fixed assets to sales value.

The purpose of this distinction is to show how large a part of the investments (replacement) mainly concerns maintenance of existing operations and how large a part of the investments (expansion) is investments which must be expected to generate increased contributions to profit in future, exceeding expectations of normal operations.

## **Net interest-bearing liabilities**

Net interest-bearing liabilities are the sum of the group's interest-bearing liabilities and interest-bearing receivables. Interest-bearing liabilities include bonded loans, bank loans, other loans, lease liabilities and interest-bearing derivatives. Interest-bearing receivables include cash and cash equivalents, interest-bearing derivatives and other interest-bearing receivables.

Net interest-bearing liabilities are the group's primary management parameter for financing and capital allocation and are used actively in the group's financial risk management strategy. The Orkla format cash flow statement therefore shows the change in net interest-bearing liabilities at group level.