Orkla Confectionery & Snacks

Orkla Capital Markets Day 2023

Orkla Confectionery & Snacks

Maximizing core portfolio potential

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Our aspiration

The #1 snacking choice for the Nordic/Baltic consumers

Winning together with local, sustainable brands and passionate people

The leading Nordic and Baltic snacking player

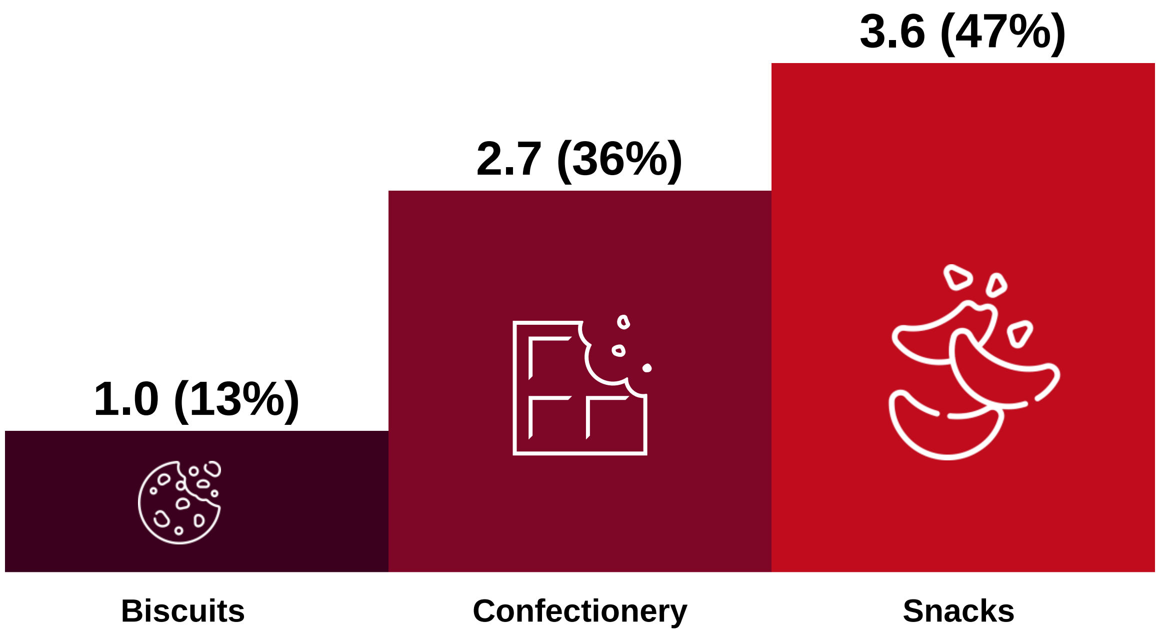
Operating revenue
7.6

Employees
~3,000

Factories
13

Countries / Business Units
7

Categories – Operating Revenue (2022)



Operating revenue in NOK billion, all figures from 2022;
Other ~3% include cakes, convenience food & frozen food

Orkla Confectionery & Snacks was established in 2013, but our history dates back to 1806

- Kalev ANNO 1806 – 1806
- Laima 1870 – 1870
- Sætre – 1883
- Göteborgs KEX – 1888
- Staburadze – 1910
- Nidar – 1912
- Nói Síríus – 1920
- Panda – 1952
- Selga – 1956
- Polly – 1957
- KiMs – 1965
- OLW – 1967
- Taffel The Original Snacks – 1970
- Bubs Godis – 1992
- Ādažu – 1993

The portfolio holds iconic hero brands within the snacking categories across the Nordics and Baltics

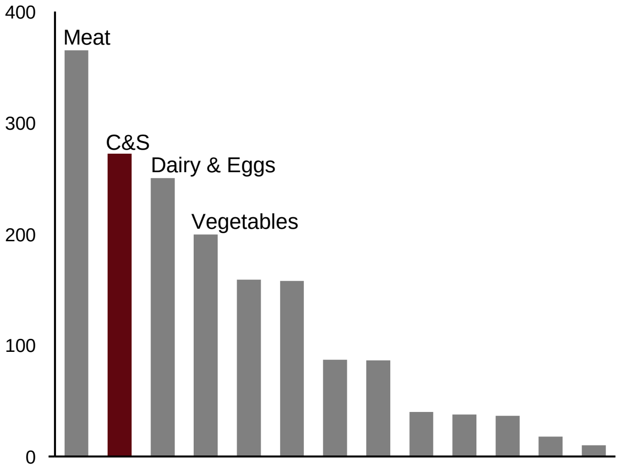
Snacks	KiMS #2	OLW #1	Taffel #1	KiMs #1	Taffel #3	Ādažu #1	
Confectionery	Nidar #2	Bubs #7	Panda #4	Panda >#10	Kalev #1	Laima #1	Nói Síríus #1
Biscuits	Sætre #1	Göteborgs Kex #1	Kantolan #3		Kalev #1	Selga #1	

The confectionery and snacks categories are attractive for Orkla and the retailers

Our categories are large..

Confectionery & Snacks (C&S) is ~15% of European food market

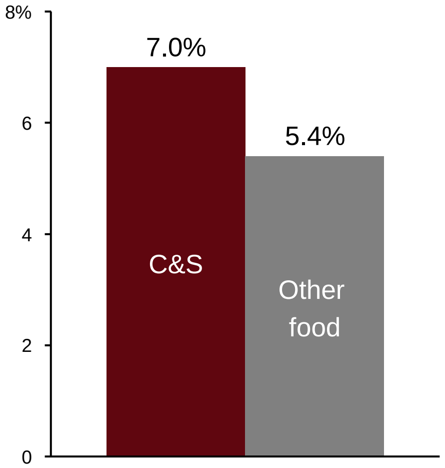
European food market
(EUR bn, 2022)



.. and growing..

CAGR above European food market

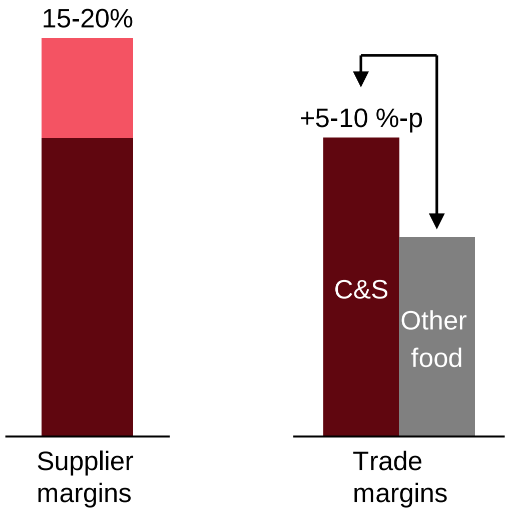
CAGR European food market
(%, 2018-'22)



..with good margins..

For both supplier and trade

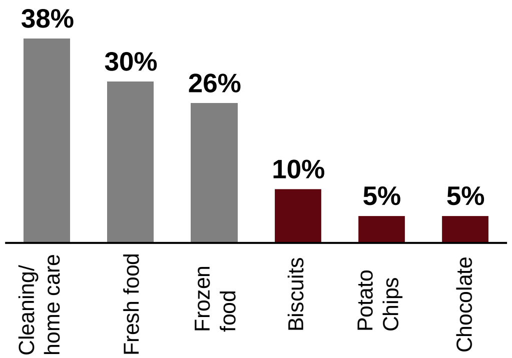
Indicative supplier and trade margins
(2022)[1]



..and attractive attributes

- **Impulse**
  Often bought on impulse, i.e., ideal for strategic positioning in store
- **Brand loyalty**
  Resistance towards private label, with low willingness from consumers to compromise on their favorite brands

Norwegian private label share[2]:



Note: European Food Market estimates based on Orkla research from a variety of national and international institutions and trade associations which provide information about industrial production, international trade as well as consumer spending and habits; 1) Indicative view based on Orkla research and selection of global peers; 2) Source: NIQ Norge ScanTrack, Norge total DVH, Kategori/Segment: Vaske/husholdningsprodukter, Fersk mat, Dypfryst mat, Pakket mat, Sjokolade og sukkervarer, Snacks, Kjeks Fact: PL/EMV andel, Periode: MAT uke 44 2022. (Copyright © NIQ Norge.)

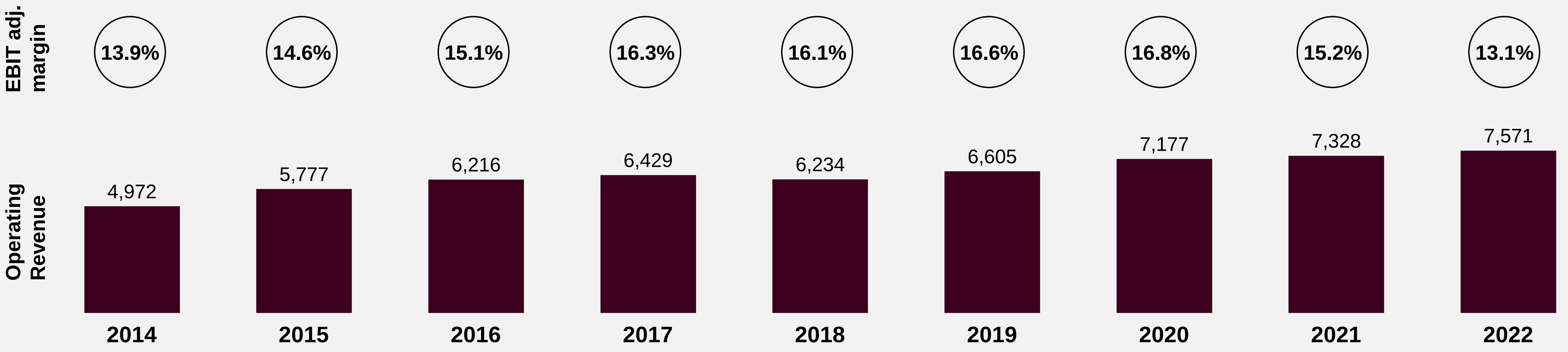
Orkla Confectionery & Snacks offers unique and structural competitive advantages

Strong #1 and #2 brands
Leading heritage brands with deep roots in their relative market; providing high awareness, penetration and relative market shares.

Local size
Unmatched local strength with unique consumer insights and complete value chains. Strong customer relations based on history, size and importance.

Employer attractiveness
Strong talent base and ability to attract and retain talent across markets – providing a platform of local ownership and regional mobility opportunities.

Strong financial results over many years – inflationary environment challenging last years



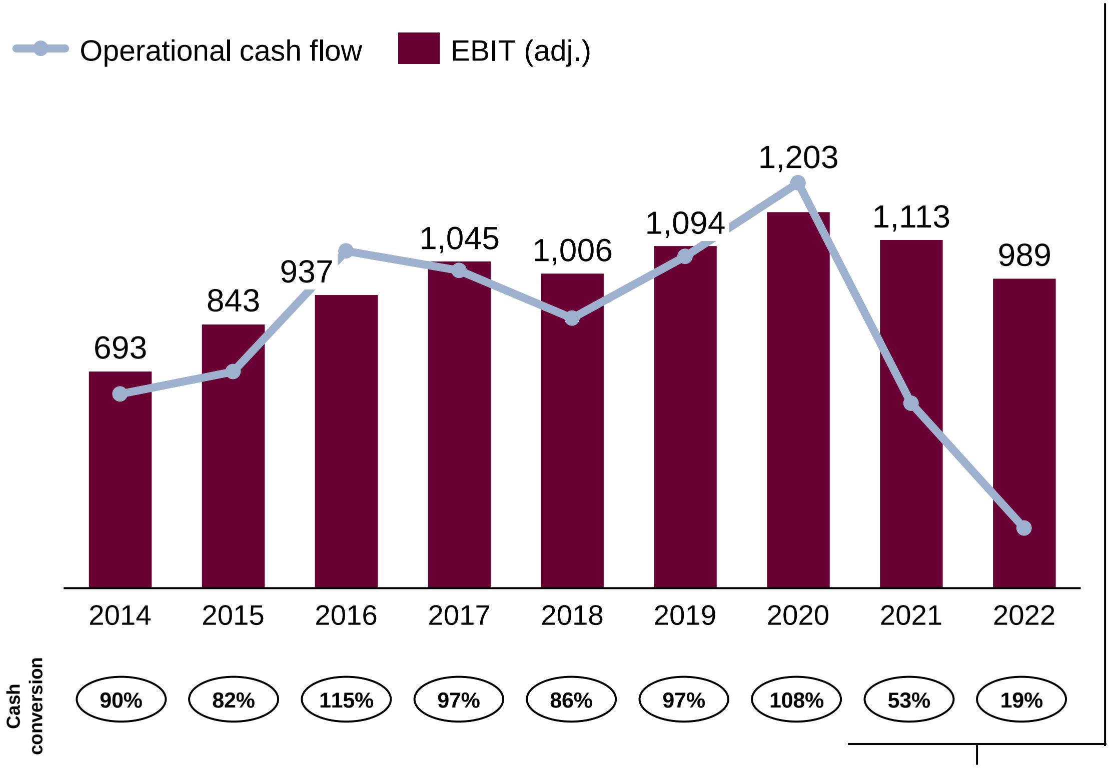
- **Continued topline growth** since establishment of Confectionery & Snacks as a business area in Orkla in 2013.
- Historic strong development in EBIT-margin from 2013, **lag in the effect of price changes** post input cost inflation has dampened margins the past 2 years, with expected comeback in the years to come.
- **New biscuit factory** impact numbers last years, curbing innovation and promotion opportunities, as well as ramp-down and ramp-up costs associated with factory move

Orkla Confectionery & Snacks

All numbers in NOK million

Solid cash generation over time, with significant growth investments done – reducing future investment needs

EBIT and cash flow generation



Lower cash conversion in 2021/2022 due to significant replacement CapEx/investments

Examples of recent replacement CapEx

New smaller chocolate factory outside of Riga
Opened 2021

New warehouse in Trondheim
Opened 2022

New large biscuit factory outside of Riga
Opened 2023

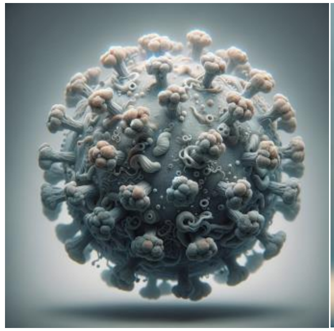
…and capacity investments

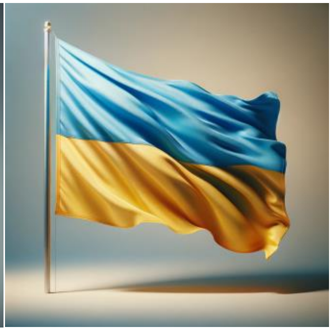
New chocolate production line in Nidar factory
Opened 2023

All numbers in NOK million

The external macro turmoil in recent years has increased ramp-up time and cost of our new biscuit factory

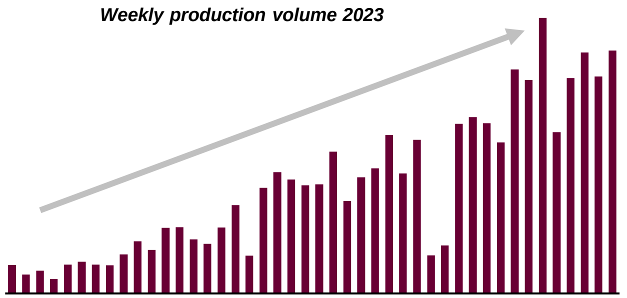
Ramp-up challenges





- Instability in global supply chains delayed project and forced adjustment in time plan
  - Construction of building
  - Components to new lines
- More compressed time plan and longer ramp-up time than expected has led to out-of-stock and high costs
  - Technical issues new lines, mainly related to packaging
  - Competence transfer

Factory status November 2023



- Significant uplift in production volumes last 3 months
  - Volume higher than demand for most lines, with stock building started
  - Still challenges to get certain lines up to the desired output-level
- Biscuit quality very good
- Cost level above plan, cost actions in progress

Financial impact

- Total negative effect in FY 2023 expected to reach NOK 150 million, including cost and out-of-stock effects
- Significant part of the negative 2023 effect expected to be regained through 2024, pending completion of remaining technological issues
- Original business case, including significant positive cash flow in Orkla Real Estate from sale of land plot, still viable

Orkla Confectionery & Snacks

We have built a strong Full Potential Plan focusing on 3 key strategic priorities to release our potential

1	**Win with heroes**	*Unlock the growth potential in our hero brands by much sharper portfolio prioritization. Increase and focus investments in 40% of brand positions to drive >80% of the growth.*
2	**Fuel our heroes through cost efficiency**	*Finance brand investments through more aggressive end-to-end cost optimization programs. Increased system value through harmonization and complexity reduction.*
3	**Step-change in critical capabilities and enablers**	*Build next-level key commercial capabilities to drive physical and mental availability. Review operating model for optimized execution throughout our value chain.*

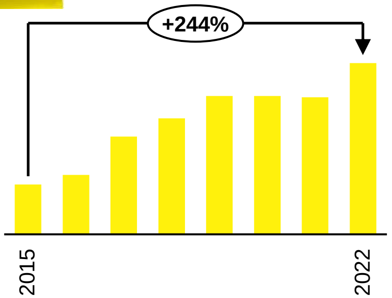
The growth journey has already started!

1 **Win with heroes**

Example initiatives: Grow selected hero brands

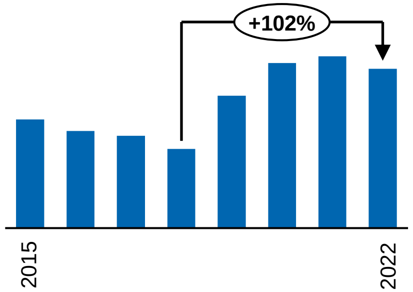
Smash! with strong growth journey and adoption – with strong potential to leverage as a growth platform

Smash! volume development



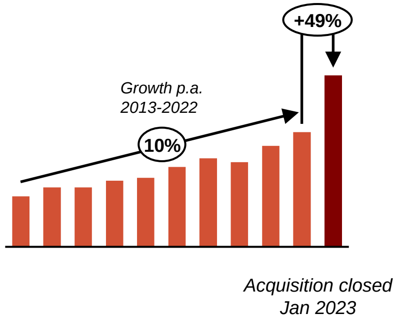
Stratos has seen significant uplift in growth after increased prioritization and focus

Stratos volume development



Acquisition growth engine Bubs has products loved by younger consumers – with great potential cross-market

Bubs operating revenue growth[1]



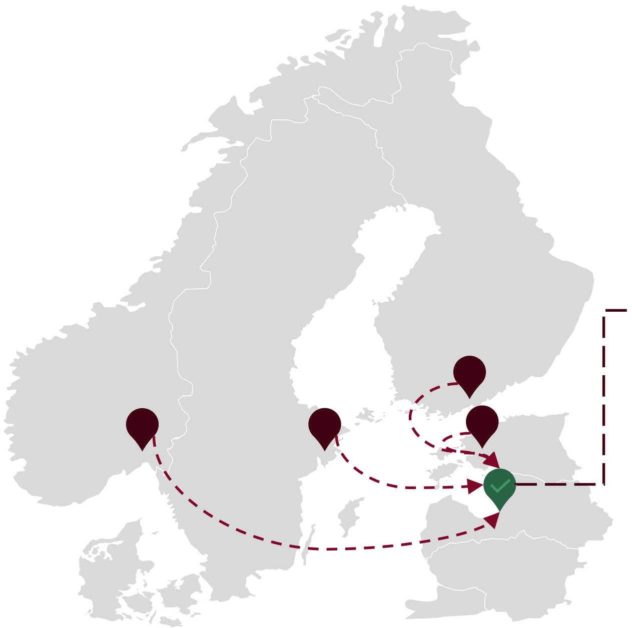
 Orkla Confectionery & Snacks

1: Bubs with deviating financial year (year end June)

Our new biscuit factory exemplifies how we can combine cost and commercial synergies

2 **Fuel our hero positions**

Example initiative: Orkla Biscuit Production



Consolidate production for all biscuit markets to new factory built outside of Riga

The most advanced biscuit production plant in Northern Europe

Capacity and technology to drive innovation at scale – enabling commercial synergies.

Significant cost synergies with joint factory for all biscuit markets, moving from 21 production lines to 13.

Strong uplift in sustainability, targeting 50% waste reduction and 25% decrease in energy consumption.

We will drive central initiatives and investments in critical capabilities across our geographies

3 **Step-change in capabilities/enablers**

Example initiative: Cross-country capability lift

Sales excellence

Increased investments in scalable central sales capabilities – such as Perfect Sales and Net Revenue Management (NRM), to export across our local markets

Marketing efficiency

Cross-country investments in tools and capabilities to standardize and increase our return on marketing investments

Sustainability

Focus on sustainability that matters, by a coherent ESG strategy to benefit our people, planet and consumers

Our strategy comes with significant improvements to ensure increased value creation

	From	To
Razor-sharp portfolio priorities	**Innovation focused** broad portfolios with limited central governance	**Strict portfolio prioritization system** to channel resources to core positions. >80% of growth expected from 40% of portfolio
Substantial cost reductions	Country led cost reduction initiatives **with country-specific lens**	**Cross-market cost programs** to enable harmonization and simplification
Step change in brand and capability investments	**Widely spread brand investments** and local capability building	**Focused brand investments on hero brands –** programs to build commercial capabilities across markets
Redefined operating model	Localized model with **limited incentivization** or structures for collaboration	Optimized model to maintain local advantages while enabling system value and **accelerating strategy implementation**

Increased accountability, ownership and discipline through new governance structure

Margin expansion through volume growth is the foundation for our value creation towards 2026

>15%

EBIT (adj.) margin within 2026

> 2%

Annual volume-/mix p.a. growth

13%

Return on Capital Employed within 2026

~100%

Cash conversion p.a.

Investment highlights

1 **Large market** in current geographies and categories – consistently **outgrowing** other food categories with **attractive margins** for both supplier and trade.

2 Leading branded snacking company **uniquely positioned across indulgence categories** snacks, biscuits and confectionery in Nordics/Baltics**. #1 and #2 positions** in core markets with local heritage brands.

3 **Significant untapped growth potential** in current portfolio – leading with our hero brands and expanding **the taste people love** into new shapes, formats and countries by leveraging our full portfolio and capabilities.

4 **Historic strong value creation** with consistent **EBIT margin in 13-17% range** past 5 years. **Large upside in margin and shareholder value** with lag effect from responses to input cost inflation.

5 **Passionate organization** with strong talent base and high employer attractiveness. Untapped potential to be fulfilled by review of operating model.

6 All business units united under common strategy – with clear priorities for the coming years. **Significant CapEx investment made** to lay a foundation for future organic growth in core markets.

Orkla

Confectionery
& Snacks

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.