Orkla

Foods Europe

Orkla Capital Markets Day 2023

Orkla Foods Europe
Realizing the margin potential

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Introduction to Orkla Foods Europe

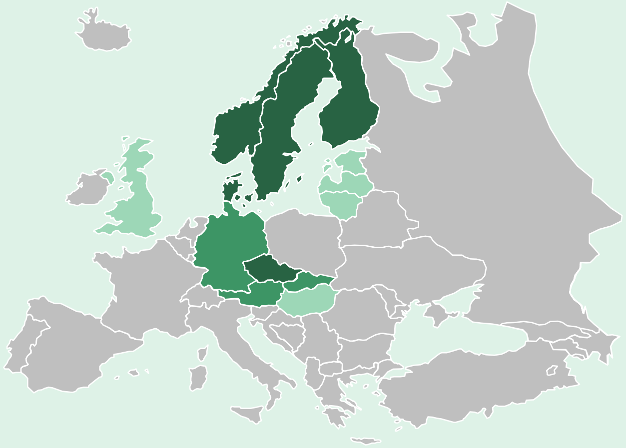
Key figures (R12M Q3-2023)

Operating revenue
NOK 19.7bn

Employees
~ 5,400

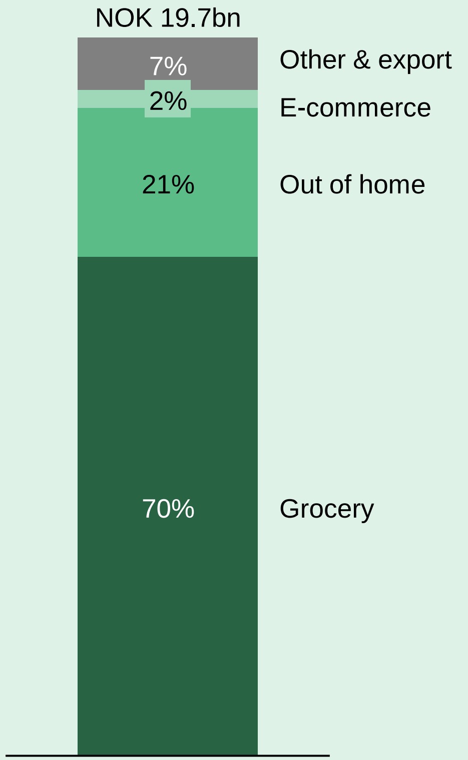
EBIT (adj.)
NOK 2.2bn

Geographical presence[1]



NOK revenue >1bn
NOK revenues 1000 > X > 250mn
NOK revenues 250 > X > 50mn
NOK revenues < 50mn

Channel exposure (R12M Q3-2023)



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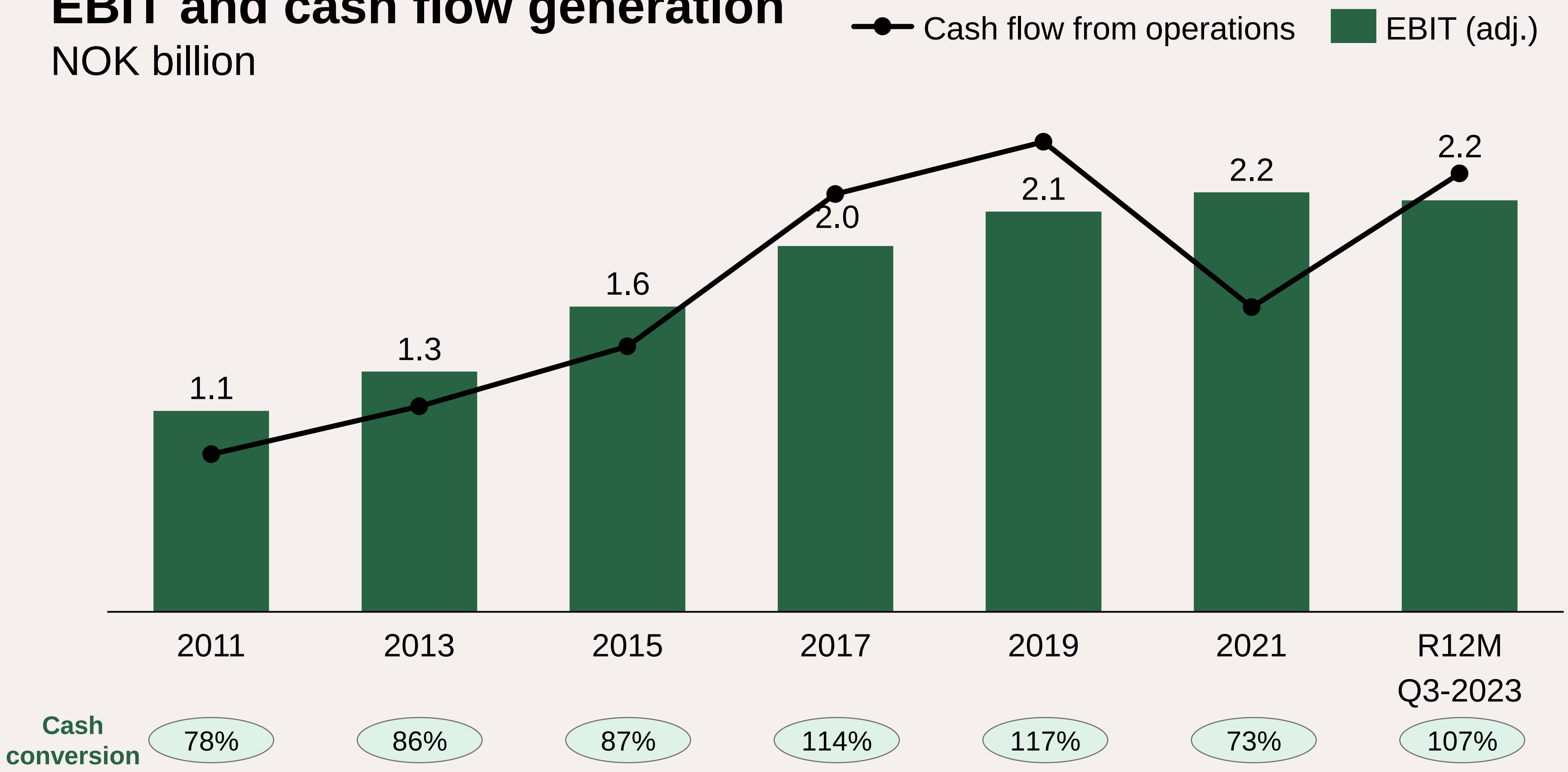
1. Based on sales per end of 2022

Orkla Foods Europe has been generating significant shareholder value over time

EBIT and cash flow generation

NOK billion



Total generation

NOK 20bn+

Cash flow generated since 2011

NOK 23bn+

EBIT generated since 2011

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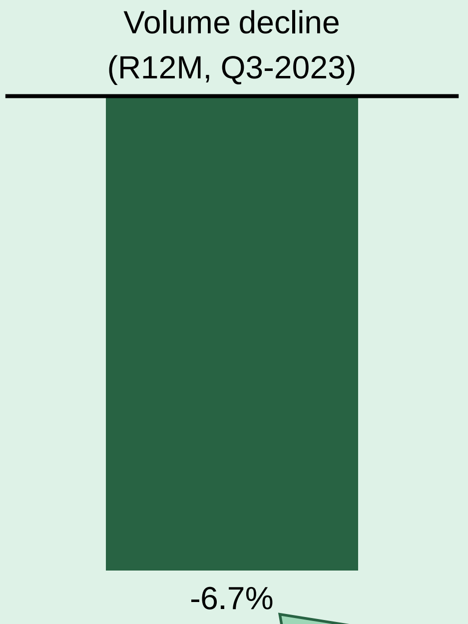
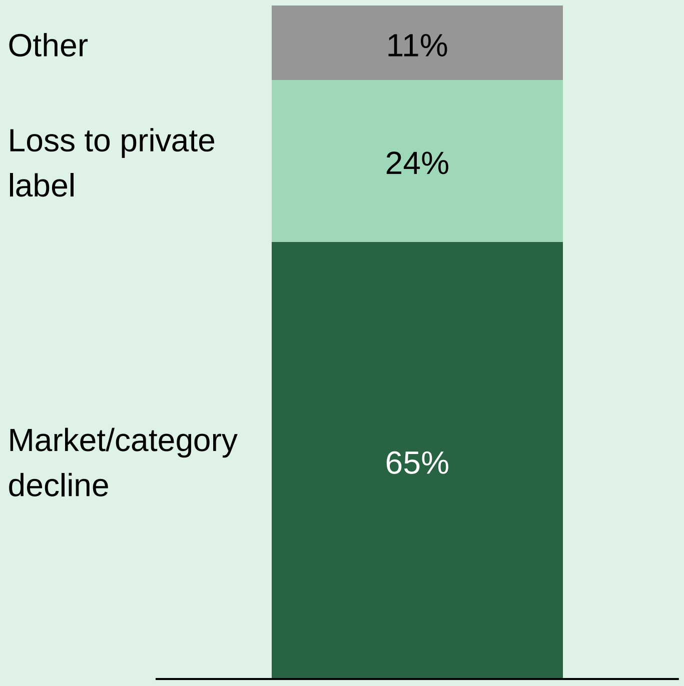
Majority of volume decline driven by reduced overall consumption in retail

Orkla Foods Europe volume/mix development



Reduced inventory levels among retailers have a negative effect during the period

Drivers of Orkla Foods Europe volume/mix



Decomposition of volume loss

Actions to increase volume

- Increase advertising and campaign spend and activities
- Campaign efficiency
- Secure re-listings
- Product adjustments (price/pack)

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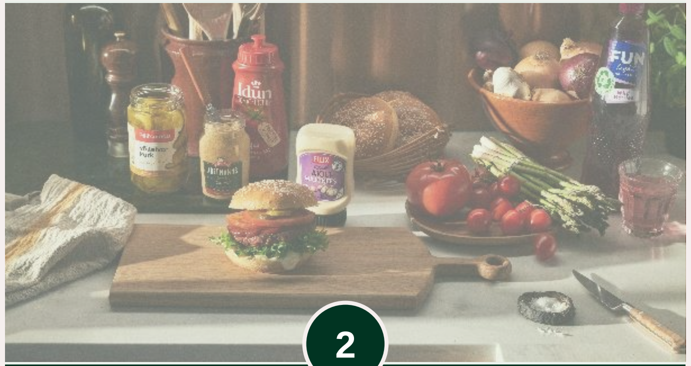
Orkla Foods Europe's competitive advantage

Key competitive advantages

1

Brands

Strong local brands with long heritage and pricing ability/consumer preference



2

Categories

Market leading supplier across many resilient and attractive categories

3

Differentiated business model

Business model supporting regional scale and consumer-first mentality, with strong track record of profit generation

1. Strong local brands with consumer preference

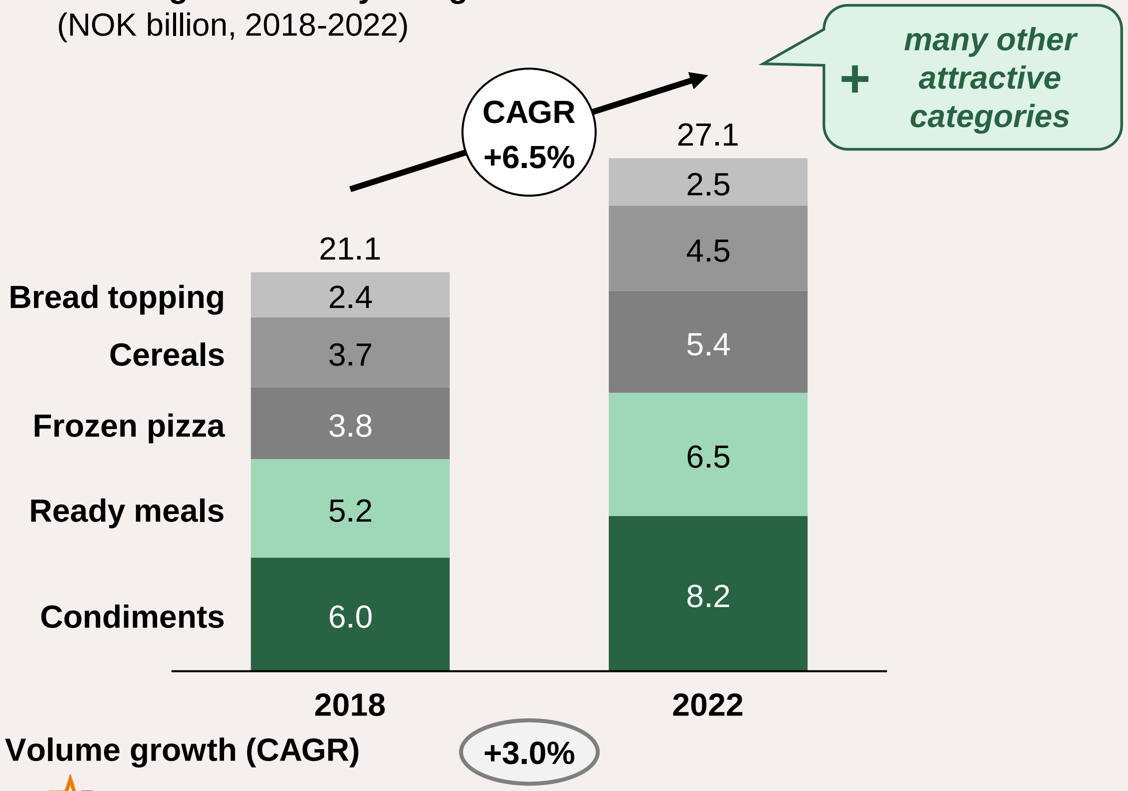
Norway	Sweden	Finland	Denmark	Czech Republic
#1 Ambient ready meals TORO	#1 Frozen ready meals FELIX	#1 Ketchup FELIX	#1 Jam & marmalade Den Gamle Fabrik	#1 Dehydrated ready meals Vitana
#1 Frozen pizza GRANDIOSA	#1 Ketchup FELIX	#1 Preserved vegetables FELIX	#1 Ketchup Beauvais, BÄHNCKE	#1 Spices Vitana
#1 Ketchup Idun	#1 Meat replacement anamma	#1 Granola & Müsli Paulúns	#1 Preserved vegetables Beauvais	#1 Durable patés and spreads Hamé
#1 Dilutables FUN light	#1 Cereals Paulúns	#1 Dilutables FUN light	#1 Frozen meat replacement NATURLI'	#1 Jam & marmalade Hamé
#1 Baking mixes TORO	#1 Dilutables FUN light	#1 Frozen potatoes Oolannin		#1 Preserved vegetables Hamé, Znojmia

More than 80% of revenues from #1 and #2 positions – Among the largest retail supplier in all markets

2. Market leading supplier across many resilient and attractive categories

Key categories displays strong underlying growth over the past years

Market growth in key categories[1]
(NOK billion, 2018-2022)



Largest and strongest position in the key categories where we decide to play

	Relative market share (2022)	
	Times larger than closest competition	Times larger than private label
Bread topping	5.4	4.9
Ready meals	3.0	2.7
Condiments	2.3	2.0
Pizza	1.6	4.8
Cereals	1.4	0.8

Key categories account for 60% of sales and contribution margin

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1. Includes market size within respective categories across markets with Orkla presence

3. Differentiated business model

Business model principles and resulting impact

Closer to consumers compared to global players

Strong local presence driving superior local consumer and customer understanding with flexibility to adapt to local needs and preferences

Regional scale compared to local competitors

Commercial and operational scale at regional and local levels compared to global, local and private label competition

Attractive margins with further improvement potential

Targets for EBIT growth, cash conversion and revenue growth towards 2026

Financial targets from Q3-2023[1] to 2026	**EBIT (adj.) margin 13-14% in 2026**
	Cash conversion > 100% p.a. **ROCE >15%; +3%-p**
	Yearly organic revenue growth of 2-3% **- positive volume/mix growth**
Target to 2030	**Reduce GHG emission[2] Scope 1 & 2 by 70% in 2030**

1. Base last 12 months Q3-2023 2. Base year 2016

Focus on margin expansion through defined initiatives across the value chain

Simplify, harmonize and optimize our core business

Procurement program

Established and initiated program to handle expected upcoming raw material cost decreases, and other high-value cost-takeouts

Initiated

Operational efficiency

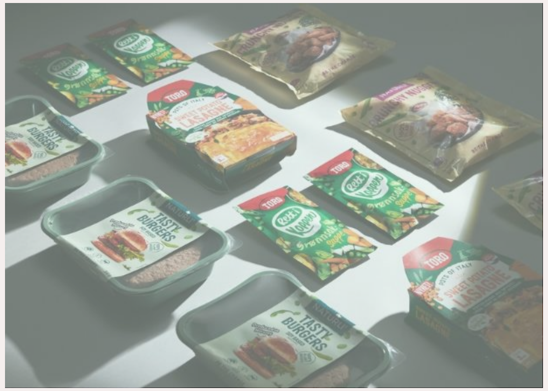
Accelerated supply chain simplification and optimization project across production facilities

Initiated

Organizational development

Realize cost savings from implemented organizational projects in Norway, Sweden and Czech Republic. Continue to identify and act on organizational improvements

Completed and benefits being realized



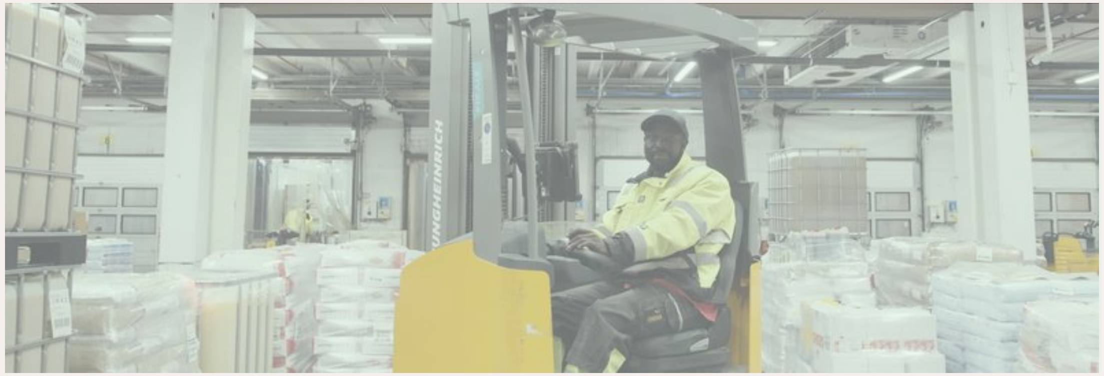
Net revenue management

Intensified focus on net revenue management, to optimize pricing and assortment selection across categories and markets

Initiated

Improve cash conversion through capital efficiency programs

Steady cash generation through improved capital efficiency



Net working capital

Initiated net working capital program, targeted at improving inventory and supplier terms across Orkla Foods Europe

Initiated

CapEx allocation

Increased focus on return from CapEx and prioritization of investments

Initiated

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Growth through focus on attractive categories and fast-growing channels

Focus on strong core and fast-growing channels

Focus on selected categories and brands

Focus on five selected categories; ready meals, pizza, condiments, bread toppings and cereals, and support corresponding top brands across markets

Investing >25% additionally on promotions and advertising towards 2026

Strong growth in Out-of-Home

Strengthen and utilizing our portfolio and brands to grow in key Out-of-Home channels such as hotels, restaurants, catering and convenience

Perfect sales execution

Initiated project to improve in-store performance, working closely with customers to improve consumer experience and availability

Key take-aways

Margin expansion through cost reductions and net revenue management

Strong cash conversion through moderate CapEx and reduced current capital

Building our core business through strengthened commercial efforts

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Note: Orkla analysis based on data from renounced data providers across markets, categories and channels, including Nielsen and Euromonitor where applicable. Proprietary primary sources have also been included for markets without market coverage from regular data providers.

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"

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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.