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Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Kjetil Sørum

Investor Relations Manager, Orkla ASA

Good morning, everyone. Welcome to Orkla's presentation of the First Quarter 2023. My name is Kjetil Sørum at Investor Relations here at Orkla. I'm joined here in Oslo today with our President and CEO, Nils Selte, who will summarize the quarter shortly. Before that – or after that, Harald Ullevoldsæter will take you through the financials for the quarter.

After that, Nils will sum up the main messages of today before we move into Q&A. Let me also tell you that you should be able to post questions at the Web during the presentation, and we will address them at the end together with any questions that might be from the audience in the room. So, with that, I leave the floor to you, Nils.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Kjetil, and good morning and thank you all for joining us. I'm happy to be here today to give an update on our transformation journey and the financial highlights for the first quarter 2023.

Let me start by saying a few words on our ongoing transformation. We went live with our 12 portfolio companies and our new operating model 1st of March this year. I'm happy to observe that our organization is adapting rapidly and that the transformation so far has been successfully implemented.

We are now an industrial investment company with a brand and consumer-oriented scope. ASA is radically leaner with less than 100 employees now. We have carved out our business service company and laid the grounds for continued synergies across the portfolios. The portfolio companies are now operating independently and have good progress when it comes to finding the right board compositions. I'm, therefore, proud that we today announced the appointment of Xavier Belison as Chairman of the Board of Orkla Foods Europe, in addition to Kjersti Hobøl as board member. Also announced today is [ph] Tomas Settevik (02:22), new Chairman of the Board of Orkla Health; all three bringing in extensive experience from comparable businesses.

In this quarter, we also announced the new CEO of Orkla Health, Isabelle Ducellier, and soon to be announced, also new CEO of Orkla House Care, experienced international leaders bringing fresh perspectives and proven track record of value creation. We are now in the process of preparing bottom-up strategies, strategy plans for the portfolio companies. We have strong position and solid plans to build from with substantial value creation potential going forward. We have completed our point of departure analysis for our portfolio company, and this gives a

good foundation for building the future strategies. I'm looking forward to presenting these plans on our Capital Markets Day in November this year.

And in addition, our new operating model facilitates more structural flexibility, enabling us to act fast on opportunities that arise. An example here is the ongoing process of finding a partner to Orkla Food Ingredients. So far, this is going according to plan. Increased flexibility also provides the opportunity to allocate capital to where it brings the best return. We are making good progress building framework for future capital allocation. Also to be presented at the Capital Markets Day.

If we move on to our financial result for first quarter 2023, I'm happy to see that we have both strong top-line and bottom-line growth. When we look at our group EBIT adjust, we see a growth of 5%. Further, we see a 13% increase in organic growth in our BCG business, mainly driven by broad-based price increases. Alongside a good performance in the BCG area, we see underlying extraordinary strong performance in both Jotun and Orkla Food Ingredients. Jotun achieved 24% sales growth in the quarter and 81% growth in EBITA.

In Orkla Food Ingredients, we saw an underlying EBIT growth of 26% with strong, broad-based organic growth and well-executed revenue management. Another positive is that we currently see an easing in cost inflation in some portfolio companies. Please note that this is a fragmented picture, as there are considerable variation in our company's exposure to different markets, raw materials and also weak Norwegian krone. It is worth mentioning the delay in ramping up our new biscuit factory in Latvia. We believe that we have identified the key challenges and are working very hard to get on track. This is temporarily impacting financial result and in some markets, our delivery performance.

Let me also update you on our increased cost improvement target. These are progressing as planned and see good initiatives in Orkla Foods Sweden, Orkla Česko a Slovensko and recently announced Orkla Foods Norway. We have also started initiatives in Orkla Home & Personal Care Norway, and expect positive effects from our consolidated biscuit production in Orkla Confectionery & Snacks when they are fully up and running. In general, we expect to see increased effects towards the year end for our cost initiatives.

With that, I leave the floor to Harald to go through the financial in more details.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

Thank you, Nils, and good morning, everyone. I will now take you through this update on our financial performance for quarter one. And let me highlight that this will be the last quarter on the existing reporting structure. As from quarter two, the business areas will be replaced by portfolio companies, in addition to an increased level of detail per reporting unit.

So, let's kick off by looking at the group figures. Reported revenue growth for Orkla Branded Consumer Goods was 23.2% in the quarter. Earnings for Branded Consumer Goods, including Headquarter, increased by 14.3% in the same period. Let me revert to this later.

The decline for Industrial & Financial Investments was mainly driven by 21% lower electricity prices for Hydro Power on close to flat volumes. This resulted in EBIT for Hydro Power of NOK 255 million, which is down from the corresponding quarter of last year and quarter four, but still at a historically high level. We had net other income and expenses of minus NOK 52 million in the quarter. The largest elements were M&A costs, restructuring costs, project costs, and reorganization of Orkla ASA. Profit from associates was NOK 422 million, mainly related to our strong comeback in Jotun, as Nils mentioned. And I will come back to this.

Net financial items were higher than last year, mainly due to higher interest costs, but also higher debt level. Average interest rate in a quarter was 4.4%. Reported tax expenses were on par with last year at NOK 410 million. The tax rate, excluding associated companies, was slightly lower in the quarter compared to last quarter last year. And this is mainly driven by lower resource rent tax related to Hydro Power. The underlying tax rate, adjusted for non-deductible costs, was basically unchanged. Adjusted earnings per share ended up 6.5% in the quarter.

Let's have a look at the cash flow for quarter one. Cash flow from operation was NOK 740 billion (sic) [million] (09:19) in the first three months of 2023. The cash flow from operation in Branded Consumer Goods was higher than in 2022. This was mainly driven by improved earnings and less negative change in net working capital.

We will have high focus on current capital going forward, and our ambition is to reduce the current capital to a more normalized level. The larger projects and the net replacement investment was the construction of the new biscuit factory in Latvia. Replacement investments also included other factory projects.

Let me then walk you through the net interest-bearing debt bridge for quarter one. Net debt including leases increased by NOK 2.4 billion to NOK 19.6 billion from year-end 2022. Cash taxes and financial items in quarter one totaled NOK 834 million, which is higher than in the corresponding period last year and driven by higher Hydro Power profit in 2022 that is being paid for in 2023. Net M&A was NOK 852 million in quarter one and was mainly related to the acquisition of Bubs Godis in Sweden and Khell Food in Hungary. Additionally, we had expansion CapEx of NOK 79 million in quarter one, compared to NOK 51 million in quarter one 2022.

Negative currency translation effects as a result of a weaker NOK increased the net debt by NOK 1.4 billion. Orkla has a strong financial position, and our net debt level at the end of quarter one corresponds to 2 times EBITDA based on the last 12 months when acquired businesses are included in EBITDA. Since quarter-end, we have paid the final part of Hydro Power's cash taxes related to last year's profit, and we have paid out NOK 3 billion in dividend after the closure of the quarter.

Now, let's have a closer look at the performance in Branded Consumer Goods, and let's start with the top-line performance for Branded Consumer Goods. Reported revenue growth from our Branded Consumer Goods business in the quarter was 23.2%, as I already have mentioned. Organic growth makes up 13.4% of the increase. This was supported by significant currency translation effects of 7.5%, and structural changes had a net positive impact of 2.4%.

We're experiencing strong growth in out-of-home sales channels, while volume performance in the grocery channels was weak, especially in food categories. The timing of Easter had a positive effect in the Scandinavian countries, particularly in Norway.

So, let me share some more insights on the growth. All business area had organic growth in the quarter. The 13.4% organic growth was price-driven. Volume mix was slightly negative, but with a large variation between the business areas. Most markets experienced a decline in volumes to the grocery channel compared to the corresponding period last year. The volume decline was most evident in Orkla Foods Europe and consumer investments. And the risk of contracting volumes is still present going forward. High overall economic inflation is reducing the purchasing power of consumers in most markets where Orkla is present.

Orkla Food Ingredients experienced positive volume growth in the quarter. The overall market shares in the grocery channel were slightly negative in the quarter. Orkla is experiencing increased competition from private

label. This is broad based across Foods Europe, Confectionery & Snacks, and Care. An important driver is the discount stores that gaining shares. We communicated in quarter four that this was particularly relevant for Denmark and in the Czech Republic. In quarter one, this trend has continued and we see the same development also in Sweden. This has a negative effect on Orkla due to lower market shares in hard discounts.

Before moving on to profit performance, let's have a look at our prioritized growth areas. Consumer health grew sales by 20% on a reported basis in quarter one. This was mainly driven by structural growth from acquired business through Healthspan Group. Organic growth for consumer health was 6.5%. Orkla has become a major challenger in the European pizza market through a series of transactions since 2018. And the latest acquisition of Da Grasso in Poland was completed in December and was consolidated from the January 1.

Orkla's network consists of 852 pizza franchise outlets in Finland, Benelux, Germany and Poland. The portfolio consists of leading brands like Kotipizza, New York Pizza and Da Grasso. The underlying growth in consumer sales for our existing pizza business was 5.6% in quarter one. All markets, except Germany, had solid growth in the quarter, positively impacted by increased consumer prices. The German market is challenging with high cost and wage inflation, in addition to which consumer spending is under pressure. A network restructuring is ongoing, where underperforming stores are being closed to ensure a robust base going forward. Reported growth for plant-based was 35%, organic growth was 25%, while organic growth for Orkla's branded products amounted to 1% in the quarter.

So, let's move on to earnings performance for Branded Consumer Goods. EBIT for Branded Consumer Goods, included Headquarter, increased by 14.3% in the quarter, reflecting a 5% underlying increase, 7.5% positive forex effects and structural growth from acquired company of 1.8%. The Norwegian krone had a weak development during quarter one. We experienced a positive translation effects in converting EBIT from our foreign businesses into NOK in quarter one, while the total transaction effects were negative. The total effect was negative. A weak NOK will be negative in the short term, but our long-term competitiveness will improve as our main competitors have a larger part of their cost base outside Norway.

The underlying EBIT increase in the first quarter was mainly caused by revenue growth. Cost of inputs were on a high level, but were compensated for by price increases. Spot prices for raw materials essential to Orkla show the flat and partly declining curve over the last two quarters, but at a high level compared with the same quarter in previous year. We still have a lower-than-historic average purchasing contract duration [ph] now (17:35) about three to nine months. And if the market trend continues, we should see some positive effects during the second half of this year, while we experience a temporary negative currency effect if exchange rates stays at the current level.

Let me add that the exposure varies a lot between the business areas, as Nils mentioned. The cost increase in Orkla Food Europe (sic) [Orkla Foods Europe] (18:01) is significantly higher than for the other business areas due to the mix of raw materials and the average contract duration are also somewhat longer. Easter was one week earlier than last year, and we estimate this positive effect mainly related to Orkla Foods Europe and Confectionery & Snacks to account for about half of the underlying EBIT improvement compared to last year.

Profitability in Confectionery & Snacks was negatively impacted by temporary higher costs related to the ramp up of the new biscuit factory in Latvia and lower sales due to very low service level. Increase in non-input costs like SG&A and factory overhead weighed negatively on the results. The pace of increases is similar to previous quarters, and it's something we take seriously, as this is expected to be demanding also going forward.

We announced a NOK 1 billion cost cuts and cost avoidance initiative last quarter to mitigate the adverse cost performance. Factory composition and categories with low profitability will be continuously evaluated, including organizational optimization. A larger reorganization in the Czech Republic impacted quarter one positively, while projects in Norway and Sweden for Orkla Foods Europe are expected to have a positive effect from quarter three.

On the right-hand side, you can see that the underlying EBIT margin decreased by 1.7% on a rolling 12-month basis. Much of this is caused by the dilutive effect on inflating sales and costs. Compared with the 12-month levelling quarter four, the EBIT margin showed signs of flattening.

Let us then move on to the business areas and let's have a look at Orkla Foods Europe. Orkla Foods Europe reported a revenue increase of 15.7% in the first quarter, of which 10.3% was organic growth. The growth was broad-based and price-driven in the grocery channel, while volumes declined across most markets.

Foodservice and convenience continued the positive trends from 2022. Market shares in grocery progressed negatively in most markets, particularly in the Czech Republic, Sweden and Denmark. This can, to a large extent, be attributed to changes in consumer's behavior, where hard discount stores are gaining shares and campaigns are used to drive customer traffic. There is still a challenge with high cost of raw material, packaging and energy enforced by a weakening NOK and SEK. Despite this, EBIT increased by 8.7%, largely driven by sales growth, positive currency consolidation effects, and positive effects of [ph] prioritization (21:17) of Easter.

Weighted exposure for different purchasing categories makes the cost increases more negative for Foods Europe than other business area, as I mentioned. Meat, dairy, sugar, tomato paste and rice are examples of raw materials with significant increases. In addition, glass and metals are large packaging categories with strong price increases.

Moving on to Orkla India. Orkla India had sales growth of 22.2% in the quarter, of which organic growth was 17.6%, mainly price driven. The growth was evenly distributed across core categories and related to both domestic markets and exports, as well as core categories, spices, masalas and food mixes. The EBIT's adjusted growth was driven by sales growth. Commodity costs continue to increase, particularly within spices and dairy.

Additional price increases for 2023 will be necessary. Correspondingly, advertising and promotion expenses have been increased to strengthen core brands, long term. The EBIT margin in the quarter was 11%, down 0.3 percentage points from the corresponding period last year.

Moving on to Confectionery & Snacks. Orkla Confectionery & Snacks had organic growth of 13.6% in the quarter. Market volumes were fairly flat after a period of negative market growth in the second half of 2022. Early Easter than last year had a positive impact on sales growth. High cost than expected related to the start-up of the new biscuit factory in Latvia are impacting earnings negatively. The main problem is related to two new packaging machines.

The ramp-up costs, approximately NOK 30 million in extra costs in the quarter. In addition, a very low service level is having temporary negative effect. We expect continuing ramp-up costs and low service level also in quarter two. Market shares were negatively affected by the low service level in biscuit. EBIT decreased by 2.1% in the first quarter compared with last year. Raw materials were significantly higher than previous quarter.

Then, let's move to Orkla Care. Orkla Care reported a growth of 18.2%, of which 8.5% was organic. The organic growth was driven by our online retailer, HSNQ, NutraQ, and international sales, and both price and volume.

Growth in international sales was related to the oral care and sunscreen. The categories detergents, personal care and dietary supplements saw volumes and market shares decline in Norway and Denmark.

Earnings increased by 14.5% in the quarter. Results are still negatively impacted by broad-based cost increases, while less extraordinary costs related to freight and logistics were incurred as in the corresponding quarter last year. Price increases also impacted positively. The margin contracted point 0.4% year-over-year.

Let's turn to Orkla Food Ingredients. Orkla Food Ingredients delivered another quarter with strong organic growth. In quarter one, it was 22%, primarily driven by price increases. Volumes were also positive, mainly driven by plant-based drinkables and margarine. The growth was broad-based across categories and geographies.

Let me remind you that we anticipate that some of the demand for margarine is for a more temporary nature that could reverse when we enter the second half of the year. The EBIT improvement was 70%, driven by acquisition, positive translation effects and price increases, but offset by higher costs of raw materials, transportation and energy. Denali ingredients, which was acquired in quarter four last year, completed its first full quarter with revenue and EBIT growth in line with plan.

Let's have a look at performance in Consumer Investments. Orkla Consumer Investments reported organic sales growth of 9%. There was still good growth in consumer sales for the pizza business, driven by price increases. The German market is an exception, as already mentioned. The sales decline in house care continued, particularly due to lower demand in the Nordics. Lilleborg and our textile business, Pierre Robert Group also contributed positively to the revenue growth in the quarter. There was an underlying EBIT decline in consumer investments, mainly due to a lack of price increases to cover significant cost increases in Lilleborg.

Let's have a look at our associates, Jotun. The strong sales growth continued for Jotun in the first quarter. Reported sales growth was 24%, the underlying sales growth was 18%. Sales performance was driven by price increases and moderate volume growth. Sales growth was particularly strong in decorative, marine coatings and protective, while underlying performance was more modest in powder. Operating profit increased by 81% in the first quarter, driven by improved gross margin, volume growth and good cost control. Jotun expects sales growth and margin improvement in the upcoming quarter.

Finally, let me say a few words about Hydro Power. Volumes in quarter one were slightly lower than for the same period last year and the 10-year average. However, electricity prices were 21% year-over-year. Operational expenses were somewhat higher, mainly due to the windfall tax of NOK 34 million that was introduced in the second half of 2022.

And with that, I give the floor back to Nils for his concluding remarks.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Harald.

To sum up, I would like to highlight the transformation of Orkla is proceeding as planned, including operationalization of the portfolio companies and their boards. Exciting profiles will be entering the companies in the coming months with relevant experience and strong track records. These changes, among others, are really bring energy and spirit into the organizations. We see satisfactory performance this quarter with 5% growth in group EBIT adjust. In overall, BCG made a positive contribution, but let me again pinpoint the extraordinary performance in Jotun and Orkla Food Ingredients.

As mentioned, there is still uncertainty in volume outlook due to the macro environment and consumer purchasing power. Our strategy work is progressing well and we are looking forward to presenting the result at our Capital Markets Day in November. And as a final remark, our overall ambition stays firm, we will continue to create value, substantial value through active ownership of brands and consumer companies.

Thank you all for listening. And with that, we open up for Q&A.

QUESTION AND ANSWER SECTION

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Okay. Let me start by asking if there are any questions from the audience. Please state your name and company. If not, we'll move on to questions from the Web. So, I have four questions from Ole Martin Westgaard in DNB. I suggest we take them one by one.

A

Thank you.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

What was the mix on organic growth for BCG? Can you give any color on the volume development and price effects between the different segments?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

I think we have commented on what we want to comment during the presentation. As we said, we have a growth in volume on totality for the out-of-home markets while grocery markets are facing more or less declining volumes. But with big variation between our business areas, I guess, the food categories are the most hurt, volume-wise, during the quarter, and we have increased prices in every business areas.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Next question. You highlight the threat from private labels on volumes. How much volumes have a lost to private label and which areas are most impacted?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

I think this is – we are facing private labels in most of our business areas. We haven't quantified the actual volume drop due to private label, but we have lost some market shares, especially due to the change of hard discounters who are taking market share, especially in Sweden – also now in Sweden, but also in Denmark and in the Czech, as we said in quarter four, but also now in Sweden, where we have a lower market shares in those stores. But

you also – so we see private labels in every part of our business. We have said it before, private label is our main competitor.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

How much of the NOK 1 billion cost program has been realized so far? What to expect for Q2?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

I think you have to be aware of this, approximately NOK 700 million of this is a kind of continuous improvement program that we always have in Orkla. And then, Nils said we are going to increase our ambition by 40% to NOK 1 billion. So, the increase from previous year is approximately NOK 300 million and we are having new activities, Nils, that...

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

Yeah.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

...makes us pretty sure that we will reach these targets during the year. But most of the effects will come by the second half of this year.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

I think most of the increased ambition will come to the second part of this year.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

So, we have cost programs in the Czech. We have it in our biggest company in Sweden, Orkla Foods Sweden. We have it in Orkla Foods Norway, the biggest company in Norway. And we also have it in Home & Personal Care company in Norway. And we're looking for more opportunities, of course.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Perfect. Last question from Ole Martin. Are the biscuit factory issues in Orkla Confectionery & Snacks now solved? Will there be a Q2 impact?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

There is still ongoing issues in the factory. I think we have a good view on what's the problem – how to solve the problem. But there's some packaging machine that we are troubling with, but we are slowly getting on track and back to track, as I said in my presentation. And we expect to [ph] come forward (34:21) during this quarter.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

But let me add. I think we're very glad and happy that this is not a production problem. It's more a packaging machine. We are delivering products as they should taste with the correct texture and everything. But we will have some extra cost in quarter two, as I said in my presentation, and we will have a low service level also in quarter two. We expect this to be increased by the end of quarter two and into the quarter three, but it's still ongoing work.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Moving on to two questions from Bruno Monteyne in Bernstein. I also take them one by one. At what point can margins go up year-over-year? You suggest visible impact from cost initiatives by year-end. Is that when we should expect year-over-year margins to turn?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

I don't think we will guide on our turning point of the margin, as we had said before. But as I said in my presentation, if the trend continues with declining prices and our short contract duration, we should see some positive impacts by the second half of this year, profit wise. But, of course, there are lots of uncertainties, as always, especially the volumes. Will they continue to be very low or lower? That will be an important part of this equation as well.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

And how many quarters do you think it will take to rebuild profitability to the levels seen two years ago?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

That's also extremely difficult question to be very precise on. But what I can say that is – we are very determined to get back on our profitability levels, Nils.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

And what we have said earlier is that, first of all, we want to compensate NOK for NOK. And then we, hopefully over time, will kind of regain margin levels, but we don't guide on when that will be.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Then we have a question from Kate Rusanova at UBS. Could you please quantify the volume performance for Orkla BCG in Q1? How did it compare to the minus 3% volume decrease in Q4? Also, can you please quantify the impact of Easter on Q1 BCG organic sales growth?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

Yes. As we said, we had slightly negative volume growth in totality in quarter one, but with big variation. That's the headline. We also said that, profit wise, the Easter had a positive contribution of approximately half of the underlying EBIT growth for the Branded Consumer Goods area.

And if you look at the – this is mostly affected Orkla Foods Europe and Confectionery & Snacks. And if you look at the organic growth in those two business areas, it will be reduced by approximately 1 percentage point each due to these positive Easter effects.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

And also from Kate at UBS. Considering the strong start to the year, do you feel more confident in being able to deliver EBIT margin improvement for BCG this year?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

I guess we already addressed that question, or do you want to add something, Harald?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

No, not really.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

And lastly, from Kate, as a point of clarification, when you mentioned that half of the BCG EBIT growth was due to early Easter, did that relate to the underlying EBIT growth specifically?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

Yes.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

And if not, could you please quantify what was the underlying EBIT growth excluding the Easter impact?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

Yeah. So, the underlying EBIT growth will be approximately 2.5% instead of 5%.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Perfect. Then a question from Petter Nystrom at ABG. Assuming raw material prices stay at these levels, have you now performed most of your planned price hikes or are there more to come?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

I think it's fair to say that we really don't want to comment upon price increases going forward. But I think we also, from the government actually, got some clear message that that is not something that we should announce. But I guess, we will act responsible when it comes to the community. We will act responsible when it comes to other

stakeholders. And also, the performance of Orkla will be taken into account in deciding upon price increases in the future.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Then we have a question from Patrick Folan at Barclays. Good morning. In terms of the transformation to the new operating model, which has gone live as of March 1, 2023, can you provide color on the benefits you may have already seen from the portfolio company model? Will there be new guidance given at Q2 at the portfolio company level to reflect the new operating model?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

I don't think we can quantify the effect of the transformation in quarter one this year.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

Truly.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

We went live 1st of March. I think it will take some time. As I said, we are now working on the strategy plans for the different portfolio company. That is exciting work. We look for the full potential of each of the portfolio companies going forward. As I said also, we are bringing in new board members in some of our companies as well. I think those board members will definitely contribute to the planning and to challenge the CEOs of the different portfolio company. So, hopefully, I think they will still take some time before we see effect out of the transformation.

But having said that, I think what I see internally is that we see more spirit in the corridors. We see people are eager to deliver going forward. And I think that brings energy and that might have affected some kind of positives, but I don't think we should kind of rely upon that as the performance in this first quarter this year.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

But we'll be more transparent going forward. We'll give more information on each of our portfolio companies and we will also release the launch pack during the first part of June, I guess, to the market so they can be – have more information on these portfolio companies. We will give more information.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

Then there's one question from Jeppe Baardseth at Arctic Securities. Can you elaborate on price adjustments in your different regions? How does the dynamic work in other countries versus Norway?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

Oh, that's very many different systems. But I guess it is different in each country actually so – but there is basically some market is one price window, other market is two and other is three. So, it's varying quite a lot. I

guess we gave some kind of an overview on this maybe a few quarters ago. But it's very different and it's different timing as well in the different markets. So, I guess, it would take a lot of time to educate you all on this question. So, I guess I'll leave it to that.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

That was the final question from the Web. Last chance for any questions in the audience. If not, thank you for...

Q

[indiscernible] (41:49)

Kjetil Sørum

Investor Relations Manager, Orkla ASA

A

English, please.

Q

Okay. [indiscernible] (41:54), shareholder. I have a question about artificial intelligence. What about the company's focus on that? A lot of people see it as a threat and also an opportunity. But Orkla, any policy on AI?

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

A

I don't think there are any policy.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

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I would say, it's – I think let's say it this way, it's on the agenda and let's revert to that when we have dig into the opportunities that arise. But we are definitely aware of AI and we look into what that means for Orkla – for the future.

Harald Carlos Ullevoldsæter

Chief Financial Officer & Executive Vice President-Finance, Orkla ASA

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And I guess if I may add, we have used it for several years in our accounting center and we are looking into it in our Orkla IT department as well. This is not new to us.

Kjetil Sørum

Investor Relations Manager, Orkla ASA

Okay. Thank you so much for coming. And let me also remind you of our second quarter results that will be presented on the 14th of July. And with that, I wish you all a great day.

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