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Orkla ASA (ORK.NO)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

Good morning, and welcome to Orkla's Presentation of Fourth Quarter Results. My name is Annie Bersagel, and I'm the Head of Investor Relations and Communication. Our President and CEO, Nils Selte, will begin with a summary of the quarter. After that, our CFO, Arve Regland, will share more details on the financials.

Before we move on to the Q&A, Nils will summarize the main messages for the quarter. So after the presentations, we will hold a video Q&A with our analyst community before we move on to questions from the Web. So, during the presentation, you are welcome to submit questions and this is open for everyone, and we will take these after the video Q&A with analysts.

Just a quick note to avoid any confusion on some name changes. So in our financial statements for the quarter, you may notice that we refer to Orkla ASA as in the consolidated portfolio companies, including Orkla ASA. This is the same concept as Orkla headquarters. It's just the name that has changed.

Secondly, two of the portfolio companies have simplified their names since the last quarter. So, Orkla Foods Europe is now simply Orkla Foods and Orkla Confectionery & Snacks is now Orkla Snacks. I want to underline there's no change in strategy, just a simplification of the name.

So I will now leave the floor to you, Nils.

Nils Kloumann Selte
President & Chief Executive Officer, Orkla ASA

Thank you, Annie, and good morning to everyone, and thank you for joining the presentation. 2024 represent the first full year since we transform into an industrial investment company and the first full year of our 2024, 2026 strategy period.

I'm very pleased with the value creation and strong financial performance in our portfolio companies, so let me – and let me share some or a few highlights from 2024.

First, we have seen substantial improvements in profitability in our portfolio companies with 17% underlying EBIT growth. At the same time, we invested significantly more in A&P in line with our strategy. We improved cash flow from operation in the consolidated portfolio companies, including Orkla ASA by NOK 1.9 billion compared to 2023, driven by EBIT adjusted growth and better capital discipline.

As I said at the Capital Markets Day, my number one priority is to drive organic value in our existing portfolio. We continue to simplify the portfolio through the sale of Lilleborg to Solenis in June 2024 and also closed the transaction with Rhône for a minority stake in Orkla Food Ingredients in April. We continue to see the benefit from that partnership.

Based on the results for 2024, the Board of Directors intend to propose to increase the ordinary dividend for the financial year 2024 to NOK 4 per share. The board also intend to propose an additional dividend of NOK 6 per share due to solid underlying performance, increased cash conversion, and the sale of our hydro power assets.

I have seen speculation in the media that our strategy is to break up Orkla. Let me assure you, it is not. We are following the steps that we outlined at the Capital Markets Day. We are driving organic value in the existing portfolio. We are reducing complexity, and we are beginning to assess opportunities to invest in Orkla's future growth, both organic and through M&A.

Our objective is to ensure sustainable growth in our portfolio companies while maintaining a stable ordinary dividend. We are positioned to take advantage of value accretive opportunities that arise, but we are also committed to walk away from any transaction that is not in the best interest of Orkla's shareholders.

In terms of outlook, as we said in Q3, development in raw materials prices remains polarized, but we continue to expect raw material prices in some to stabilize, excluding cocoa. Turning to the hydro power transaction and today's announced sale of Pierre Robert Group.

On January [ph] 24 (00:11:48), we announced the sale of Orkla entire hydro power portfolio for NOK 6.1 billion. It has been a long process but with a good outcome in my view. While the transaction are subject to approval by the relevant authorities, we expect both transaction to be closed at the latest by the end of Q3 this year.

Today, we also announced the sale of Pierre Robert Group with expected closing by the end of Q1. The company has shown weak performance over several years and is currently undertaking a strategic repositioning. Jotunfjell Partners can support the company's progress at this phase more effectively than under Orkla's continued ownership. By selling these two assets, we reduced complexity, we also confirm our strategy to establish Orkla as a leading industrial investment company with a brand and consumer-oriented scope.

Moving on to Q4 results. In Q4, we continue to improve profitability and cash flow, delivering on our financial targets announced at the Capital Markets Day in November 2023. Orkla's organic growth was 3.3% in Q4. This was due to both volume and mix growth and price increases. The consolidated portfolio companies delivered underlying EBIT adjusted growth of 13.4%. Note that apartment deliveries in Orkla Real Estate also contributed positively to group EBIT adjusted.

Adjusted earnings per share improved 16% compared to the same quarter last year. In Q4, underlying EBIT adjusted was, as I said, 13.4% for the consolidated portfolio companies, including Orkla ASA.

Turning to a few of the largest portfolio companies. Jotunfjell continued to deliver solid results, including an impressive return on capital employed of 34% on a rolling 12 months' basis. For Q4, Orkla Foods volume growth was again slightly positive for the quarter. Operating margin continued to improve despite increased advertising spend in line with strategy.

Orkla Snacks achieved continued recovery at the biscuit factory in line with our previous communication. Market shares overall were stable and there was continued volume pressure in the chocolate category. Market prices for cocoa rose steeply during the quarter, and Arve will revert to this later.

In October 2024, the CEO of Orkla Health decided to resign from her position due to misalignment on key priorities. The process of finding her replacement is progressing positively. The strategy remains firm, with a focus on rejuvenating Orkla Health strong position in the home market, building a sustainable omnichannel platform, and expanding international brands selectively.

We have three consolidated targets from the Capital Markets Day. These represent the aggregate effects of the portfolio companies reaching their targets through 2026. With the first of three years in the strategy period now complete, I'm pleased to see a significant growth in underlying EBIT and EBIT margins despite increased investments behind our brands. We're also again getting greater return on the capital we employed in the businesses.

I will now hand over to Arve for more details on the financials.

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Thank you, Nils, and good morning, everyone. I will give you the highlights of the financials in the fourth quarter starting with the top line operating revenues grew by 6% to NOK 18.8 billion in the quarter. EBIT adjusted for the consolidated portfolio companies increased by 8%, driven by strong underlying growth and improved margins. We had EBIT contribution of NOK 143 million from Orkla Real Estate this quarter, related to delivery of 53 apartments in the last part of the development project in Oslo.

Hydro power had an EBIT of NOK 252 million, an increase of 38% due to higher production volume. Please note that from the first quarter of 2025, hydro power will be reported as discontinued operations in the financial statements.

In total, group EBIT grew by 25% to NOK 2 billion. Other income and expenses amounted to minus NOK 197 million in the quarter, mainly due to write-downs of intangible assets of NOK 121 million in Pierre Robert and NOK 30 million related to ongoing restructuring projects in Orkla Foods and Orkla Snacks.

Profit from Jotun and other resources was NOK 371 million, in line with the same quarter last year. Jotun had a 17% EBITA growth in the quarter, but profit after tax was offset by higher financial costs, including negative currency effects as well as higher tax costs compared to the same quarter last year.

Rolling 12 months EBIT adjusted margin for the consolidated portfolio companies was 10.1% in Q4, an increase of 1.1 percentage points compared to over the last 12 months. On the organic growth, [indiscernible] (00:18:08) 3.3% in the quarter, of which volume mix contributed with 1.5%. On an aggregated level, we had positive volume mix growth in all four quarters of 2024 with broad-based contributions from the portfolio companies.

And 2024 represents a more normalized environment, both in terms of price and volume development. Total cash flow from operations for the full year amounted to NOK 7.9 billion, an increase of NOK 1.9 billion compared to last year. The increase was mainly driven by EBIT growth and lower net replacement investments as well as continued focus on working capital reduction

Including the cash flow effects from fresh investments, taxes, dividend received from Jotun and financial expenses, cash flow before capital allocation ended at NOK 7.5 billion, an increase of NOK 3.1 billion compared to the previous year. We are also pleased to see an increase in cash conversion across the portfolio companies reaching 114% at an aggregated level in 2024.

The strong cash flow discussed on the previous slide strengthened the balance sheet further in 2024, and at the year-end, net interest-bearing debt was NOK 16 billion equal to 1.5 times EBITDA.

Orkla has a long history of paying a stable and increasing ordinary dividend to our shareholders. And as Nils mentioned, the board intends to propose an increase in the ordinary dividend to NOK 4 per share, plus an additional dividend of NOK 6 per share. And subject to the board formal proposal and the approval at the Annual General Meeting in April, the total dividend of NOK 10 per share will be paid to shareholders in early May.

Now, let move on to some more details on the portfolio companies starting with Jotun who deliver yet another solid quarter with an increase in operating revenues of 15%.

Adjusting for positive currency translation effects, operating revenue grew – was – growth was 12%. All segments had double-digit growth, primarily driven by volume and supported by positive mix effects. All regions had positive sales growth with sales picking up in Southeast Asia and Pacific in Q4. Decorative in Scandinavia remained soft while the Marine segment was negatively impacted by postponed dry dockings.

EBITA grew by 17%, driven by higher sales and improved gross margin, supported by relatively stable raw material prices. This more than compensated for an increase in operating cost and high inflationary pressure in some markets. Profit after tax was negatively impacted by increased financial expenses and tax costs as previously mentioned.

Overall, 2024 was a very solid year for Jotun and going into 2025, Jotun expects continued sales growth at higher level than projected market growth. On the other hand, operating margins are projected to decline compared to the historical high levels seen in the last two years. On balance, we expect Jotun to deliver 2025 results on par with 2024.

Orkla Foods had a modest organic growth of 1.1% in the quarter, mainly driven by price. Still, we are pleased to see another quarter of positive volume mix growth in several key markets, especially Norway and the Czech Republic while other markets had a softer volume development from continued weak purchasing power, campaign phasing, and customer logistics issues.

The grocery trade was the driver behind the growth, while the out-of-home channels had somewhat weaker development this quarter. EBIT adjusted came in at NOK 681 million, representing a reported growth of 7% and underlying growth of 10%. Rolling 12 months EBIT adjusted margins are now about 12.3% versus 11.1% last year.

The increased cash generation was driven by improved working capital efficiency, especially from inventory reductions. Orkla Snacks reported an organic growth of 6.2%, driven primarily from price increases in the confectionery segment. Volumes were hampered by softening demand on chocolate following high cocoa prices. The market price for cocoa rose steeply during the quarter, which will impact next quarters negatively, partly due to limited short-term ability to pass on input cost increases in the markets.

The impact of cocoa price increases on consumer chocolate prices and demand over the following quarters is uncertain. Mitigating actions are ongoing and covered full value chain through portfolio optimization, further price adjustments, and the full review of the cost base. We expect cocoa prices to remain higher and be more volatile than in the past, but also expect prices to come down to more sustainable level over time as supply demand balances out.

We had a continued strong volume growth in the quarter four [indiscernible] (00:24:46) due to increased production capacity and for biscuits. EBIT adjusted came in at NOK 424 million, representing an underlying growth of 21%. Approximately half of the EBIT improvement can be attributed to recovery at the biscuit factory. Therefore, in accordance with our guidance, a significant part of the loss of NOK 150 million that we experienced in 2023 was regained.

Orkla Food Ingredients report an organic growth of 4% in the quarter, driven by volume mix growth across all clusters. Bakery volume grew in most markets, particularly in Eastern Europe, and performance in bakery was solid throughout 2024, with growth outpacing the overall market. Sweets grew across all business units, especially within confectionery, ingredients and decorations.

Growth in plant based was mainly related to industrial margin and non-dairy products. Underlying EBIT adjusted grew by 18% and the growth was derived from volume mix growth across all clusters, especially in the bakery cluster. EBIT adjusted for plant based declined. And as we noted in our Q3 presentation, we faced strong comparables in the margin segment in Q4 2023.

The cost program in the sweet cluster that was implemented in the third quarter is progressing according to plan. We expect to see gradual benefits in 2025 with high double-digit million cost reduction in total.

Orkla Health report an organic growth of 6.2% in the quarter, coming from both price and volume mix across markets. The volume mix growth of 2.5% was driven by continued positive trend in the D2C portfolio and a strong quarter in Norway, Finland, and wound care.

Möller's and Jordan continued to perform well across markets.

Contribution margins in the food supplements category were pressured by increased raw material prices, especially for cod liver oil. EBIT adjusted totaled NOK 85 million, and the decline compared to the last year can be explained by two main parts.

Number one, in line with strategy, we are investing in the organization in both home and international markets to support future growth. And secondly, approximately NOK 30 million of non-recurring costs is linked to organizational changes and inventory cleanup.

Organic growth in Orkla India was minus 3.6%, impacted by timing of financial incentives from the government of India with NOK 24 million recorded in the fourth quarter last year. These incentives were provided in the second and third quarter this year. Excluding these effects, organic growth was 0.6%, with volume mix growth of 4%, primarily related to international sales while the negative price effect came from passing on input cost reductions to customers.

Despite challenging domestic market sentiment, underlying EBIT adjusted growth was 7% and 42%, if adjusting for the financial incentives. The growth was positively impacted by declining raw material prices and reduced fixed cost.

Organic growth was flat in the European Pizza Company in the quarter. Da Grasso in Poland continued to show positive momentum while consumer sales in Finland and the Netherlands remained pressured by weak consumer sentiment. EBIT adjusted came in at NOK 70 million. The decrease compared to the same quarter last year is related to a write-down of receivables of NOK 7 million for a limited group of franchisees.

Orkla Home & Personal Care had a 10% organic growth, driven by increased volumes in contract manufacturing, supported by positive market growth. Underlying EBIT adjusted growth of 86% was driven by revenue management, positive mix effects, and input cost improvements.

Moving on to the other companies in the transform or exit category. And as Nils mentioned, we have entered into an agreement to sell 100% of the shares in the Pierre Robert. The estimated accounting loss related to closing of the transaction is approximately NOK 40 million, and we expect the closing and transaction to be at the end of the first quarter this year.

So with that, I would like to hand the floor back to you, Nils.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Arve. I'm happy with the progress we have made in 2024. We delivered solid profit improvements and organic growth with positive volume mix. We are delivering on our Capital Markets Day targets, including reducing complexity in our portfolio. We are demonstrating value creation in the core, and we are intensifying our evaluation of future growth opportunities.

I would like to take this opportunity to thank everyone in our organization for their dedication and hard work in achieving good results. And I look forward to continuing the journey together in 2025.

Before we turn to Q&A, I want to invite you to attend Capital Markets Update on May 28 this year. By the end of May, we will be halfway through the strategic period. With the Capital Markets Update, we plan to give a more detailed update on Orkla's progress towards our targets. We have spent much over the past two years discussing Orkla's transformation into industrial investment company, and we are now experiencing enthusiasm around this.

I'm looking forward to the opportunity to spend more time showing how we create value in the underlying portfolio companies. For that reason, joining Arve and me on stage will be three of the portfolio companies CEOs, Aku Vikström in Orkla Foods; Ingvill Berg in Orkla Snack; and Johan Clarin in Orkla Food Ingredients. So we plan to give you a status update and lift the hood on how we create value in three of our largest portfolio companies.

With that, we move on to the Q&A.

QUESTION AND ANSWER SECTION

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Thank you. We will now begin our Q&A. So please raise your hand to ask a question and I will introduce you. And our first question is from Eirik Rafdal from Carnegie.

Eirik Rafdal
Analyst, Carnegie AS

Q

Yes. Hi, team. Thanks for taking my questions. I've got three. If we could start with India actually. No kind of firm update there. A couple of rumors overnight that you're looking at an outright sale. [indiscernible] (00:32:54) previously been vocal that you don't want to fully exit India. Has your thinking changed there? And if so, why? That will be my first question.

Nils Kloumann Selte
President & Chief Executive Officer, Orkla ASA

A

First of all, we do not comment upon unfounded speculations or rumors in the market or media. So that's the first thing. What we have said earlier is that we have started a project to explore the opportunity to access the Indian capital market. That is still the case.

Eirik Rafdal
Analyst, Carnegie AS

Q

Very clear, Nils. Thank you. And also on the structural measures, could you give a bit of an update on the remaining transform or exit assets? What your plans are there and then how we should be thinking about that? You've moved quite quickly now on structural measures the last couple of months.

Nils Kloumann Selte
President & Chief Executive Officer, Orkla ASA

A

Yeah. As we have said earlier, we don't comment upon M&A processes and potential structural deals before we have done it. So I can't give you any guidance. I'm happy with the performance of most of the companies currently, and we will revert and have something to tell.

Eirik Rafdal
Analyst, Carnegie AS

Q

That's fair. Thank you. I'll try one final one. Announcing the CMD in late May, is it fair to assume that some sort of margin upgrade is in the cards given where you kind of already are and also the divestment of some of the more margin dilutive assets over the last year? How should we think about that?

Nils Kloumann Selte
President & Chief Executive Officer, Orkla ASA

A

I think the main purpose of that Capital Market Update – it's not a Capital Markets Day. It's a update halfway through the strategy period. We will give you – as I said, we will give a look under the hood of the three of the largest portfolio companies. And that's the main purpose of that. You and our investors really understand how we are creating value in the new way of operating Orkla and our other portfolio companies. That's the main purpose of that Capital Markets Update.

Eirik Rafdal
Analyst, Carnegie AS

Q

Perfect. Thank you for taking my questions.

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Our next question is from Petter Nystrøm from ABG Sundal Collier.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Yeah. Thanks for taking my question. That's on health. By the way, you mentioned that you are investing for future growth here. How should we expect the cost development for the health segment into 2025? Thank you.

Arve Regland
Executive Vice President & Chief Financial Officer, Orkla ASA

A

Yeah. I don't expect it to be – it was a particular quarter in the fourth quarter, as I mentioned, a huge part of the increased cost was really non-one-off related. We do continue to invest somewhat in the organization, but I wouldn't give a clear guidance. But I would look at fourth quarter as a bit particular when it comes to cost development, and we expect more normalized levels going forward.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Thank you.

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

A

That appears to be the last question on Teams. So, we'll now turn over to questions from the Web. So, our first question is from [ph] Rishab Jain (00:36:07). There was a recent discussion on selling majority stake in MTR, which is handled by Orkla India to ITC Limited. Any thoughts by when can we expect the deal to go through? And what are the timelines we are talking? I think we already answered that.

Nils Kloumann Selte
President & Chief Executive Officer, Orkla ASA

A

I think we answered that. We don't comment on unfounded speculations and rumors and that's it.

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

A

We have one more question here from Ole Martin Westgaard in DNB Markets. Rather, he has two questions. First is on market shares. How do you see your market share development in Q4 and 2024 towards the private label? And then there's another question on cocoa, but perhaps we take the market share development first.

Nils Kloumann Selte
President & Chief Executive Officer, Orkla ASA

A

First of all, we see positive to flat market share development across our portfolio companies. So we are happy to see that. When we look at the private label in the markets we operate, we see that it's flattening out. And so the increase that we saw through the inflation period is now flattening out or more stable.

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

A

And the second question is how much of your cocoa exposure for 2025 have you hedged?

Arve Regland
Executive Vice President & Chief Financial Officer, Orkla ASA

A

Well, we don't give a clear guidance on the hedging policy. What we have said is that we secure volumes for the first quarter, and we will revert with the more update in the first quarter on how we see cocoa price development, how that affect our margins and input costs at that time. So, no further guidance on how much we hedge throughout the year as of now.

Annie Bersagel
Senior Vice President-Investor Relations & Communication, Orkla ASA

And that appears to be the final question that we've received from the Web. So before we sign off, I just want to remind you all that we report the first quarter results on May 9. And other than that, please, thank you for joining and please enjoy your day.