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Orkla ASA (ORK.NO)

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MANAGEMENT DISCUSSION SECTION

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

Good morning and welcome to the presentation of Orkla's First Quarter Results. My name is Annie Bersagel, and I'm the Head of Investor Relations & Communications. So, due to previously planned travel, our President and CEO, Nils Selte, is unable to join us this morning. So, instead, EVP and CFO, Arve Regland, will be holding the presentation today. So, after his presentation, we're going to be holding a video Q&A with our analyst community, and after that we'll be opening up for questions from the web.

So, during the presentation, you are all welcome to send in questions via a web link, and this is open for everybody, and we'll take those after the video Q&A with the analysts.

So, with that underway, I leave the floor to you now, Arve.

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Thank you, Annie, and good morning to everyone.

Orkla's development for the quarter remained solid. Our portfolio companies continued to deliver according to the targets communicated at the Capital Markets Day in November 2023. At the same time, isolated elements in the individual portfolio companies affected the comparison year-over-year, both positively and negatively, as I will outline later in the presentation. Orkla's positive results overall underline the benefits of a diversified portfolio.

Organic growth was 1.2% for the quarter, mainly from price increases for the consolidated portfolio companies. Underlying EBIT adjust growth was 7.6%, with the margin improvements of 60 basis points year-over-year. Profit

before tax increased 28% year-over-year to NOK 2.2 billion, and adjusted earnings per share improved by 19% to NOK 1.68.

We continued to simplify the portfolio and closed the divestment of Pierre Robert Group in March, and the hydropower portfolio in April.

Lastly, given the current geopolitical situation, we have done a thorough study of the implications of the tariff conflict for our business. Orkla's import of direct material to the US and sourcing from the US each represent less than 1% of sourcing. Orkla's exports to the US represent less than 1% of operating revenues.

While we want to be careful not to underestimate the repercussions of a prolonged trade standoff, the direct impact of tariffs is limited to Orkla as a whole. There is larger uncertainty related to potential indirect impact. The indirect consequences for input cost development, foreign exchange rates, and consumer sentiment are too uncertain to quantify.

Overall, our portfolio companies continued to improve profitability. In Q1, underlying EBIT adjust growth was 7.6% versus the same quarter last year for the consolidated portfolio companies, including Orkla ASA. This growth was broad-based, but with significant variations between the portfolio companies.

We continue to make progress towards achieving our Capital Markets Day's targets. On a rolling 12 months' basis, underlying EBIT adjust growth was 15%. We achieved an EBIT adjust margin of 10.3% and return on capital employed improved to 11.7%.

Let me turn to some additional details for the financials for the quarter. Starting with the topline, operating revenues grew by 2.2% to NOK 17.2 billion. EBIT adjusted for the consolidated portfolio companies increased by 8% and you have an EBIT contribution of NOK 30 million from Orkla Real Estate related to the delivery of 16 apartments during the quarter.

Orkla ASA and the Business Services reported a flat EBIT adjust development year-over-year, despite good progress on initiatives we communicated at the Q3 presentations to streamline the Orkla ASA organization. This was due to extended bonus provisions from the increased Orkla share price. In total, group EBIT adjust grew by 10% to NOK 1.8 billion.

Profit from Jotun & other associates was NOK 651 million. The year-over-year increase was 57%, mainly due to significant currency losses in Jotun in the first quarter last year related to the evaluation of the Egyptian pound. The tax rate, excluding associated companies, for the first quarter was 26.8%. This extraordinary high tax rate was primarily due to the withholding tax on dividend from Orkla India to optimize the capital structure.

Hydropower is reported as discontinued operations for the quarter. Both transactions were closed in April, and the gain will be booked in the second quarter. First quarter adjusted earnings per share were NOK 1.68, an increase of 19% compared to the same period in 2024.

The rolling 12 months' EBIT adjust margin for the consolidated portfolio companies was 10.3% in Q1, an increase of 1 percentage points over the last 12 months. Underlying EBIT adjust margins improved in 8 out of 10 portfolio companies.

Organic growth was softer than expected in Q1, with 1.2% growth overall, of which minus 1.1% from volume/mix. The aggregate numbers were primarily driven by broad-based price increases for the consolidated portfolio companies, offset by volume declines in Orkla Foods and Orkla Snacks.

Cash flow from operations improved by NOK 0.4 billion year-over-year to NOK 1.6 billion, due primarily to EBIT adjust growth and continued net working capital reductions. Cash flow before capital allocation declined by NOK 0.5 billion year-over-year, mainly related to two timing effects. First, Orkla receives dividends from Jotun in two installments, and the amounts will be the same in 2025 as in 2024. Last year, however, the first installment was paid in Q1 where it was paid in the beginning of April this year. And second, negative cash flow from discontinued operations relates to hydropower and was mainly related to a timing difference on a significant tax payment in the quarter.

We ended the Q1 with a net interest-bearing debt level of 1.6 times EBITDA. Note that the increased leverage ratio since Q4 is due to the exclusion of hydropower in the rolling 12-month EBITDA. At the end of Q2, including closing of the hydropower transactions and dividend to Orkla's shareholders, the leverage ratio is estimated to around 1.9 times.

Now, let me move on to some more details of the portfolio companies, starting with Jotun. Jotun's sales growth was 6.4% for the quarter, driven by growth across all segments and markets. Earnings and profitability remained solid with an EBITA margin of 22% in Q1, supported by stable gross margins and relatively limited cost growth. EBITA for the same quarter last year included currency losses of NOK 252 million, triggered by the devaluation of the Egyptian pound. Jotun remains confident in its long-term strategy and prospects for continued profitable growth, despite increased uncertainty due to tariffs and trade wars.

Organic growth in Orkla Foods was minus 2.9%, driven by a 3.8% decline in volume/mix growth, partly offset by positive contributions from price. The volume/mix development during the quarter was impacted by several elements that we view as transitory. These include campaign activities last year and destocking from certain customers to a more normalized inventory level. The out-of-home channel also had a bigger development. Underlying EBIT adjust improved by 4.6% due to continued focus on category and product profitability. Input costs were [ph] in some (10:02) relatively stable year-over-year, although this varied between categories and markets. Orkla Foods continued to show strong cash conversion, driven by working capital management. Return on capital employed was 14.7%, well on track towards the CMD target of 15%.

Organic growth in Orkla Snacks was 1.8% in the first quarter, driven primarily by pricing in the chocolate segment, following increased input cost prices. We reported in Q4 that volumes were negatively impacted by softening demand for chocolate, following high cocoa prices. That development continued in Q1.

The Snacks category contributed negatively to volume/mix growth, partly due to phasing of campaign activity, while the biscuits category contributed positively. Despite headwinds from cocoa, adjusted EBIT growth was flat for the quarter due to significant cost savings across the entire value chain, supported by continued efficiency gains from the biscuit production.

As I said, at the Q4 presentation, we expect cocoa prices to remain higher and be more volatile than in the past, but expect prices to come down to more sustainable level over time as supply-demand balances out. Volumes are now secured for the majority of 2025, marking a return to a more normalized hedging strategy. The impact of cocoa price increases on consumer chocolate prices and demand over the following quarters nonetheless remains uncertain.

Over the longer term, Orkla Snacks continues to reinvest in future growth, and recently announced plans to invest in a new smash line in Nidar in Trondheim. Orkla Snacks is also investing in a new Bubs production line in Jönköping, which will double the capacity and enable the brand to meet high and growing demand across the Nordic market. Just this week, Orkla Snacks also announced a partnership with the US-based Mount Franklin Foods to launch Bubs in the world's largest candy market, United States, this fall.

Organic growth in Orkla Food Ingredients was 4.6% for the quarter, with a combination of volume/mix growth and price increases, in response to increased raw material prices. Sweet ingredients and plant-based experienced volume/mix growth, offset by slight volume/mix decline for bakery.

Underlying EBIT adjust improved by 14.1%, fully driven by growth in sweet ingredients, along with cost savings from the sweet mitigation program implemented in Q3 last year. We announced in the Q4 presentation that we expect the program to deliver a high double-digit million cost reduction in total. As of Q1, most of the initiatives have been implemented and are reflected in the results for the quarter.

In terms of US tariffs and any potential response from the EU, Orkla Food Ingredients has some exposure through trade with the US, as well as our US-based subsidiary, Denali. Overall, we expect the EBIT impact to be relatively limited. Orkla Food Ingredients continues to reinvest in the business for both organic and structural growth, with two bolt-on acquisitions completed since the beginning of the year.

Organic growth in Orkla Health was 2.5% for the quarter, with broad-based contributions from price to mitigate the impact of higher input costs, including higher cod liver oil prices. The overall contribution from volume/mix was negative, driven by a decline in functional personal care. The underlying EBIT adjust declined by 1.4%, driven by increases in advertising spend and organizational buildup. As noted at the Capital Markets Day and the Q4 presentation, we continue to invest in the organization to support future growth. We announced in April that the Board of Orkla Health has appointed Mats Palmquist as a new CEO beginning in Q3. He has extensive international experience from the B2B (sic) [B2C] (15:09) and B2B sector across the value chain and is well-placed to lead Orkla Health in delivering on this strategy.

Organic revenues for Orkla India were flat for the quarter. Note that the reported figures include the financial incentives provided by the Government of India on NOK 26 million. Excluding the government grant, Orkla India's organic revenue growth was minus 3.7% in the first quarter, with flat volume/mix growth. In the domestic markets, organic growth was slightly negative overall, driven by a decrease in prices on back of input cost reductions. This was partially offset by a recovery of volume/mix growth in the domestic markets during the quarter.

In the International Business, organic revenues declined on account of phasing FX from the Ramadan season. Underlying EBIT adjust growth, excluding government grants, was 11.3%, driven by continued cost discipline and an improved contribution margin, mainly from lower raw material prices. Organic revenues declined by 1.6% for The European Pizza Company. We see a clear division in the development across geographies. Consumer sales continue to be pressured by weak consumer sentiment in the Netherlands and Finland, whereas the strong momentum in terms of both growth and EBIT development continued at Da Grasso in Poland. Overall, EBIT adjust development was flat, negatively impacted by the topline development as well as investments for future growth in the organization, technology and marketing.

For the Orkla Home & Personal Care, the organic growth was 6.8% and driven by both volume increases in Norway, as well as continued growth in the contract manufacturing. The company continues to take market share in the Nordic grocery sector and deliver another strong quarter with 12.8% EBIT growth. Reported return on capital employed was 22.8% on a rolling 12-month basis, driven by EBIT growth and a strong capital discipline.

Both Orkla House Care and Health and Sports Nutrition Group showed strong improvements in profitability during the quarter.

Before we turn to Q&A, I want to remind you that we are hosting a Capital Markets update on May 28. We plan to give a more detailed update on Orkla's progress towards our targets, and provide the opportunity to hear directly from the CEOs of Orkla Foods, Orkla Snacks, and Orkla Food Ingredients on their company's strategic priorities forward.

We're going to take a short break before we move to Q&A.

QUESTION AND ANSWER SECTION

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Welcome back. We will now begin our Q&A, so please raise your hand to ask a question, and I will introduce you. And, of course, remember to unmute yourself and turn on your camera.

So, it looks like our first question is from Petter Nystrøm from ABG.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Q

[audio gap] (18:58) questions from me. I can take one at a time. Starting with Snacks, the contribution margin is down 2 percentage points year-over-year. Have we now seen the full effect of higher cocoa prices for Snacks in Q1 or will your raw material prices continue to rise and take margins further down? Thank you.

Ave Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

Yeah. We will not comment on the coming quarter in detail. But as we said, Petter, obviously, the high cocoa prices affects this year's EBIT. What we said now is that we have secured the volumes for cocoa prices – cocoa volumes for the majority of this year, but it's quite obvious that the levels will still impact the coming quarters as well when it comes to profitability.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Q

Okay. I understood. Then, back on Foods, which was slightly below what we expected, is it possible there to roughly quantify the sales impact from customers' inventory reductions?

Ave Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

Yes. We said that the volume decline in Foods had several transitory effects, and that included also inventory reductions for some customers to more normalized levels. So, we're not going to quantify in details to the different effects, but we view the majority of these effects to be transitory for this quarter.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Perfect. I'll jump back in the queue. Thank you.

Q

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

It looks like our next question is from Håkon Nelson, Kepler.

A

Håkon Melgård Nelson

Analyst, Kepler Cheuvreux SA (Norway)

Hi. Thank you for taking my question. You delivered a strong Q1, significantly above the consensus, partly due to one-off currency effect last year. Can you elaborate on how much of that performance was structural versus temporary, and what we should expect in terms of margin sustainability going forward?

Q

Ave Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Yes. We mentioned because, obviously, the first quarter last year was heavily impacted by this devaluation of the Egyptian pound, which we also quantified to be NOK 252 million on the EBITDA level. So, a business like Jotun will always have various impacts of currency effects and various effects, which you can view as one-offs or temporary. But obviously, the effect last year was of a significant nature.

A

So, I think that you can look at this in the longer term, in line with our guiding, that we expect Jotun to deliver these results on par with last year, and that will be, I think, you can expect a normalization of the growth compared to last year in the coming quarter, and this year's growth was more of a special nature.

Håkon Melgård Nelson

Analyst, Kepler Cheuvreux SA (Norway)

Thank you so much. And also one more on Orkla India, if that's okay. Orkla India reported a 26% (sic) [NOK 26 million] (22:12) EBIT beat, partly driven by government grants. Can you clarify whether these grants are recurring or one-off in nature, and what underlying volume and pricing dynamics were in the quarter?

Q

Ave Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Yes. So, these government grants are, this year, on the same level as last year, but the timing effects between the quarters varies. So, in last year, we received the same amount in this year, approximately. But then, in the second and third quarters, we had NOK 20 million of PLI in the second quarter and NOK 6.4 million in the third quarter last year, while this year we received the NOK 26 million in the first quarter. So, this is only a timing effect. So, in that sense, it's of a quite sustainable nature given the business model.

A

And then, if you take out these government grants, this obviously affects both the volume and the EBIT. So, if you adjust from the EBIT line, you will have a normalized EBIT growth of around 11% for Orkla India for the quarter.

Håkon Melgård Nelson

Analyst, Kepler Cheuvreux SA (Norway)

Thank you so much.

Q

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Looks like our next question is from Ole Martin Westgaard from DNB.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Hi. And thanks for taking my question. First of all, on Orkla Foods and Orkla Snacks, you have quite negative volume development. Can you comment on how you see your market share performance in those two segments in particular?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

Yeah. I think what we can comment on is that we see the trend to be fairly similar to what we've seen in the previous quarter, meaning relatively flat development. It had some variations between categories and markets, but overall fairly flat for both companies.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

And also, was there any significant Easter effect in Q1 that affects these figures?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

I missed your question, Ole.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

I was wondering about the Easter effect on Q1. How did that affect the figures?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

Okay. So, relatively limited Easter effects this year, in particular for Foods. Slightly negative Easter effects for Snacks. And it was due to, we had one more sales, say, in Norway in the first quarter, while the Easter came quite late in April. So, the selling of Easter products was not as high as normal. So, in that sense, flattish in Foods, slightly negative in Snacks.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

And another question on me. On your marketing spend in this quarter, how was that relative to last year?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

It's overall slightly higher than last year.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Okay. I'll join back in the queue. Thank you.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

All right. It looks like we do not have any more questions from the analysts and on Teams here per video. So, we're going to go over to questions from the Web. So, the first question from the Web is from Marcela Klang from Handelsbanken. She writes, you mentioned in the report that Orkla has implemented mitigating actions to dampen the cost impact of high price levels for input factors such as cocoa. What are these actions and what price development for cocoa do you expect for the rest of 2025?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

Yes. So, we have taken several initiatives to dampen this effect. This includes portfolio optimization. We have harmonization initiatives in the products. We obviously do price adjustments. And lastly, quite a lot of cost savings through the value chains to dampen the effect on the EBIT level.

And when it comes to price development, we expect, as we said in the report, that we expect prices to come down to a more sustainable level over time, and that we have secured now the volumes for the majority of 2025.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

All right. And the next question from the Web is from Håkon Fuglu from SEB. He writes, two questions here, so we can take them one by one. The first was, how much was the negative impact from inventory reduction for Foods customers and what was the Easter effects year-on-year this quarter? We already answered that one.

And the second question, retail prices for chocolate-related snacks increased significantly during Q1. How has market demand react to this? We've just addressed that as well.

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

Yeah. So, obviously, the quite substantial price increases on chocolate products do have a negative impact on volumes. And it's also reflected, I think, quite clearly in the numbers we see on volume development for Orkla Snacks in this quarter.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

So, that seems to be the last question from the Web. So, just before we conclude, I want to remind you that we are holding our Capital Markets update on May 28 and also we report our second quarter results on July 14. So, thank you very much, and please enjoy the rest of your day.

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