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Orkla ASA (ORK.NO)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

OTHER PARTICIPANTS

Callum Elliott

Analyst, Bernstein Autonomous LLP

Patrick Folan

Analyst, Barclays Capital Securities Ltd.

MANAGEMENT DISCUSSION SECTION

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

Good morning and welcome to the presentation of Orkla's Second Quarter Results. My name is Annie Bersagel and I'm the Head of Investor Relations & Communications. So to begin the presentations today, our President and CEO, Nils Selte, will be presenting some highlights from the quarter as well as from the first half year. After that, EVP and CFO, Arve Regland, will be presenting some more detail into the financials. Once he's done, Nils will return for a few concluding remarks.

After all the presentations are over, we will be going over to our Q&A. We're going to begin our Q&A as a video Q&A with our analyst community before we go over to taking questions from the web. So, if you're interested in sending any questions, you may do so at any time during the presentation, and I will read those up at the end.

So with that all out of the way, let me hand it over to you, Nils.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Annie, and good morning to everyone. Overall, we continued to progress according to our Capital Markets Day targets. Organic growth was 3.8%, came primarily from price increases in most portfolio companies, as well as a return to volume growth on a consolidated basis. Underlying EBIT adjusted growth continued, but was somewhat slower than previous quarters, with mixed developments across the portfolio companies. Earnings per share adjusted was NOK 1.56, up 0.6% from the same period last year. Let's turn into the breakdown of the portfolio companies' performance.

There was significant variation in profitability across the portfolio companies in the quarter. Arve will present a more detailed picture of the individual companies, but a few developments deserve mention. Orkla Food

Ingredients delivered strong quarter driven by both top line growth and continued success – successful implementation of the cost program in the Sweet Cluster.

While the headline numbers in Orkla Snacks are below our expectations, the company had successfully navigated a challenging input cost environment. Orkla India had an impressive underlying EBIT adjusted growth of 20%, excluding government grants.

On the other hand, Orkla Health had a weak quarter and I'm disappointed by the development. I see significant potential in the company, but the result over the last quarters are not good enough. Closing the gap between the company's current performance and the full potential is the key focus for the new CEO coming in in August.

Then a few highlights from the first half year. In May, the CEOs of Orkla Foods, Orkla Snacks and Orkla Food Ingredients outlined the operational and commercial steps on the way to secure value creation for the rest of this strategy period and beyond. On the structure side, we continue the disciplined reshaping of our portfolio. We closed the sale of Pierre Robert Group in March and Orkla's hydropower assets in April. This has significantly simplified our structure further.

In June, Orkla India filed a draft herring prospectus with the Securities and Exchange Board of India. This marks an important milestone in Orkla India's pursuit of structural options to unlock value. Let's have a look at our CMD targets. Our progress on improving underlying EBIT adjusted was within the range, the target range on a rolling 12-month basis. Underlying EBIT adjusted margin remained unchanged since the first quarter and return on capital employed increased to 11.8% since the first quarter. As we said at the Capital Markets update in May, with a diverse portfolio, we expect some portfolio companies to over-deliver on their targets and others to under-deliver. In sum, however, we are on track.

With that, I will now invite Arve to provide a more detailed overview of the financials.

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Thank you, Nils, and good morning, everyone. So, let me turn to some more details on the financials for the quarter. The group's operating revenue rose by 5% year-over-year in the second quarter following organic sales growth in the consolidated portfolio companies. Orkla's EBIT adjusted grew by 6%, driven by profit growth in most of the portfolio companies.

Profits from Jotun and other associated companies were NOK 422 million in the quarter. Jotun's positive underlying operational performance continued in the second quarter, but due to currency translation effects, they reported a slight decline in EBITA.

The decline in net profit versus last year in our P&L is mainly related to timing of the recognition of tax expenses between the first and second quarter. These effects are eliminated in the half year results. Adjusted earnings per share amounted to NOK 1.56 in the quarter, on par with the same period last year. Note that reported earnings per share includes the gain of divestments of the hydropower portfolio reported as discontinued operations.

The rolling 12 months EBIT adjusted margin for deconsolidated portfolio companies was 10.3% in the second quarter, an increase of 0.6 percentage points over the last 12 months. In terms of input prices, our guidance remains unchanged. We continue to expect raw material prices, in sum, to stabilize in 2025, excluding cocoa.

Organic growth was 3.8% in the consolidated portfolio companies with positive volume mix growth of 1.4%. The greatest positive contributions to volume/mix growth was from Orkla Food Ingredients and Orkla Home & Personal Care, offset by volume/mix declines in Orkla Snacks and Orkla Health. Cash flow from operations in the first half amounted to NOK 2.4 billion, a decline of NOK 0.4 billion year-over-year. The decline was mainly due to increased net working capital and higher net replacement investments in the consolidated portfolio companies.

Turning to capital allocation. As guided, we increased our debt level in the second quarter after distributing dividend of NOK 10 billion. We also closed both hydropower transactions in April and we ended the quarter with a net interest-bearing debt level of two times EBITDA and 1.6 times if excluding Orkla Food Ingredients.

Now, let me move on to some more details on the portfolio companies. Jotun recorded an operating revenue decline of 0.6%. Excluding negative currency translation effects from the stronger Norwegian krona, sales growth in the quarter was 3.5%. Top line growth was mainly due to higher volumes. In addition, increased premium sales, especially in the decorative segment, contributed positively.

Operating profit declined by 2.1% compared to the same period last year. However, excluding negative currency translation effects, underlying operating profit increased by 2.6%. While we see uncertainty related to currency fluctuations, our outlook for Jotun for 2025 remains unchanged.

Organic growth in Orkla Foods was 1%, with a flat volume/mix development overall. Volume/mix increased in all markets except for Norway. Within prioritized growth categories, we see an improvement in both Sweden and Finland, as well as continued progress in the Czech Republic. Underlying EBIT adjusted declined by 1.8% due to lower activity levels in key categories in the Norwegian market as well as increased advertising spend.

Lastly, execution on the revised commercial strategy that Orkla Foods presented at the Capital Markets update is progressing according to plan. Organic growth in Orkla Snacks was 4.3% and both biscuits and snacks contributed positively to volume/mix growth while lower volumes in the chocolate segment resulted in a volume/mix decline of 1.8% overall. Despite continued pressure from high cocoa prices, underlying EBIT adjusted was flat.

Orkla Snacks has successfully harmonized recipes, reduced the fixed cost base and implemented continued cost improvements across the value chain. We still expect cocoa prices to come down to more sustainable level over time. And as we said in Q1, we have returned to a normal cocoa hedging strategy. And during the quarter, Orkla Snacks was named to Time Magazine's list of the 100 Most Influential Companies globally, reflecting the strength of the Bubs brand and the Bubs US launched is now planned for Q3.

And this is the first quarter we report results for Orkla Home & Personal Care as a part of the anchor category and the company's positive trajectory continued in the quarter. Organic growth remained high at 8.5%, driven primarily by volume/mix growth in Norway, Sweden and contract manufacturing. Underlying EBIT adjusted growth was 13%, with revenue management driving positive mix effects.

Organic growth in Orkla Food Ingredients was 9.2% in the quarter, with positive contributions from all three clusters. Volume growth was primarily driven by Sweet Ingredients with positive contribution from plant-based and the flatter development for bakery. Underlying EBIT adjusted growth was 20%, and Sweet Ingredients contributed the majority of the improvement due to both volume growth and the successful implementation of the cost program that began in Q3 2024. That program is now closed following implementation of all planned initiatives. Orkla Food Ingredients continued to execute on the structural growth strategy in the second quarter as well, with the bolt-on acquisition of the Belgian ice cream ingredients producer Le Vesuve in April.

Organic growth in Orkla Health was 2.2%, driven entirely by price. Organic growth from price was offset by volume/mix declines in most geographies and categories. In the omega-3 category, headwinds from high cod liver oil prices negatively impacted both margins and volumes. The underlying EBIT decline was 21%. Higher A&P spend has not yielded sufficient results. And in addition, SG&A spending to build the commercial organization continues to outpace sales growth. And as Nils said, addressing these challenges is the top priority for Orkla Health going forward.

Moving on to Orkla India, second quarter revenues included financial incentives provided by the Government of India amounting to NOK 6 million compared to NOK 20 million in the same quarter last year. Excluding the government grant, organic revenue growth was 0.6%, driven by volume/mix growth of 3.9%.

In the domestic market, organic revenue growth was impacted by price decline on the back of input cost reductions, while volume/mix growth continued to be positive. Underlying EBIT adjusted growth was 5.7% in the quarter and 20% excluding government grants. And EBIT adjusted margin increased 2.8 percentage points year-over-year, driven by contribution, margin development and continued cost discipline.

The European Pizza Company's organic revenue growth was 1.2%. Consumer sales gained momentum on the back of targeted growth initiatives, although the market situation remains somewhat challenging. Improved results for the New York Pizza in the Netherlands were supported by third-party dough sales. Underlying EBIT adjusted growth was 11%, driven by consumer sales momentum and cost control.

Health and Sports Nutrition Group continued to improve profitability, while Orkla House Care had a weaker development over the quarter, driven by volume and seasonal phasing.

With that, I'd like to give the floor to Nils to present his concluding remarks.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Arve. Our focus remained on long-term value creation and I am less concerned about the quarter-to-quarter fluctuations as long as this trajectory stays firmly on course. Overall, our progress during the first half of 2025 continues to reflect disciplined execution of the strategy we announced at the 2023 Capital Markets Day.

On that note, we now open the floor for questions. Thank you.

QUESTION AND ANSWER SECTION

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Welcome back. We will now begin our Q&A. And we're going to start with the video Q&A with analysts. So please remember to raise your hand if you have a question and I'll introduce you. And as we all learned during the pandemic, remember to unmute yourself and turn on your camera. So are there any questions from the web? Yes, it looks like the first question is going to be from Callum Elliott from Bernstein.

Callum Elliott

Analyst, Bernstein Autonomous LLP

Q

Perfect. I hope you can all hear me. Thank you very much for the questions. Two from my side. The first is on the Food Ingredients business. Obviously fantastic growth for a couple of quarters in a row now and in particular, fantastic to see that it's being volume/mix driven. My question is can you talk a little bit about within you called out Sweet Ingredients, what is it within Sweet Ingredients that that's really sort of driving this volume/mix strength and how sustainable do you think that is?

And then my second question is on the Orkla Health business. So, you highlighted the recent appointment of Mats to be the CEO of that business. My question is, the slowdown there this year in Orkla Health has been very abrupt. What do you think has driven it? And as Mats starts next month, where are you in this journey of the organizational investments that you were talking about? Thank you.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

Okay. Let me start by the first question when it comes to the sweet cluster in Orkla Food Ingredients. I think it's, first of all, we announced for the second half year last year that we are initiating a cost initiative program or a turnaround on that business. I think we have done or Orkla Food Ingredients have done that turnaround quite well and through this year so far, we see good progress, broad-based, in the sweet cluster in Orkla. So we see positive momentum in the US markets, and we see also positive momentum in the European market. So, from that perspective and also the cost program that they are worked on. If you combine these two things together, we see a good progress and we expect this to continue going forward as well.

And then the second question was about Health. I think we will leave to Mats when he comes in to talk more about the strategy going forward. But we see a broad-based negative volume development through the whole company, actually. And we see when you combine that with increased A&P and also organizational buildup, as we have seen over the last few quarters, that gives us the results that we clearly said that we are a bit disappointed about. And Mats coming in, in August, have a big job to do to turn this company around and we will, for sure through the boardroom and together, must discuss the future strategy of that company and revert to the market on that.

Callum Elliott

Analyst, Bernstein Autonomous LLP

Q

Thank you very much.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

Looks like our next question is from Patrick Folan with Barclays.

A

Patrick Folan

Analyst, Barclays Capital Securities Ltd.

Hey, good morning, everyone. Just two from me. Within your Foods business, what was the estimated impact of the inventory reductions on the segment in Q2 and is this reduction still ongoing? And then with the – within the category levels, I mean, which categories are you seeing lower activity levels in the Norwegian food market? Maybe why is that the case? Thanks.

Q

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Let me start by the last question. I think if you look at Norway, we have seen a slowdown in our categories in Norway through the first half year. I think this is something that we are discussing with our customers and we have a good relationship now with our customers. And I think we have good plans. So we think we will kind of get back to normal activity in Orkla Foods Europe going forward. I would be careful to give you any more guidance on the – than that actually. When it comes to the destocking, I think we are now seeing more normalized level and we are not specific on where and which customers we are talking about.

A

Patrick Folan

Analyst, Barclays Capital Securities Ltd.

Thank you.

Q

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

I don't see any additional questions on video. So, I think we're going to go over to the web. We have quite – oh, it is – it does like Patrick has a follow-up question.

A

Patrick Folan

Analyst, Barclays Capital Securities Ltd.

Yes, sorry. Just I actually had one more. Within India, anything to call out from a category perspective that you're seeing? I guess you talked about raw material prices leading to lower pricing. Is competitive activity quite normal? And just anything from a category perspective you could point to? Thank you.

Q

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Yeah. No, no, not really. I think not any specific when it comes to categories other than a sort of solid improvement, in particular in the domestic market in India, both when it comes to, particularly when it comes to volume. So overall, I think fairly broad-based development that we reported.

A

Patrick Folan

Analyst, Barclays Capital Securities Ltd.

Thank you.

Q

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

All right. I don't see any additional raised hands on the video call. So we can go over to questions from the web. And first, we have four questions from Ole Martin Westgaard from DNB Carnegie. The first question here. We can maybe just take them one at a time.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Yeah.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

The figures from the Health system – Health segment were very weak this quarter. Could you elaborate on the key drivers behind this performance?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

I just – I think I just commented upon that. So I don't think I need to elaborate more than that.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

And the second question is on Food Ingredients. Food Ingredients delivered strong organic growth in both volume and price. Was there anything specific this quarter that contributed to this? And what are the main factors driving the growth?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

I think I gave a comment. I think we see good progress in the sweet cluster and we are very happy about that. But we also see good progress or top line growth also in the plant-based segment in Orkla Food Ingredients. So broad based, good development.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

And then the third question is what is the current status of the international expansion of Bubs?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

I think we gave some comments on that. But we are planning to launch during Q3. So we are excited about that launch and we will see. But don't expect that to hit the numbers in Q3. I think this is a long-term initiatives that hopefully will create value to Orkla and Orkla shareholders going forward.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

And the fourth question, could you provide an update on the targeted IPO in India?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

As I said, I think we filed the prospectus now in June. And due to restrictions, we are not able to give any more comments on that actually.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

We also have three questions from Håkon Fuglu, SEB. First, historically, how long has it taken for lower interest rates to impact consumer demand for Orkla's products?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Good question. I think we saw that during the financial crisis that demand for branded goods came quite, falls back into the market. So I think that's our most recent kind of experience kind of going out of high inflation, high interest rate market. So, I think we – hopefully that will be the case this time as well. But we don't have that much experience from what is actually and when [indiscernible] (00:24:43) hit into our P&L actually. So, I think we, for us, it's about doing a good business every day and try to deliver.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

And the second question from Håkon is how much of the strong results in OFI is due to price increases ahead of increased raw material price increases? And when will higher input costs impact negatively?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Yeah. We're not giving any clear, clear guidance on that. But I wouldn't say that it's any particular timing effects of input costs related to prices off. It falls off quite gradually. So no specific impact on the numbers in this quarter either.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

And one last question from Håkon here. Can you elaborate on the impact from cocoa prices for Snacks in Q3?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

Not – obviously, not any specific. As we said, we have secured the volumes for cocoa now for the rest of the year. And obviously, as Nils said, for the coming quarters, it's still at levels which will impact profitability. Now, we delivered two quarters of flat EBIT in Snacks, which I think is a very solid performance given they had headwinds from cocoa, but nothing particular changing in the Q3 rather than we continue to have impact on profitability from the cocoa price situation also for the coming quarters.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

And we have another question from Ole Martin Westgaard on the web here. What was the impact on organic growth from the timing of Easter in Q2?

Arve Regland

Executive Vice President & Chief Financial Officer, Orkla ASA

A

We had very limited the Easter effects in the second quarter. We had some positive for some categories in the Snacks company, but other than that, in total, limited impact of Easter this year.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

That appears to be the last question on the web. So before we conclude, I just want to remind you that we're going to report third quarter results on October 29. So thank you for joining and enjoy the rest of your day.

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