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Orkla ASA (ORK.NO)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Andrei Condrea
Analyst, UBS AG (London Branch)

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 and Communication. Our President and CEO, Nils Selte, will be unable to join us today due to previously planned travel. So, our CFO, Arve Regland, will be holding both the presentation and the Q&A.

Now, before I turn it over to Arve, I just want to remind everyone that we're going to begin with the video Q&A with our analysts. And after that, we will turn over to questions from the Web. So, if you have a question, please feel free to submit that at any time, and we will take those at the very end.

So, with that out of the way, I will hand the floor over to you, Arve.

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

Thank you, Annie. And good morning, everyone. So, Orkla's consolidated portfolio companies had a flat organic top line development quarter and a 2.5% EBIT growth. Overall, we are not satisfied with these results. However, Jotun delivered another strong quarter, contributing to a 3% improvement in adjusted earnings per share. We continued to execute on our capital allocation priorities, and in July, we completed the NOK 4 billion share buyback program that was announced in last November.

During and following the quarter, portfolio companies announced several acquisition in prioritized categories. The largest of these was Orkla's next acquisition of The European Candy Group. Orkla Foods also announced the acquisition of a 40% stake in Go-Tan Group, strengthening its position in sauces. And this transaction was closed

Tuesday this week. And both of these transactions strengthen existing category positions and support long term growth.

For the consolidated portfolio, volume/mix declined 1.3%. Overall price increases were offset by lower volumes across several portfolio companies. The reversal of supported Easter phasing effects from the first quarter contributed negatively alongside weaker volume development in parts of the portfolio.

Underlying adjusted EBIT grew 2.5% for the consolidated portfolio, inclusive Orkla ASA. And as shown on this slide, the development varied across the portfolio companies, and I will come back to this in more detail. The EBIT margin was 10.5% with a mixed development across the portfolio companies.

Last quarter we said that the expected increased costs for energy, transportation and packaging due to the conflict in the Middle East, and that remains our expectation. While the risks were more severe, near term disruption appears lower than it did three months ago. Uncertainty remains high. The longer term indirect effects on supply chains and input costs are less clear and both the timing and the magnitude remain difficult to quantify.

Turning to Orkla's consolidated financial targets, underlying EBIT growth was 2.7% year-to-date, and growth was slower in the first half of this year, but aggregated across the strategy period remains within the target range. The EBIT margin was unchanged from the first quarter remaining within our target range of 10.5% to 11%. And return on capital employed declined slightly compared to the first quarter, reflecting slower EBIT growth. And this is the most challenging of the three targets, and we still have work to do.

So, I will now provide some more details on the financials. Reported revenues declined by 5%, and adjusted for currency translation effects, underlying revenues were flat. Reported EBIT adjust also declined by 5%, again, with the difference compared to underlying numbers mainly explained by currency consolidation effects. We had other income of NOK 97 million in the quarter. The largest contributor was the completion of the divestment of Nói Síríus on Iceland during the quarter. Adjusted earnings per share increased with 3% to NOK 1.60, and profit increased from Jotun of 17%, and lower tax and financing costs more than offset the decline in adjusted EBIT.

Cash flow is fairly stable compared to last year with cash flow from operations in the first half of the year was NOK 2.1 billion. And cash flow before capital allocation was NOK 1.6 billion, a decline of approximately NOK 200 million year-over-year.

Moving on to the capital allocation and leverage bridge. Year-to-date, we have paid NOK 6 million – NOK 6 billion in dividends and repurchased shares for NOK 2.3 billion. Expansion investments increased by approximately NOK 300 million during the quarter, bringing the year-to-date total up to about NOK 400 million.

Acquisitions of companies consists of three bolt-on acquisitions in Orkla Food Ingredients. And the sale of companies relates mainly to Orkla Snacks' divestments of its Icelandic business, which closed at the end of the second quarter.

Net interest-bearing debt was NOK 20.7 billion at the end of the quarter, corresponding to a net debt to EBIT – EBITDA ratio of [ph] 2-point – 2 times (00:18:19).

So, some more details on the portfolio companies and as mentioned, Jotun had another strong quarter. On an underlying basis, revenue grew by 11%, driven primarily by higher volumes. And all segments and regions contributed positively to sales growth with the strongest performance in Protective Coatings. Negative currency translation effects continued to weigh on the reported figures. And Jotun has navigated the Middle East conflict well, implementing mitigating actions faster than we expected. Reported operating profit increased by 13%, while underlying profit grew by 21%. And despite challenging conditions, business units within the war-affected markets had a flat underlying sales development and a 2% increase in underlying operating profit.

Raw material prices increased significantly during the quarter, although less than anticipated at the time of the first quarter outlook.

Gross margins improved as increased premium sales, pricing measures and continued cost control more than offset higher raw material costs. It is worth noting that margins do not yet fully reflect the increase in raw material prices.

Orkla's share of profit from Jotun increased by 17% to NOK 494 million. And Jotun's outlook remains uncertain due to the conflict in the Middle East. The company expects some margin pressure in the coming quarters as the impact from higher raw material costs materializes. If the conflict persists, its effect on business conditions, supply chains and raw material markets are likely to extend beyond the region.

In Orkla Foods, organic revenues declined by 1.3% in the quarter, with volume/mix of minus 2.3%. This partly reflects the reversal of the Easter timing benefits seen in Norway and Sweden in the first quarter. Volume/mix growth was 1.4% in categories classified as growth priorities. Sweden continues to develop well with positive market share trends. The development remains more challenging in Norway and Finland. And underlying EBIT increased by 4%. EBIT growth was supported by improved product and category mix, lower marketing spend and temporary lower fixed costs.

Organic revenue declined by 1.1% in Orkla Snacks. Volume growth of 0.5% was driven primarily by confectionery. Biscuits also contributed positively, while snacks volumes declined. Volume growth was also dampened by the Easter phasing effects. Lower prices were mainly related to chocolate products. Underlying EBIT increased by 10%. The improvement was primarily driven by the chocolate recovery.

In July, the company announced acquisition of The European Candy Group to support further expansion of BUBS. And Orkla Snacks continues to invest in growth capacity.

The new [ph] Smash! (00:22:22) production line at Nidar is operational. The third BUBS line in Jönköping is now coming live. And through its partnership with Mount Franklin Foods, BUBS is now available in approximately 60,000 stores across the United States.

In the Orkla Home & Personal Care, organic revenues declined by 2.5% on the back of promotional phasing and some negative Easter timing effects. Market shares continued to increase in Norway and remained stable in Sweden and Finland. Underlying EBIT growth was 8.2% and was driven by systematic cost-out initiative across the value chain.

In Orkla Food Ingredients, organic revenue declined by 1.5%, with volume/mix down 2.1%. Sweet Ingredients delivered positive volume/mix growth while Plant Based was negatively affected by an unfavorable product mix. In Bakery, market demand was weak in Central and Eastern Europe. Easter timing also had a negative impact on volumes in the quarter. The decline in underlying EBIT was broad based, driven by lower volumes and a cost base that was too high relative to activity levels. Orkla Food Ingredients has launched mitigating actions aimed at improving efficiency and reducing costs.

In Orkla Health, organic growth was 2.7%, driven primarily by pricing. Oral health and wound care delivered positive volume/mix growth, and volume and margin pressure from the omega-3 category continued. And the raw material outlook for the category remains challenging. Underlying EBIT declined by 5.8%. Higher operational costs, lower profitability in omega-3 together with increased advertising costs in food supplements more than offset growth in other parts of the business. The closure of three factories as communicated last quarter will continue to weigh on results through the end of 2027.

And Orkla India reported its results on the 4th of August. Organic growth was 9.7% or 11% when excluding the effect of government grant of NOK 6 million recognized in the prior year quarter. Growth was driven mainly by pricing reflecting higher raw material prices, particular for chili and coriander. And volume growth was 1.7%. And both the domestic and international business contributed positively. Underlying EBIT declined by 4.1%. Excluding the prior year grant, underlying EBIT growth was slightly positive.

Turning to The European Pizza Company, consumer sales increased by 8.4%, supported by same-store sales growth. Consumer sales growth was driven by menu innovation and increased distribution. Organic growth was flat as lower third-party sales in Kotipizza's wholesale business offset consumer sales growth. Underlying EBIT growth was 4.7%, driven by consumer sales growth and mix effects.

And, lastly, in Orkla House Care, organic revenues declined by 2.7%, but favorable product and customer mix effects drove a 12% increase in underlying EBIT. The Health and Sports Nutrition Group delivered broad-based organic revenue growth and underlying EBIT growth.

To summarize, we continue to execute on our three strategic priorities. We have more work to do on organic growth and volume development. Several portfolio companies continue to make progress on costs, while others have recently launched measures aimed at improving profitability. We've also continued to strengthen the portfolio and deploy capital in line with our priority – priorities.

We remain committed to our financial targets and look forward to presenting our long term ambitions at the Capital Markets Day on the 1st of December.

With that, we will open for a Q&A after a short break.

[Break] (00:27:45-00:27:54)

QUESTION AND ANSWER SECTION

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

A

Welcome back. We're now ready to begin the Q&A. And we're going to start with the video questions. So, please remember to raise your hand and turn on your camera. I see the first question is from Petter Nyström in ABG.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Yeah. Thank you both. Hopefully you can hear me and see me. So, you said the Middle East impact was still limited in Q2, but you still flagged a little bit higher costs ahead. Is it possible to quantify some of the headwinds going into the second half and how much do you think you can offset through pricing? Thank you.

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

A

Yeah, it's a bit twofolded, Petter. Regarding, obviously, Jotun is the most affected company and as we said on the presentation, the impact in the short term was lower than we anticipated at the first quarter outlook for Jotun. But there's still – there's the significant price increases so that, that will weigh on margins going forward without – it's very hard to be very precise and quantify because the picture changes from day to day, actually.

And for the other companies, it's really sort of the same as you saw in the first quarter, in particular, for energy, for transportation, packaging. We still see elevated input costs that will weigh, but we – it's a bit more positive picture than we saw in the Q1, at least for the short term, meaning this – the last part of this year. And then going into 2027, again, uncertainty remains because it's all about how this conflict will develop. So, it's very hard to be more precise on quantifying.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Understood. If I can take one more question. So, you talked a little bit about the Food Ingredients development when you went through the segments here. When should we expect these mitigating actions to start to, let's say, improve the EBIT here? Thank you.

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

A

So, these mitigating actions is mostly SG&A related, and they are about to launch several actions in OFI. But I wouldn't expect them to have a significant impact in the – in very short term, but more on the bit longer term, meaning from next year and onwards. So – and we're not ready to quantify any magnitude of this, but it's something [indiscernible] (00:30:46) high on the agenda in OFI, and obviously, with the ambition to have an effect on profitability, at least in the mid and longer term.

Petter Nystrøm
Analyst, ABG Sundal Collier ASA

Q

Okay, perfect. I'll then jump back in the queue.

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

It looks like the next question we have is from Andrei Condrea from UBS.

Andrei Condrea Q
Analyst, UBS AG (London Branch)

Hello and good morning. Thank you for taking my questions. Two if I may. Firstly, obviously, the Easter phasing [indiscernible] (00:31:19) in Q1 you had a benefit in your Foods businesses. Obviously, you've had a headwind now. Would it be possible, at least on an aggregate basis to help us quantify the headwind and get down to what the underlying growth was for either consolidated portfolio companies or your Foods and Snacks and OFI? And the second question I had really was on the outlook for 2026 is, mostly how do you see your organic sales growth progressing from here? Should – do you expect to see an acceleration in the back half of the year versus where we are today? Thank you.

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

Yes. To start with the Easter effects, and as we said, I think we just repeat what we said in the first quarter that, in the first quarter the Easter effects had an impact. It was the – it was not the major part of the sort of the positive effects in Q1 and then it's the opposite situation in the Q2. So, to look at sort of the underlying performance, it's really better to look at the first half numbers, because then you eliminate the Easter effects and it gives you a better picture of the sort of the underlying speed in each of the portfolio companies.

And when it comes to outlook, we don't give any outlook when it comes to top line development rather than say that we – as we said on the call, we're not happy with the overall growth on top line and volumes for the companies consolidated in the quarter. And for the first half, meaning that we – our ambition is at least to increase performance going forward without – we're not able to be more precise than that.

Andrei Condrea Q
Analyst, UBS AG (London Branch)

Understood. Thank you very much.

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

I'm not seeing any more questions on video here. And we haven't received any questions on the Web. So, with that, I think that was the last question.

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

So, before we conclude, I just want to remind you that we're going to be reporting third quarter results on the 6th of November. And then, again, as Arve mentioned, we have our Capital Markets Day on the 1st of December. So, please, we look forward to joining – for – to having you join us for that.

So, with that, please enjoy the rest of your day.