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Orkla ASA (ORK.NO)

Q1 2026 Earnings Call

CORPORATE PARTICIPANTS

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

Arve Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

OTHER PARTICIPANTS

Ole Martin Westgaard

Analyst, DNB Bank ASA

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Andrei Condrea

Analyst, UBS AG (London Branch)

Håkon Fuglu

Analyst, Skandinaviska Enskilda Banken AB (Norway)

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 and Communications. So we're going to begin with a presentation from our President and CEO, Nils K. Selte, where he will give a summary of the latest developments for the quarter. After that, EVP and CFO, Arve Regland, will present some more detail on the financials as well as on the individual portfolio companies. After that, Nils will conclude with a few closing remarks before we move over to our Q&A.

So just to remind you the procedures for Q&A, we have a web Q&A form that you can send questions through at any time. But first, we're going to do a Q&A, a video Q&A with our analyst community. And after that, we'll move over to questions from the web.

So with that, I'd like to turn it over to you, Nils.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Annie, and good morning, everyone.

I would like to start this presentation on a personal note. Orkla's Chairman, Stein Erik Hagen, passed away suddenly on May 4. Stein Erik left his mark on Orkla through over 25 years as an active owner. He brought an entrepreneurial drive into the boardroom and was instrumental in supporting Orkla in taking calculated risk with an investor mindset. He was also strong support of Orkla's recent transformation into an industrial investment company. He will be deeply missed.

In this period, I now turn over to our review of the quarter, mindful of the values and vision that Stein Erik instilled in the company. Organic growth was 4.9% in the quarter with contribution from all portfolio companies. Growth was particularly high in Orkla Food Ingredients, Orkla Snacks and Orkla Food. Underlying EBIT adjusted growth was 3%, with volume mix growth partly offset by higher costs. Earnings per share adjusted increased by 4% to NOK 1.75.

Alongside the quarterly result, there has also been a change in the board of Orkla Foods. Gilles Morel will become the new Board Chair from June 1. He brings more than 30 years of executive experience from international branded consumer goods companies, including Mars. I want to thank the former Board Chair, Xavier Belison, for his contribution to Orkla Foods over the last two years.

Volume mix growth in the first quarter was 2.2%, another quarter with high – with volume growth. Performance improved on an underlying basis, supported by continued improvement in commercial capabilities with a modest uplift from Easter effects.

Looking to EBIT development across the portfolio. Operational performance in Jotun remained strong with underlying EBIT growth of 16% for the quarter. For the consolidated portfolio, including Orkla ASA, underlying EBIT adjusted growth was 3%. Orkla Snacks and Orkla Food Ingredients contributed especially positively this quarter, while the negative development in Orkla Health weighed on the consolidated results. Operational performance in Orkla India was also stronger than the underlying EBIT adjusted growth indicates due to incentives received from the government of India last year.

Let me give a brief comment on the war in the Middle East. The conflict did not materially affect first quarter results. Direct effects were limited, most notably in Jotun and Orkla India, while the broader portfolio was largely unaffected. Looking ahead, the indirect effects from more – are more uncertain. For the consolidated portfolio, we are seeing upward pressure on energy, freight and packaging-related input costs. The picture is differentiated across the portfolio and mitigating actions are tailored accordingly. Arve will address Jotun specifically. At this stage, we do not expect an inflationary impact comparable to the post-pandemic period, but we are monitoring development closely.

Briefly, the EBIT adjusted margin was 10.5% on a rolling 12-month basis. I will conclude with an update on the consolidated portfolio's three years financial targets set at the 2023 Capital Markets Day. Underlying EBIT adjustment started more slowly in the first quarter but remains on track relatively to our compounded growth target for the strategy period. The EBIT adjusted margin remained within our target range, while return on capital employed was stable at 12.4%.

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

Arve Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

Thank you, Nils, and good morning.

So before turning to the individual portfolio company, I will briefly comment on the overall financial results for the quarter. So beginning with the income statement, reported operating revenues increased by 1.3% to NOK 17.4 billion, while EBIT adjust decreased by 1.3%. And the difference between reported and underlying numbers that Nils mentioned is primarily due to negative currency effects as well as lower contribution from Orkla Real Estate. Other income and expenses were minus NOK 45 million and was mostly related to M&A expenses and ongoing restructuring projects in Orkla Foods and Orkla Health.

Profit from Jotun decreased by 5.8% in the quarter, and I will come back to Jotun in more detail shortly. We also see that net interest costs decreased as a result of lower interest rates and lower debt levels contributing to the 4% increase in adjusted earnings per share. Cash flow from operations amounted to NOK 1.1 billion and declined year-on-year due to higher working capital from strong late quarter sales and increased net replacement investments. We received the first installment of the 2025 Jotun dividend, which last year was received in the second quarter. So cash flow before capital allocation ended at NOK 1 billion, in line with last year.

So turning to the capital allocation bridge. We repurchased shares for NOK 1 billion during the quarter in accordance with the buyback program announced in November. Expansion investments of approximately NOK 100 million relate to increased production capacity across the portfolio. And purchase of companies consists of a bolt-on acquisition in Orkla Food Ingredients. Orkla ended the quarter with a net debt of NOK 13.6 billion, equal to 1 times EBITDA and 0.8 times excluding Orkla Food Ingredients.

So let's continue with the portfolio companies. And as Nils mentioned, Jotun had another strong quarter, while reported numbers once again is influenced by currency effects. So the underlying revenue growth was 9.4% with growth across all segments and regions. Higher volumes and positive mix effects, including increased premium sales contributed positively. Reported operating profit was 5.3% and 16% when adjusted for negative currency effects. This was driven both by increased sales and improved gross margin.

Profit from Jotun to Orkla declined by 5.8% to NOK 617 million. The decline relates to financial items due to lower currency hedging gains and currency losses on intercompany loans. Jotun faces a high degree of uncertainty related to the Middle East conflict, and most importantly, all employees in the region are safe. Jotun experienced reduced revenues from business units within the region in March. At the same time, affected units amounted to only 8% of Jotun Group revenues for the quarter. The indirect effects impact the paints and coating industry globally. The ultimate scope depends on how the conflict develops, but there will be a negative impact regardless.

Jotun's sourcing base is partly linked to global oil price developments and the highest exposure is within Marine and Protective segments. Jotun forecast substantial input cost increases from the second quarter, which are expected to compress gross margins. They are taking mitigating steps to mitigate the impact through price increases, alternative sourcing initiatives, continued cost control and delayed Middle East investments. Nevertheless, mitigating actions will take time to materialize and demand-related effects remain uncertain. Jotun has significant experience in handling geopolitical instability and benefits from a globally diversified portfolio and a clear and consistent long-term strategy.

Moving on to Orkla Foods, which had organic growth of 3.5% in the quarter with 2.3% from volume mix. Organic growth was higher in the prioritized growth platforms than the rest of the portfolio. Volumes were somewhat supported by positive Easter phasing effects in Sweden and Norway as well as the comparison to a quarter with weaker volumes, in particular in Norway last year. Orkla Foods continued to roll out the commercial tools outlined at the Capital Markets update last year. The underlying EBIT growth of 5.1% was mainly driven by volume growth.

In Orkla Snacks, all three categories contributed to volume mix growth, led by cocoa-related recovery in the confectionery category, but also high BUBS demand and positive Easter phasing effects. EBIT improvement was driven by increased volumes as well as contribution improvement from cocoa. The BUBS US rollout continued in the first quarter. It is now available in more than 40,000 stores across the US and BUBS also recently launched a global limited edition collaboration with H&M Beauty. Also, Orkla Snacks continues to invest in building brand within the US market, and BUBS US was therefore not a significant contributor to EBIT in the quarter.

Organic growth in Orkla Home & Personal Care was 3.3%, while underlying EBIT grew by 9.1%. Volume growth in Norway and Sweden reflected both a continued positive underlying development as well as Easter timing. Underlying EBIT growth was driven by volume growth and cost control. And the company had positive market share development in both Norway and Finland, while the development in Sweden was stable.

Organic growth in Orkla Food Ingredients was 5.4%, driven by volume growth across all clusters. The Bakery cluster was also aided by the timing of Easter. Underlying EBIT growth was 10%, led by Sweet Ingredients, where volume mix, price and efficiency improvements all contributed positively. Bakery also supported EBIT growth, while plant-based declined slightly due to product mix effects. The organic growth of 1.3% in Orkla Health was driven by price in most markets. Excluding the isolated phasing effects previously communicated from Q4 to Q1, volume development was weak in food supplements and functional Personal Care categories.

Cod liver oil prices remained a drag on both volume and margins. Underlying EBIT declined due to lower volumes, negative mix effects and higher costs. Orkla Health is taking measures to reduce the cost base and announced the planned closure of three factories, two of which are related to the food supplements business. While these measures will improve profitability over the long term, we anticipate negative impacts related to the wind down of the factories going forward. With this backdrop, we expect this to be a challenging year for Orkla Health.

Management is currently defining the long-term strategy within the new operating model and will present at the Capital Markets Day in December. Orkla India's organic growth was 2.8% in the quarter, mainly driven by price increases to offset higher costs for key raw materials. Adjusting for grants received from the Government of India in the first quarter last year of NOK 26 million, organic growth was 6.5%. Underlying EBIT declined by 7.8%, partly impacted by higher freight costs arising from the Middle East conflict. Adjusted for government grants, underlying growth was 16%.

In The European Pizza Company, all businesses delivered same-store sales growth with overall organic growth of 4.9% and consumer sales growth of 8.9%. The growth in consumer sales was led by Kotipizza in Finland with 14% growth from our renewed brand strategy and targeted growth initiatives. Underlying EBIT improved by 13%, supported by Kotipizza and New York Pizza.

And we are happy to see that the two smallest portfolio companies showed continued positive momentum. Orkla Healthcare reported growth of 4.4% in the quarter with an underlying EBIT growth of 10%. Health and Sports Nutrition Group delivered organic growth of 3.4% and underlying EBIT growth of 26%.

With that, I'll hand it back to you, Nils, for the closing remarks.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

Thank you, Arve.

Returning to our three strategic priorities. We continue to drive organic value within the existing portfolio with progress in line with consolidated targets. We are also reducing complexity across the portfolio, including targeted divestment at the portfolio company level. Recent examples include the divestments by Orkla Food Ingredients and Orkla Snacks of noncore operation in Iceland.

Lastly, in times like this, we benefit from our strong balance sheet and a diversified portfolio. This provides the flexibility to act on value accretive opportunities should they arise.

With that, Arve and I are happy to take your questions. Thank you.

QUESTION AND ANSWER SECTION

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Welcome back. And we're now ready to start the Q&A. We're going to begin with the video Q&A with the analysts, and you're welcome to submit questions via the web as well and we'll take those afterwards.

So it looks like our first question comes from Ole Martin Westgaard in DNB Carnegie. Please remember to unmute yourself as well. Just one moment. We're having a little trouble with the sound.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Heard now?

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Yes. Now, we hear you.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Yeah. Perfect. Okay. So you highlighted in the quarter that there has been some Easter impact. Can you be a bit more specific on how we should think about this and the potential impacts on the second quarter of these timing effects?

Arve Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

A

Yes. We haven't quantified it, but let's say that it's not an important driver to the growth, but it's a support effect for the Q1. And typically, if it's a support effect on Q1, it has the opposite effect in Q2.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Okay.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

I've been saying that Q1 actually still reflect the underlying trend fairly is what we also want to highlight.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Okay. And then on Health, you highlight that this will be a challenging year for Health. You're closing down three factories. Can you give some more color on what will potential cost of this? How big are these factories? And

when will that cost hit the P&L? And also that comment with this being a challenging year, is that more reflected to the demand side or is that reflecting the cost side of the closing of these factories?

Ave Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

A

To start with the last one, when I've said that it should be a challenging year, it's – I would say it reflects that if you look back on the Orkla Health ambitions presented on the Capital Markets Day in 2023, they're obviously lagging the plans. And we see that they are still struggling on both volume growth in several categories a too high cost base and also an increased raw materials in certain of the categories. So that in combination will – it's guiding that its overall profitability in Orkla Health, we don't expect that to be satisfactory for this year in total.

When we are like 30% back on Q1, I wouldn't say that that's representative for the full year, but still, it's guiding that it's still challenging times, both on top line and on the cost base for the coming quarters as well. And then we have these factory closures, which it will add on that. We'll say that these factories will be closed up until the end of next year. So it will be a gradual impact over the coming quarters.

We don't know yet internally either how that will affect the cost base. It would obviously be some double cost in the wind-down period in the coming quarters that will have a negative impact on the quarters in the short end, but with the clear ambitions to increase profitability in the longer term.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Okay. And then a final question on BUBS and the US launch, it looks quite significant. Can you give some indication of how much this contributed to the overall organic growth in snacks? And I understand that probably the impact on EBIT was not that significant, but how was the impact on the organic growth?

Ave Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

A

It's a part of the very positive development in snacks. Let's say that the cocoa recovery in the chocolate segment is the bigger contributor. But still the very high demand on BUBS is also a contributor to the volume growth in the confectionery category in snacks in this quarter as well.

Ole Martin Westgaard

Analyst, DNB Bank ASA

Q

Okay. Thank you.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

Question is from Andrei Condrea in UBS.

Andrei Condrea

Analyst, UBS AG (London Branch)

Q

Hi. Good morning. And thank you very much for taking my questions. Two from me, please. Now on the outlook for the remainder of 2026, a lot has changed since you last reported your full year earnings. How has your thinking changed as a result given obviously what we're seeing on the ground and impact on costs and potentially demand over the longer term? And perhaps tied to it, a few of your peers have come out with various oil price

scenarios and potential dollar, in your case NOK impact. Anything you can share on that and whatever mitigation options you have at your disposal?

And secondly, sorry, just on Jotun, obviously it drives a big part of your profits, thanks to its outstanding growth. But how are they thinking or are you thinking about the outlook for 2026, particularly in terms of top line and profits and contribution to your business? Thank you.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

So what – we normally don't guide or we don't guide to say so. I think Jotun have been and we have stated that in the report as well that it will be a significant increase of input cost through this year. We are not specific on that increase. And when it comes to our consolidated portfolio companies, we have been guiding that this will affect energy prices, freight prices and packaging specifically. And also, we will also see some inflation impact other part of the portfolio as well.

But as we have said in the report that this is something that is handled through our portfolio companies and is discussed in the different board room. So this time, we don't expect the same huge effect as we saw from the post-pandemic inflation. We will see much more specifically kind of initiatives to mitigate this through the portfolio of companies.

Andrei Condrea

Analyst, UBS AG (London Branch)

Q

Understood. Thank you.

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

It looks like our next question is from Petter Nystrøm in ABG Sundal Collier.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Q

Yeah. Thanks for taking my question. I think I have three. A follow-up on the health question from Ole Martin. Is it possible to say if the cost or call it the restructuring costs here will be booked under the segment or under the other income and expenses?

Ave Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

A

This is too early, Petter, to give any clear guidance on this. It's decided in the board of Orkla Health to close down these three factories. That will be – it's a gradual wind down of the next quarters up until the end of next year. So any amount when it comes to costs, double costs, increased costs and possibility of any write-downs of balance sheet items, et cetera, it's not quantified internally either. So I can't answer that at this time.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Q

Understood. And then on India, how should we think about these government grants for the remaining of 2026? Previously, we have seen the segment receiving these grants from time to time. So yeah, what should we think about that for the remaining of the year?

Arve Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

A

Yeah. We have no possibility to guide on if we are to receive any grants for the remaining of the year. It's linked to production. So – and it's very hard to calculate going in the future how that will – if we are able to receive anything. What we can say is that the current program is ending at the end of March 2027. But how it will – if we receive anything, how it will impact the numbers, we are not able to guide, unfortunately.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Q

Thanks for that. And then final question for the Branded Consumer Goods portfolio companies. I think Nils and Arve you've highlighted that you're seeing higher freight costs, packaging costs and energy costs. Is this an effect that we will start to see already in the second quarter? Or is this more like a second half effect?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

I think, first of all, this picture is kind of changing every day, Petter. So it's very hard to guide on that. But we don't expect to see that huge effect in Q2. So this will come gradually through the year is the only guiding that we will give you.

Petter Nystrøm

Analyst, ABG Sundal Collier ASA

Q

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

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

A

It looks like our next question is from Håkon Fuglu in SEB.

Håkon Fuglu

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Q

Yes. Good morning, all. Thank you for taking my question. It's regarding Jotun. You talked about price increases already in the first quarter. Are you able to quantify that?

Arve Regland

Chief Financial Officer & Executive VP-Finance, Orkla ASA

A

You mean price on the raw materials, Håkon?

Håkon Fuglu

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Q

No. Price increases towards customers.

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

Some closure of factories in the Middle East for a short period of time through the Middle East crisis, of course, that affected the numbers in Q1 slightly, but no huge effect at all. If you look at Jotun, 8% of their kind of business is kind of affected by the Middle East – directly affected by the Middle East crisis.

Håkon Fuglu

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Q

I see. But did you comment that you already raised prices towards your end customers to mitigate for the input costs?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

That – I don't think we will guide you on that. I think that is – as we are operating our consolidated portfolio companies, we give them freedom to act. That's the same way Jotun is operating their business. So different measures are taken in the different regions and countries throughout the world in Jotun.

Håkon Fuglu

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Q

Thank you. And just a follow-up there on Jotun. Could you compare this sort of raw material crisis and compare that to what we saw in 2022?

Nils Kloumann Selte

President & Chief Executive Officer, Orkla ASA

A

No. In general, I don't expect to have the same huge effect as we saw both for the consolidated portfolio companies and Jotun. As I said, this is not like what we see back in the post-pandemic inflation period.

Håkon Fuglu

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Q

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

Annie Bersagel

Senior Vice President-Investor Relations & Communication, Orkla ASA

That seems to be the last question that we have on video and it doesn't look like we have any questions from the web.

So with that, just before we conclude, I want to remind you that we report Q2 results on August 20. And otherwise, thank you for joining and please enjoy the rest of your day.

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