Second quarter results 2020

13 July 2020

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Navigating short-term uncertainty while delivering on strategic agenda

Delivering on our short term priorities…

- Safeguard our employees
- Ensure supply of our products
- Maintain strong balance sheet

…and executing on long term initiatives

- Adapt to rapid changes in consumer behavior
- Support long term growth plans
- Execute on strategic M&A

Financial performance

Harald Ullevoldsæter, CFO

Highlights Q2-20

Profit improvement from growth in grocery and temporary cost actions

- Operating profit for Branded Consumer Goods incl. HQ improved by 16%, with positive impact from currency translation effects and M&A
- Strong market growth in grocery retail driven by higher in-home consumption despite a reverse stockpiling effect in April
- Significant drop in Out of home eating, but with gradual improvement during the quarter
- Continued profit improvement for Jotun
- Adjusted EPS* increased by +18% to NOK 1.10

Note: *All Alternative Performance Measures (APM) are presented in the appendix

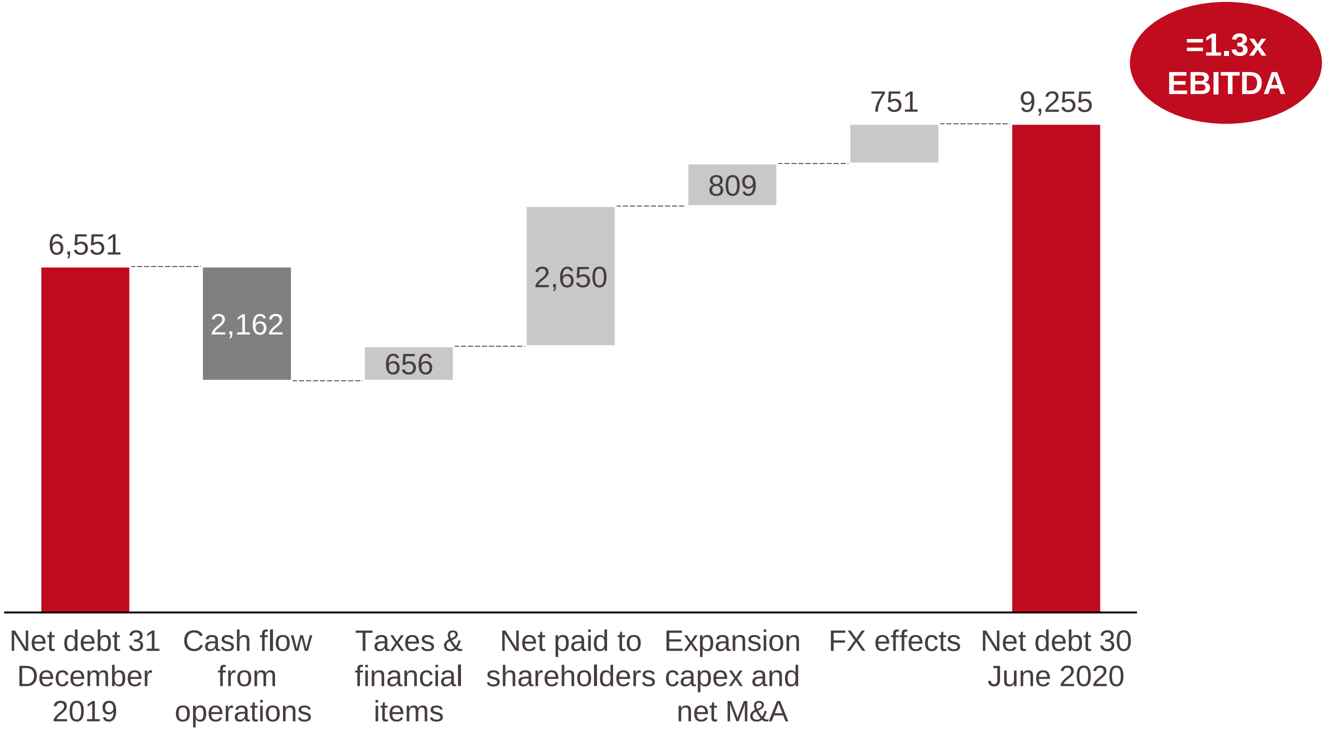
Adj. EPS +18% from profit growth in Branded Consumer Goods and Jotun

Key figures	Q2-20	Q2-19	∆ Q2
Operating revenues BCG	**10,981**	10,337	+6%
EBIT (adj.) BCG	**1,290**	1,142	+13%
EBIT (adj.) HQ	**-70**	-94	+26%
EBIT (adj.) BCG incl. HQ	**1,220**	**1,048**	**+16%**
EBIT (adj.) Industrial & Financial Investments	**-15**	61	-125%
Other income and expenses	**-176**	-39	
EBIT	**1,029**	**1,070**	**-4%**
Profit from associates	**248**	181	+37%
Net interest and other financial items	**-77**	-73	
Profit before tax	**1,200**	**1,178**	**+2%**
Taxes	**-240**	-250	
Profit after tax	**960**	**928**	**+3%**
Adjusted EPS (NOK)	**1.10**	**0.93**	**+18%**
Reported EPS (NOK)	**0.95**	0.90	+6%

Strong cash flow from higher earnings and improved working capital

Cash flow from operations per 30.06 (pre-tax)	**YTD Q2-20**	**YTD Q2-19**
Orkla Branded Consumer Goods (BCG, incl. HQ)		
EBIT (adj.)	**2,323**	1,983
Amortisation and depreciation	**881**	769
Change in net working capital	**105**	-364
Net replacement investments	**-1,101**	-767
Total BCG cash from operations (pre OIE)	**2,208**	1,621
Cash flow from other income & exp. and pensions	**-109**	-191
Industrial & Financial Investments	**63**	-24
Total Orkla cash flow from operations	**2,162**	1,406

Continued strong balance sheet and financial flexibility after dividend payment and completed M&A



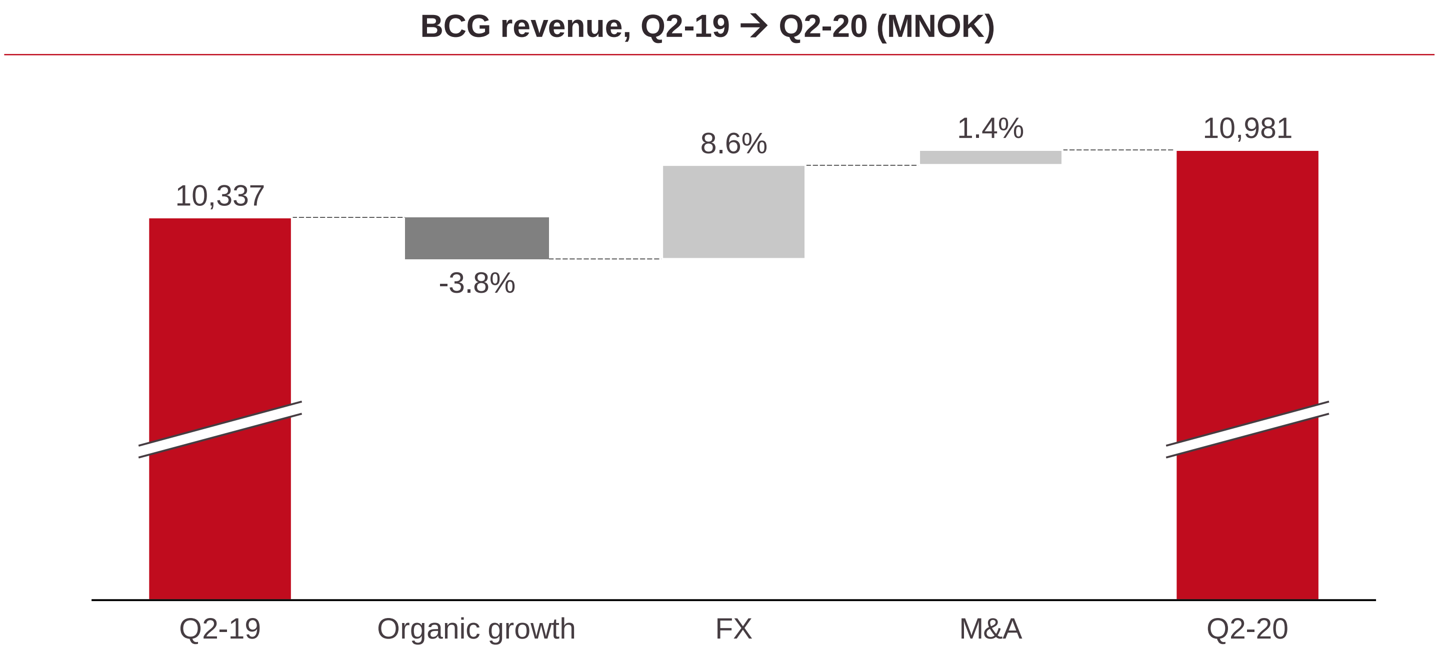
 Amounts in NOK million

Orkla

Branded Consumer Goods

Branded Consumer Goods Q2-20:

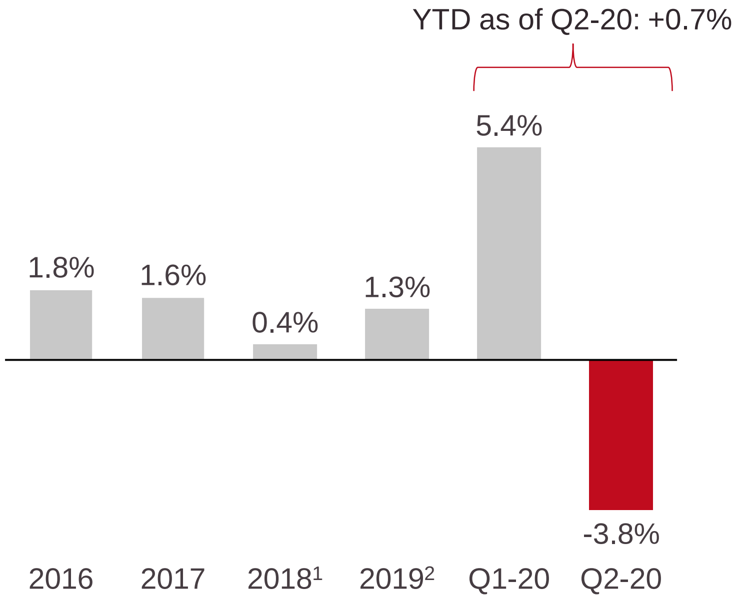
Significant positive FX translation effects in Q2



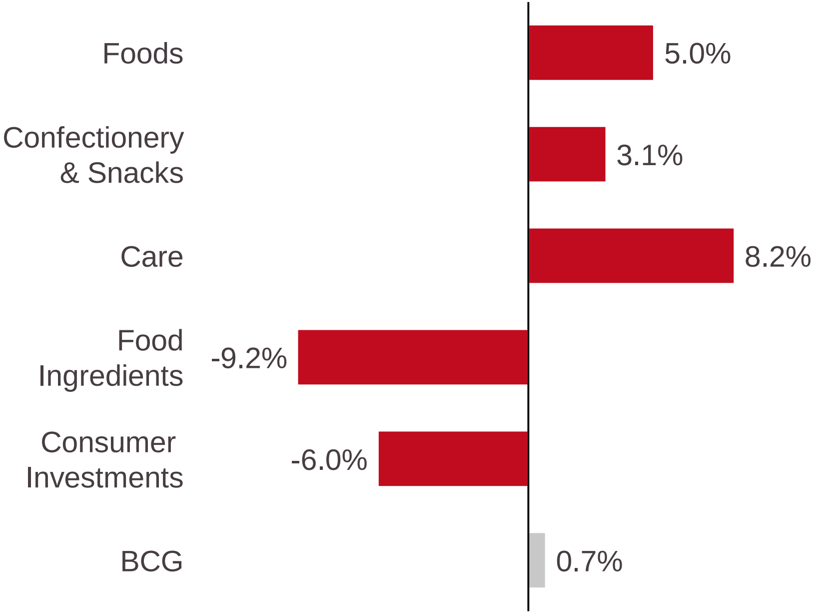
 Amounts in NOK million

Branded Consumer Goods:
Strong growth in grocery retail offset by lower Out of home consumption

Organic growth for Branded Consumer Goods



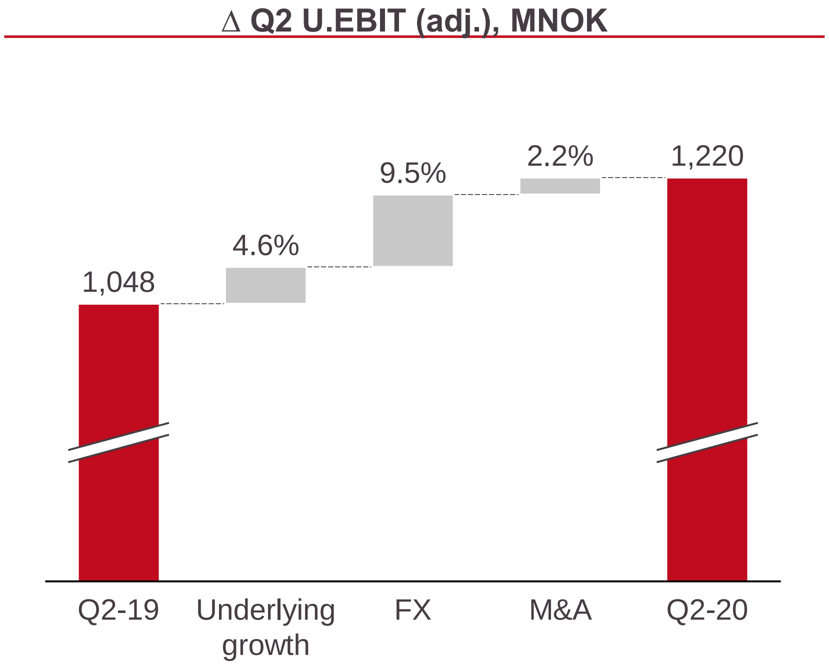
Organic growth YTD as of Q2-20 by business area

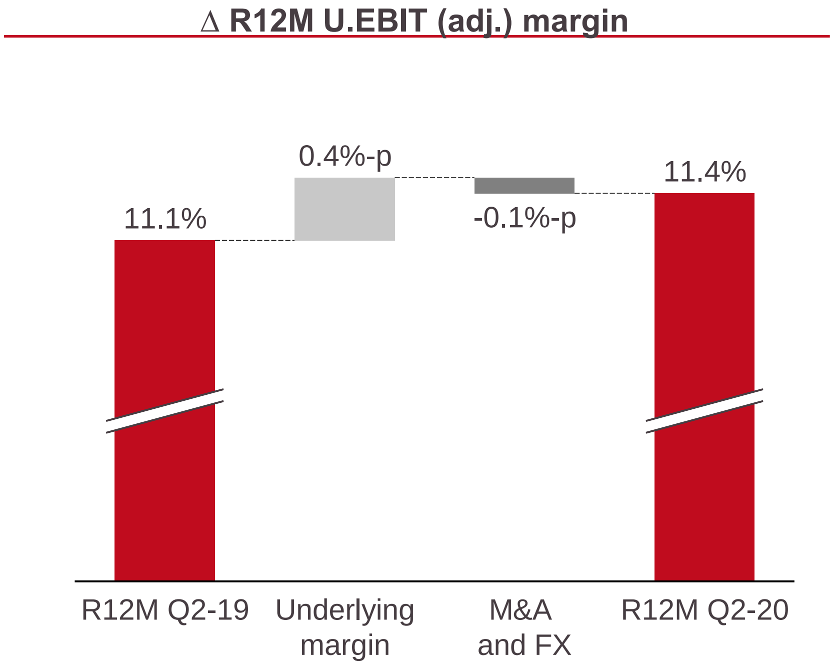


All Alternative Performance Measures (APM) are presented in the appendix.
[1]Adjusted for loss of Wrigley distribution agreement [2]Based on new reporting structure

Branded Consumer Goods incl. HQ:

Profit improvement in all business areas except Food Ingredients





 Note: Figures may not add up due to rounding

Business areas

Orkla Foods

Strong organic growth YTD, significant phasing of sales between Q1 & Q2

	Q2-20	**YTD Q2-20**
Revenues	**4,338**	**8,956**
Organic growth	***-0.7%***	***5.0%***
EBIT (adj.)	**606**	**1,141**
EBIT (adj.) growth	***22.2%***	***23.2%***
EBIT (adj.) margin	**14.0%**	**12.7%**
Change vs LY	***1.8%-p***	***1.1%-p***

- Higher in-home consumption drives market growth in grocery, Orkla sales in Q2 partly offset by retail and consumer destocking
- Lower Out of home consumption with significant negative impact on sales, gradually improving
- Covid-19 related cost actions had positive impact on Q2 earnings
- Headwind from higher input cost (incl. FX)

 Revenues and EBIT (adj.) figures in NOK million

Orkla Confectionery & Snacks

Strong market & sales growth in the Nordics, demand shortfall in the Baltics

	Q2-20	YTD Q2-20
Revenues	**1,724**	**3,326**
Organic growth	***4.1%***	***3.1%***
EBIT (adj.)	**241**	**450**
EBIT (adj.) growth	***26.2%***	***11.9%***
EBIT (adj.) margin	**14.0%**	**13.5%**
Change vs LY	***1.4%-p***	***0.2%-p***

- Continued higher grocery sales in the Nordics offset by demand shortfall in the Baltics and lower sales in Denmark (listing)
- Non-periodic items with positive impact on organic growth and earnings in the quarter
- Headwinds from higher input cost (incl. FX)

 Revenues and EBIT (adj.) figures in NOK million

Stricter hygiene requirements continue to drive growth in HPC categories

	Q2-20	YTD Q2-20
Revenues	**1,643**	**3,331**
Organic growth	***5.3%***	***8.2%***
EBIT (adj.)	**243**	**540**
EBIT (adj.) growth	***26.6%***	***30.8%***
EBIT (adj.) margin	**14.8%**	**16.2%**
Change vs LY	***1.2%-p***	***1.8%-p***

- Strong market driven growth in HPC and Health categories partly offset by decline in international Wound Care sales during lockdown
- Headwinds from higher input cost, primarily related to weaker NOK
- Turnaround program starting to impact cost and earnings, full effect towards end of year
- Compared with weak Q2-19

 Revenues and EBIT (adj.) figures in NOK million

Significant top and bottom line impact of drastic drop in Out of home consumption, encouraging recovery towards end of quarter

	Q2-20	YTD Q2-20
Revenues	**2,469**	**5,043**
Organic growth	***-16.3%***	***-9.2%***
EBIT (adj.)	**101**	**172**
EBIT (adj.) growth	***-48.2%***	***-36.8%***
EBIT (adj.) margin	**4.1%**	**3.4%**
Change vs LY	***-3.4%-p***	***-2.2%-p***

- Out of home sales index of 40-60 in April improved to 80-90 in June
- Drop in sales partly counteracted by profit protection measures reducing fixed cost
- No material credit losses or obsolete inventories
- Outlook remains uncertain and depends on how the pandemic evolves




 Revenues and EBIT (adj.) figures in NOK million

Demand boost for home improvement and resilient pizza franchise in Finland drove earnings growth in the quarter

	Q2-20	YTD Q2-20
Revenues	**900**	**1,827**
Organic growth	***-8.1%***	***-6.0%***
EBIT (adj.)	**99**	**191**
EBIT (adj.) growth	***45.6%***	***22.4%***
EBIT (adj.) margin	**11.0%**	**10.5%**
Change vs LY	***2.8%-p***	***0.9%-p***

- Strong growth in painting tool sales in Nordics and Benelux, partly offset by drop in UK during lockdown
- Kotipizza franchise resilient during coronavirus outbreak with all time high pizza sales in May and profit growth in Q2. Wholesaler sales of ingredients to external customers down during lockdown
- Textile business still hampered by restrictions. Exiting Swedish market from 2H 2020




 Revenues and EBIT (adj.) figures in NOK million

Historically low power prices in the quarter at 4.9 øre/KWh

Hydro Power

Fully consolidated into Orkla's financial statements

Volume (GWh):

Q2: 685 (519)
YTD: 1,329 (995)

Power prices[1] (øre/KWh):

Q2: 4.9 (35.9)
YTD: 10.1 (41.5)

EBIT adj. (NOK million):

Q2: -19 (69)
YTD: 20 (142)

Financial Investments

Fully consolidated into Orkla's financial statements

Book value real estate:
NOK 1.8 billion

Jotun (42.6%)

Accounted for using equity method

JOTUN

[1]Source: Nord Pool (monthly spot area prices Oslo and Kristiansand)

Orkla

Closing remarks

Navigating through coronavirus crisis with satisfying performance

- Satisfactory earnings growth from Branded Consumer Goods and Jotun YTD
- Still uncertainty going forward
- Executing on long term initiatives
- Our brands and organisation have proven resilient

Q&A

Jaan Ivar Semlitsch, President & CEO

Harald Ullevoldsæter, CFO

Appendices

Alternative Performance Measures (APM)

Organic growth

Organic growth shows like-for-like turnover growth for the Group's business portfolio and is defined as the Group's reported change in operating revenues adjusted for effects of the purchase and sale of companies and currency effects. In the calculation of organic growth, acquired companies will be excluded 12 months after the transaction date. Sold companies will be excluded pro forma 12 months prior to the transaction date. Currency effects are neutralised by translating this year's turnover at last year's exchange rates.

Organic growth is included in segment information and used to identify and analyse the turnover growth in the existing business portfolio. Organic growth provides an important picture of the Group's ability to carry out innovation, product development, correct pricing and brand-building.

EBIT (adj.)

EBIT (adj.) shows the Group's current operating profit before items that require special explanation, and is defined as reported operating profit or loss before "Other income and expenses" (OIE). These include M&A costs, restructuring or integration expenses, any major gains and write-downs on both tangible and intangible assets, and other items that only to a limited degree are reliable measures of the Group's current profitability. EBIT (adj.) margin and growth are derived figures calculated in relation to operating revenues.

EBIT (adj.) is one of the Group's key financial figures, internally and externally. The figure is used to identify and analyse the Group's profitability from normal operations and operating activities. Adjustment for items in OIE which to a limited degree are reliable measures of the Group's current operating profit or loss increases the comparability of profitability over time.

Change in underlying EBIT (adj.)

Change in underlying EBIT (adj.) shows like-for-like EBIT (adj.) growth for the Group's business portfolio and is defined as the Group's reported change in EBIT (adj.) adjusted for effects of the purchase and sale of companies and currency effects. In calculating the change in underlying EBIT (adj.), acquired companies will be included pro forma 12 months before the transaction date. Sold companies will be excluded pro forma 12 months prior to the transaction date. Currency effects are neutralised by calculating this year's EBIT (adj.) at last year's currency exchange rates. Underlying EBIT (adj.) margin and change therein are derived figures calculated in relation to operating revenues.

Underlying EBIT (adj.) growth is used for internal management purposes, including for identifying and analysing underlying profitability growth in the existing business portfolio, and provides a picture of the Group's ability to develop growth and improve profitability in the existing business. The measure is important because it shows the change in profitability on a comparable structure over time.

Alternative Performance Measures (APM)

Earnings per share (adj.)

Earnings per share (adj.) show earnings per share adjusted for other income and expenses (OIE) after estimated tax. Items included in OIE are specified in Note 3. The effective tax rate for OIE is lower than the Group's tax rate in both 2020 and 2019 due to non-deductible transaction costs, write-downs and the effect on profit or loss of the purchase of the remaining shares in Orchard Valley Foods in 2020.

If other items of a special nature occur under the company's operating profit or loss, adjustments will also be made for these items. As at 30 June, an adjustment was made for gains on the sales of the associates Andersen & Mørck and Allkärsplans Utvecklings.

Net replacement and expansion investments

When making decisions regarding investments, the Group distinguishes between replacement and expansion investments. Expansion investments are the part of overall reported investments considered to be investments in either new geographical markets or new categories, or which represent significant increases in capacity.

Net replacement investments include new leases, and are reduced by the value of sold fixed assets to sales value.

The purpose of this distinction is to show how large a part of the investments (replacement) mainly concerns maintenance of existing operations and how large a part of the investments (expansion) is investments which must be expected to generate increased contributions to profit in future, exceeding expectations of normal operations.

Net interest-bearing liabilities

Net interest-bearing liabilities are the sum of the Group's interest-bearing liabilities and interest-bearing receivables. Interest-bearing liabilities include bonded loans, bank loans, other loans, lease liabilities and interest-bearing derivatives. Interest-bearing receivables include liquid assets, interest-bearing derivatives and other interest-bearing receivables.

Net interest-bearing liabilities are the Group's primary management parameter for financing and capital allocation, and is used actively in the Group's financial risk management strategy. The statement of cash flows (Orkla format) therefore shows the change in net interest-bearing liabilities at Group level.

Structure (acquired and sold companies)

Structural growth includes adjustments for the acquisition of the businesses Norgesplaster, Lecora, Easyfood, Confection by Design, Win Equipment, Risberg, Kanakis, Credin Sverige, Vamo, Kotipizza, Anza Verimex and Helga and adjustments for the sale of Glyngøre and SaritaS. Adjustments have also been made for the loss of the distribution agreements with Panzani and OTA Solgryn. In addition, adjustments were made in 2019 for HSNG, Struer, County Confectionery, Werner, Igos, Gorm's and the sale of Mrs. Cheng's.

Continued growth and increased profitability

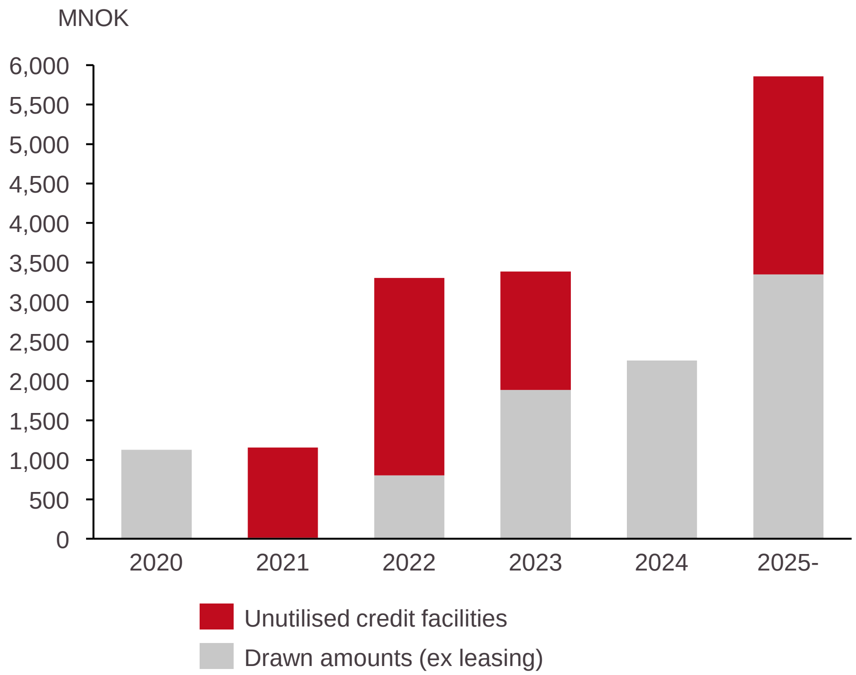
	YTD Q2-20
Operating income	10,405
Change vs LY	*9.9%*
Operating profit	1,771
Change vs LY	*31.3%*

- Sales growth driven by positive FX translation effects
- Low underlying sales growth is mainly attributable to the coronavirus pandemic
- Earnings driven by both sales and improved gross margins
- Still considerable uncertainty around the consequences of the corona pandemic going forward.

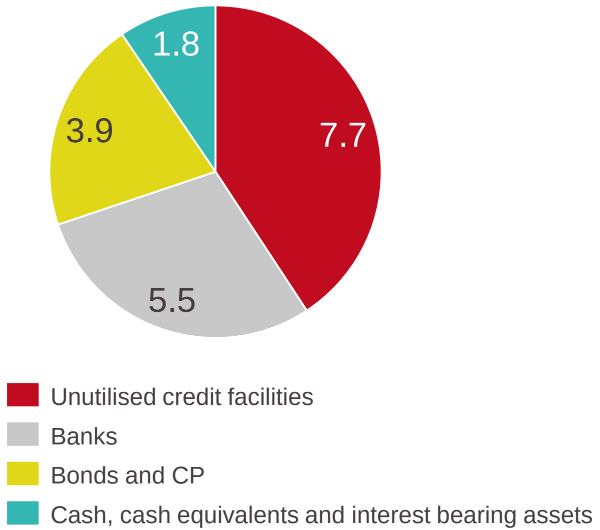
 Financial figures in NOK million

Funding sources and maturity profile

Debt maturity → average maturity 3.5 years

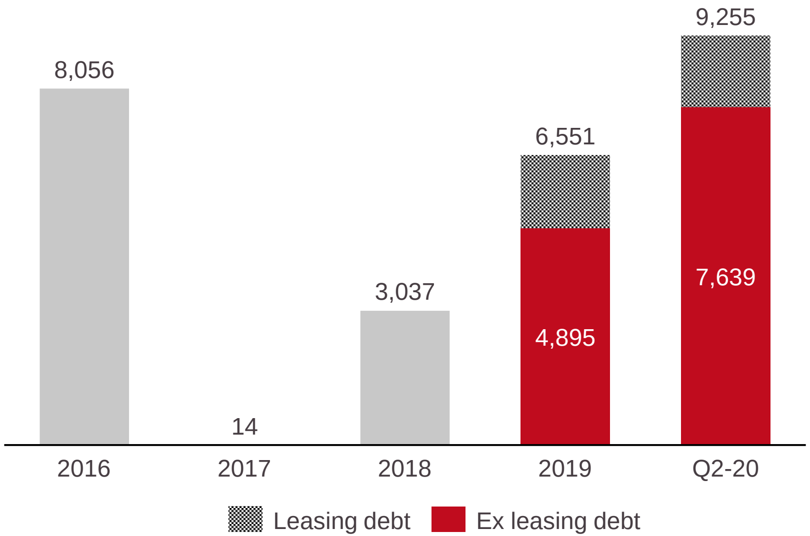


Funding sources (in BNOK)

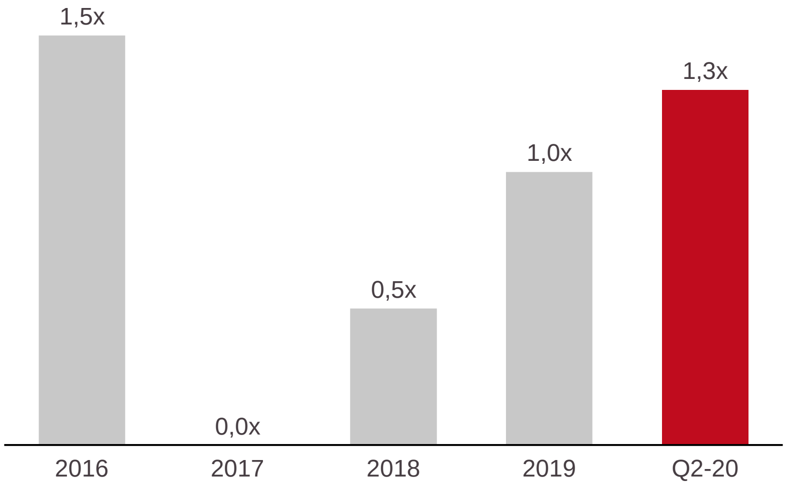


Strong balance sheet and financial flexibility

Net interest-bearing liabilities (NOK million)



NIBD / R12 EBITDA



 Amounts in NOK million