Orkla ASA
Kingdom of Norway, Consumer Products

A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	25.0x	9.4x	10.2x	11.2x
Scope-adjusted debt/EBITDA	2.0x	2.2x	1.8x	1.8x
Scope-adjusted funds from operations/debt	41%	31%	41%	43%
Scope-adjusted free operating cash flow/debt	9%	18%	22%	24%

Rating rationale

The rating affirmation reflects Orkla's continued strong credit metrics underpinned by a leverage below 2.0x and an improving yet moderate profitability. Moreover, the rating is supported by Orkla's good competitive positioning within consumer branded products in its home Nordic markets, presence in numerous product categories as well as business diversification into specialty chemicals and hydro power, partly offset by limited geographical diversification.

Outlook and rating-change drivers

The Stable Outlook reflects the expectation of gradually improving profitability thanks to easing input cost inflation, with EBITDA margin of above 14% over time and leverage remaining below 2.0x, amid the absence of transformational deals. The Outlook also incorporates our expectation that Orkla will likely not use its leverage potential to the maximum leverage ratio as defined by the company (net debt/EBITDA) of 2.5x over the foreseeable future.

The upside scenarios for the ratings and Outlooks are (individually or collectively):

- Debt/EBITDA improving to below 1.0x.
- (Remote) Improvement of the business risk profile, driven by increased international market presence and global brands and/or improving profitability.

The downside scenario for the ratings and Outlook is:

- Debt/EBITDA deteriorating to above 2.0x on a sustained basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
9 Jan 2025	Affirmation	A-/Stable
10 Jan 2024	Affirmation	A-/Stable
11 Jan 2023	Affirmation	A-/Stable

Ratings & Outlook

Issuer	A-/Stable
Short-term debt	S-1
Senior unsecured debt	A-

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Related Methodologies

General Corporate Rating Methodology; October 2023

Consumer Products Rating Methodology; October 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Strong competitive positions in main markets, with 80% of revenues from brands with top two market positions in their respective markets • Moderate business diversification into hydropower (partial ‘natural hedge’ for energy costs) and chemicals, supporting margin stability • Strong financial metrics, with leverage expected to remain at or below 2x • Wide product offering across food and non-food consumer products, with more than 300 brands • Strong blended industry risk profile, characterised by low cyclicality • Portfolio of numerous highly recognised local brands, yet no global brand • Track record of prudent financial leverage policy	• Geographical concentration of sales in the Nordics of around 60% • Moderate profitability, with consumer products companies pressured by elevated input cost inflation in past few years • Higher indebtedness in past few years driven by acquisitions and working capital requirements • Weak yet recovering volume growth trend, with rising competitive pressure from private labels in past years • Shareholder-friendly approach, with dividend payout ratio between 50-70% of previous year’s net profit, which limits quick deleveraging

Positive rating-change drivers	Negative rating-change drivers
• Debt/EBITDA improving to below 1.0x. • (Remote) Improvement of the business risk profile, driven by increased international market presence and global brands and/or improving profitability	• Debt/EBITDA deteriorating to above 2.0x on a sustained basis

Corporate profile

Orkla ASA is a Norwegian industrial investment company, focusing its activities on brands and consumer-oriented enterprises. Orkla is a leading supplier of branded consumer goods to the grocery, out-of-home, specialised retail, pharmacy, and bakery sectors. Its primary operational markets include the Nordics, the Baltics, and selected countries in Central Europe and India.

Orkla's portfolio comprises 11 companies, along with financial investments in Hydro power and real estate. The portfolio companies are as follows: Foods Europe, India, Food Ingredients, Confectionery & Snacks, Health, Home & Personal Care, The European Pizza Company, House Care, Health and Sports Nutrition Group, Pierre Robert Group and Jotun A/S (with a 42.7% minority ownership, accounted for using the equity method). One portfolio company, Lilleborg AS, was sold in June 2024.

Orkla owns over 300 brands, with notable ones including Felix, MTR, Abba Seafood, Sætre, TORO, Stabburet, Grandiosa, Eastern, Idun, Hame, Beauvais, Naturli, Anamma, Göteborgs Kex, Kims, Nidar, OLW, Panda, Taffel, Adazu, Møllers, Define, Jordan, Nutrilett; Bodystore, Gymgrossisten; Blenda, Grumme, Jif, Sun, Zalo, Harris, and Oslo Skin Lab. The company is listed on the Oslo Stock Exchange, employs over 20,000 people globally, and generates approximately NOK 68bn in annual turnover. The largest owner is Stein Erik Hagen (Orkla’s Chairman) and his family, holding an aggregate 25% stake.

Financial overview

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**LTM 9M 2024**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	24.4x	9.4x	10.3x	10.2x	11.2x	11.6x
Scope-adjusted debt/EBITDA	2.0x	2.2x	1.9x	1.8x	1.8x	1.8x
Scope-adjusted FFO/debt	41%	31%	40%	41%	43%	42%
Scope-adjusted FOCF/debt	9%	18%	30%	22%	24%	24%
Scope-adjusted EBITDA in NOK m						
Reported EBITDA	9,154	9,220	9,915	9,912	10,460	10,997
Operating lease payment	-	-		-	-	-
Recurring associate dividends received	328	365	948	948	950	500
Other items (incl. one-offs)	(74)	(60)	(60)	-	-	-
Capitalised expenses	-	-		-	-	-
Scope-adjusted EBITDA	**9,408**	**9,525**	**10,803**	**10,860**	**11,410**	**11,497**
Scope-adjusted funds from operations (FFO) in NOK m						
Scope-adjusted EBITDA	9,408	9,525	10,803	10,860	11,410	11,497
less: Scope-adjusted interest	(385)	(1,018)	(1,052)	(1,068)	(1,021)	(992)
less: taxes paid	(1,400)	(2,032)	(1,382)	(1,497)	(1,634)	(1,663)
Other non-operating charges before FFO	55	-	-	-	-	-
Scope-adjusted FFO	**7,678**	**6,475**	**8,369**	**8,295**	**8,755**	**8,843**
Scope-adjusted free operating cash flow (FOCF) in NOK m						
Scope-adjusted FFO	7,678	6,475	8,369	8,295	8,755	8,843
Working capital changes	(2,595)	674	636	(437)	(399)	(340)
Non-operating cash flow	-	-	-	-	-	-
less: Capex (net)	(2,777)	(2,753)	(2,083)	(2,800)	(2,800)	(2,800)
less: lease amortisation	(547)	(630)	(630)	(630)	(630)	(630)
Other items	-	-		-	-	-
Scope-adjusted FOCF	**1,759**	**3,766**	**6,292**	**4,428**	**4,926**	**5,072**
Scope-adjusted interest in NOK m						
Net cash interest per cash flow statement	353	917	951	967	920	891
add: interest component on operating leases	-	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	-	-	-	-	-
add: other interest (pension, capitalised interest)	32	101	101	101	101	101
Scope-adjusted interest	**385**	**1,018**	**1,052**	**1,068**	**1,021**	**992**
Scope-adjusted debt in NOK m						
Reported financial debt	19,068	20,488	20,533	20,208	20,208	20,266
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-	-
less: cash and cash equivalents	(1,502)	(1,215)	(1,145)	(1,562)	(1,097)	(805)
add: non-accessible cash	414	345	345	345	345	345
add: pension adjustment	916	1,041	1,041	1,041	1,041	1,041
add: operating lease obligations	-	-	-	-	-	-
add: asset retirement obligations	-	-	-	-	-	-
add: other debt-like items	-	-		-	-	-
Scope-adjusted debt (SaD)	**18,896**	**20,659**	**20,774**	**20,031**	**20,497**	**20,846**

Orkla ASA

Kingdom of Norway, Consumer Products

Table of Content

Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

ESG credit-neutral

While Orkla is exposed to a series of relevant ESG factors, we believe those to be credit neutral. In general, the key environmental risks for a consumer products company derive from the intensive energy and water consumption during production, carbon emissions and circular economy. On the social side, major risks concern the trend towards healthier food (which requires product innovation) as well as reputational/litigation risks related to product safety and sustainable sourcing.

Environmental factors

The ESG strategy of Orkla towards 2025 targets all the relevant material ESG factors. Please note that updated ESG targets are expected to be announced shortly. On the environmental side, current key targets include: i) over 60% renewable energy in own operations; ii) reduction of scope 1 & 2 greenhouse gas emissions[2] by 65% (70% by 2030); iii) 30% reduction in energy and water consumption; iv) 50% reduction in food waste; v) 100% recyclable packaging; vi) 75% of packaging made of recycled materials.

Trend of healthier diet

On the health side, Orkla is increasing the portion of products that promote a healthier diet (20% of sales by Orkla Foods Europe, Orkla India, Orkla Confectionery & Snacks and Orkla Food Ingredients in 2023). Its stated goal of reducing salt and sugar consumption by 15% by 2025. Moreover, Orkla is increasing its product offering towards plant-based dairy and meat alternatives.

Supply chain considerations

On company-specific risks, we also see Orkla exposed to supply chain risks since two key raw materials are cocoa (primarily sourced in Africa) and palm oil (which is linked to deforestation risk). In both cases, but also for sourcing in general, Orkla has established a framework for verifying its suppliers and promoting sustainable agricultural practices.

Overall, no drivers of the credit rating are considered ESG-related factors with a substantial impact on the overall assessment of credit risk.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

[2] During 2022 the targets for GHG emissions have been revised and approved by SBTi (Science-Based Target initiative) including Net-Zero target for 2045. At the same time, the base year for both scope 1&2 and scope 3 was changed to 2016. The targets are still the same.

Business risk profile: BBB+

The business risk profile is supported by: i) very good competitive positions, with 80% of revenues originating from brands with top two positions in their respective markets; ii) strong business diversification, increasingly expanding its scope within consumer products and having interests in chemicals, hydropower and real estate; iii) good product mix diversification, with a wide offering of non-discretionary consumer goods and more than 300 brands, including numerous traditional local brands. Constraints for the business risk profile include moderate international geographical reach and profitability levels that are comparatively lower than those of larger global peers in the consumer product industry.

Industrial holding business model since 2023

Since 2023, Orkla has adopted a new organisational model, becoming a 'leading industrial investment company with a focus on brands and consumers.' This shift led to the reorganisation of existing divisions into 12 portfolio companies (currently 11 after the sale of Lilleborg in June 2024). Additionally, there are financial investments in hydro power and real estate. These portfolio companies will operate with a higher level of independence compared to the previous structure, while still maintaining synergies across the Group in terms of procurement, IT, and financial services. Such business model is also aimed at increasing the discipline in capital expenditure and M&A activities.

Figure 1: Orkla's portfolio companies

	Sales (2023) in NOK bn	Stake	Scope Industry risk	Products	Orkla's Investment strategy
Orkla Foods Europe	**20.3**	**100%**	Non-discretionary consumer products	Pizza, ketchup, soups, sauces, toppings, ready to eat meals, plant-based meat and dairy replacement	Anchor
Orkla Food Ingredients	**18.7**	**60%**	Non-discretionary consumer products	Ingredients mainly for bakery and ice creams	Grow and build
Orkla Confectionery & Snacks	**8.9**	**100%**	Non-discretionary consumer products	Confectionary, biscuits, snacks	Anchor
Orkla Health	**6.4**	**100%**	Non-discretionary consumer products	Food supplements, Omega-3, wound care, oral care	Grow and build
Orkla India	**2.9**	**100%**	Non-discretionary consumer products	Food (spices, breakfast and sweet mixes)	Grow and build
The European Pizza Company	**2.5**	**100%**	Non-discretionary consumer products	Over 800 franchise outlets via Kotipizza, New York Pizza, Da Grasso	Grow and build
Orkla Home & Personal Care	**3.0**	**100%**	Non-discretionary consumer products	Cleaning and personal care	Transform or exit
Orkla House Care	**1.6**	**100%**	Discretionary consumer products	Paint accessories	Transform or exit
Health and Sports Nutrition Group	**1.2**	**100%**	Non-discretionary consumer products	Sport nutrition, health food, fitness equipment	Transform or exit
Pierre Robert Group	**0.6**	**100%**	Discretionary consumer products	Textiles	Transform or exit
Lilleborg - sold in 2024 (2)	**0.6**	**100%**	Discretionary consumer products	Professional cleaning products	Transform or exit
Jotun (1)	**31.9**	**42.7%**	Specialty Chemicals	Paints and coatings	Anchor

(1) Orkla accounts for Jotun by using the equity method.

(2) In June 2024, Orkla completed the sale of 100% of the shares in Lilleborg AS.

Sources: Orkla, Scope

Strategy 2023-2026

During the last Capital Market Day investor presentation in November 2023, management outlined targets for the years 2023 to 2026, with the main goal being an annual total shareholder return between 12% and 14%. The presentation also detailed distinct investment strategies for each portfolio company. Some were designated as 'anchor' investments (Foods Europe, Confectionery & Snacks), representing businesses with long-term leading positions in mature markets. These businesses are expected to generate a steady operating cash flow to fund the group's dividends and support other portfolio companies. Other companies were classified as investments to 'grow and build' (Food Ingredients, Health, India, European Pizza company), with the objective of achieving organic growth through bolt-on acquisitions. The remaining companies were categorised as businesses to 'transform or exit' (Home & Personal Care, House Care, Health and Sports Nutrition Group, Pierre Robert, Lilleborg).

In June 2024, Orkla completed the sale of 100% of the shares in Lilleborg AS, provider of effective and sustainable cleaning solutions to professional and industrial customers in Norway.

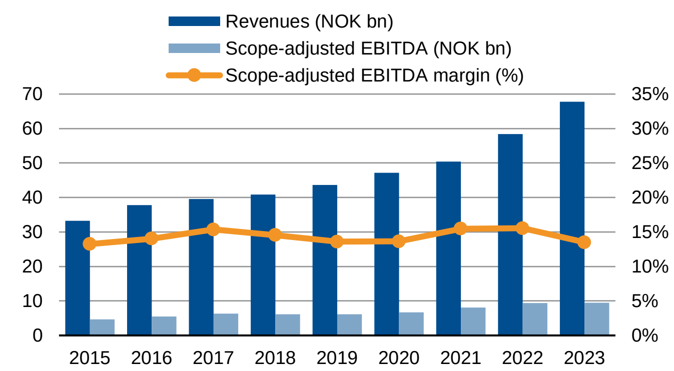
Blended industry risk profile: A-

Orkla primarily operates within the consumer products industry, and our analysis of the business risk profile is consequently based on the Consumer Product methodology. The EBITDA contribution from non-core industries is perceived to be relatively low, despite the Hydro business reported exceptionally high operating (pre-tax) profits in 2022, which is viewed as a temporary occurrence.

In evaluating the industry risk, we employ a blended score of A-. This score reflects the primary exposure to non-discretionary consumer products (rated A), alongside a smaller exposure to discretionary consumer products (rated BB), non-regulated power generation (rated BB, through a financial investment in the Hydro power business), and specialty chemicals (rated A, via a minority stake in Jotun A/S). The Real Estate business has yet to have a material impact on EBITDA at the Group level.

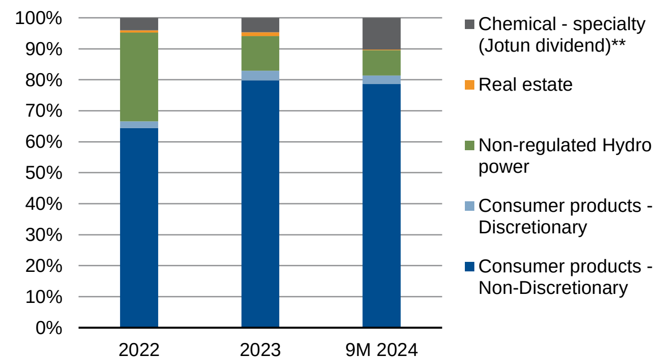
Although the blended industry risk is one notch below the industry risk associated with the non-discretionary consumer product industry, the advantages of diversification in the business mix are taken into consideration in the assessment of competitive positioning.

Figure 2: Revenues and Scope-adjusted EBITDA



Sources: Orkla, Scope

Figure 3: Reported 'adjusted' EBIT* split by industries



* Reported adjusted EBIT excludes the impact of HQ costs and eliminations, restructuring and other non-recurring items.

** Jotun's dividend is added to the split although not included in adjusted EBIT.

Sources: Orkla, Scope

Jotun

The 42.7% ownership stake in Jotun is accounted for using the equity method. However, it's important to note that the relationship between Jotun and Orkla spans decades, and Jotun is listed as one of Orkla's industrial investments, providing recurring dividend payments. This underscores the long-term perspective Orkla maintains regarding this investment. In recent years, Jotun has performed particularly well, resulting in higher dividend upstream of NOK 948m in 2023 to Orkla (NOK 365m in 2022).

Financial investments

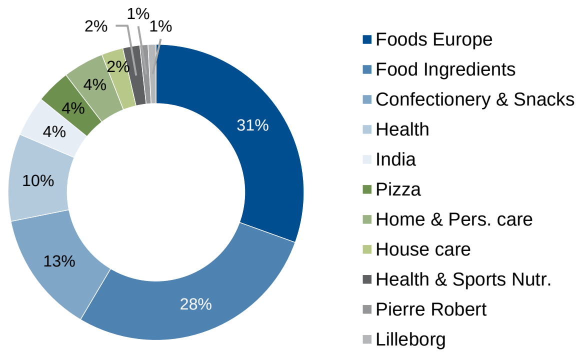
In contrast, the financial investments outside the non-consumer product industry are fully consolidated. Orkla's real estate development arm, which also manages the Groups' headquarters, has a book value of NOK 2.3bn as per 9M 2024. The hydro power business generates approximately 2.5 TWh per annum. This investment encompasses wholly owned power plants in Sarpsfoss and leased power plants (until 2030) through Orkla's 85% interest in AS Saudefaldene. Orkla has initiated a sales process involving the whole or parts of Hydro Power assets, although no timeline has been communicated.

Strong, leading market position in the Nordics within branded food, confectionery & snacks

With an annual turnover of approximately NOK 68bn in 2023, Orkla is a large producer of consumer products on a Nordic scale, albeit more moderately sized compared to the major international players with whom it competes in its home markets. We consider Orkla's high local market shares to be a key competitive advantage, with brands and products deeply embedded in local preferences and traditions. Consequently, their market positions in the Nordics are robust, particularly within Foods (such as pizzas, ketchups, soups, and sauces), Confectionery & Snacks (including chocolates, chips, and biscuits), and house care, all of which are mature markets.

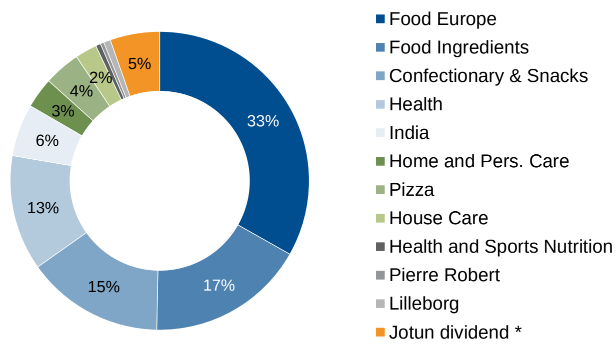
These strong local market positions result from a local presence and understanding of customer needs, coupled with a critical size that allows for economies of scale. In its main markets, Orkla generally holds stronger market positions on various product levels compared to its larger international peers and remains competitive on pricing. This is expected to persist and is a key competitive advantage in our view.

Figure 4: Revenue split by portfolio companies (2023)



Sources: Orkla, Scope

Figure 5: Reported 'adjusted' EBIT split by portfolio companies (2023)



* Jotun's dividend is added to the splt although not included in reported EBIT

Sources: Orkla, Scope

Orkla Health dominant on only few categories

While the competitive positions in other Orkla portfolio companies are significant, they may not be as strong as the core branded food products. Despite each company owning brands with top 1-2 market positions in distinct product categories at the domestic level, Orkla Health, for instance, has dominant positions in specific categories on an international basis, such as Omega-3, but possesses a less extensive portfolio than larger international peers within consumer health. Orkla Health is set for further growth and has already made relevant acquisitions in recent years, such as NutraQ in Norway (a supplier of subscription-based health and wellness products) and Healthspan in the UK (specializing in dietary supplements). These acquisitions extend the product portfolio and increase exposure to direct-to-consumer sales, potentially leading to higher margins.

Orkla Food Ingredients

In Orkla Food Ingredients, the acquisition of Denali Ingredients in the USA in 2022 strengthened the ice cream business. However, the company is poised for further organic growth following the sale of 40% of Orkla Food Ingredients to the private equity firm Rhône in April 2024. Few small acquisitions have been executed in recent months, including, for example, Freunde der Erfrischung GmbH and Kartonage AS.

Selected growth areas: consumer health, pizza chains

Targeted strategic growth areas for international expansion include consumer health (mentioned earlier) and pizza chains, while plant-based dairy and meat replacements have shown. slower-than-initially-expected market growth. All these strategic areas are expected to benefit from key megatrends of sustainability, urbanisation, and health consciousness. While the potential for long-term growth in these markets is attractive, competition is elevated, and there could be some margin dilution for Orkla to strengthen its presence and gain market shares. An additional challenge is represented by operating a very different business model, as seen in the case of pizza franchise outlets. Nevertheless, we find comfort in Orkla's track record of acquiring companies with already established leading positions in their markets, which should mitigate the risk.

Growth of pizza outlets

The European Pizza Company has already made some significant acquisitions in recent years. After acquiring Kotipizza in 2019 in Finland, Orkla expanded the portfolio with the acquisitions of New York Pizza in 2021 in the Netherlands and Da Grasso in 2022 in Poland, bringing the total number of franchise outlets to well over 850. The company also targeted the German market by buying and converting small independent chains into New York Pizza franchises. The long-term aspiration is to become a leader in the European pizza market, although Orkla is still far from the leader Domino's.

Favourable demographic trend at Orkla India

Orkla India is another company targeted for growth due to favorable demographic dynamics. The company owns two main iconic brands, MTR and Eastern (Eastern Condiments was acquired in 2021), with number one leading positions in selected Indian regions within spices, breakfast, and sweet mixes. Both brands are exported worldwide, in particular to the North American and UK markets.

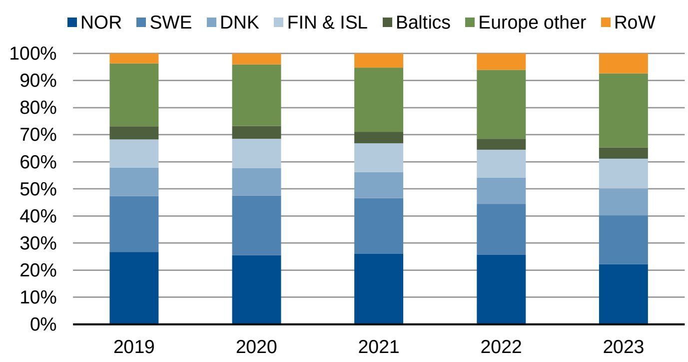
Benefits of business diversification

Diversification serves as a supporting factor for Orkla. The company is well diversified within the consumer product core sector. Additionally, investments in unrelated businesses, such as hydropower, chemicals, and to a lesser extent, real estate, further contribute to the diversification assessment. The primary constraint arises from the geographical concentration of sales in the Nordics.

Broad product diversification

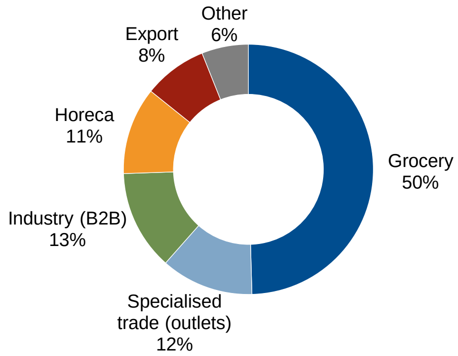
Within branded consumer goods, Orkla operates in numerous product categories, offering a wide range of predominantly non-discretionary products sold under over 300 different brands. Consequently, we perceive product diversification as robust. Moreover, Orkla's efforts in its strategic growth areas are viewed positively for diversification. In terms of products, we believe it will complement the target customer range with the current one. For example, plant-based products are more focused on younger age groups, consumer health targets adults, while Pizza chains complement grocery-based products in terms of channels.

Figure 6: Split of sales by geography (%)



Sources: Orkla, Scope

Figure 7: Channel diversification *



* As per FY 2022, last information available.

Sources: Orkla, Scope

Geographical concentration on few Scandinavian countries

As mentioned earlier, the group maintains only a moderate level of geographical diversification. Despite implementing structural and strategic changes that expanded its presence in major European markets and India, the majority of its turnover still originates from the Nordic countries. The relative dependence on the Nordics has moderately decreased over the last 10 years, shifting from around 80% to the current 60%, with Norway contributing to less than a quarter of sales and Sweden accounting for around 20%. The expansion into strategic growth areas, particularly health and pizza chains, is expected to increase exposure to Europe and enhance the geographical distribution.

Solid customer and supplier diversification

Orkla has a large base of around 25,000 suppliers, located close to its key markets and globally. The risk of higher costs and the scarcity of raw materials and resources is mitigated through close cooperation with suppliers and sometimes the ability to accumulate inventory when necessary. As regards Orkla's key customers, the company derives around 50% of its turnover from grocery chains, with no major single-name dependency.

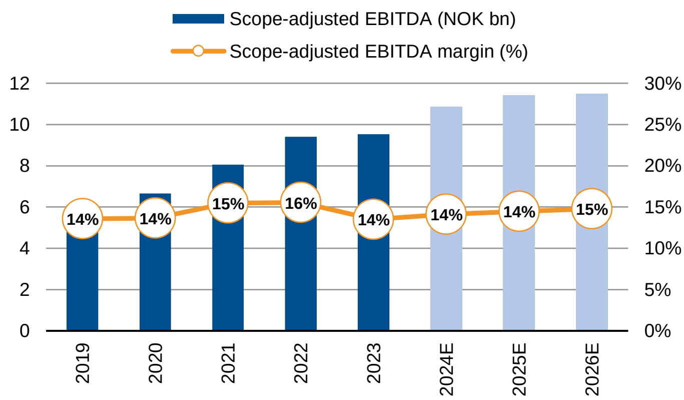
Established distribution network

Overall, we evaluate the distribution network as well-established, comprising grocery chains, wholesalers, and e-commerce within certain segments (such as Orkla Health). While, at an aggregate level, grocers contribute to over 50% of sales in branded consumer goods, their significance in the food and confectionery & snack division approaches 80%. They are less relevant for other businesses, which have a heavier reliance on specialised trade (e.g., Orkla Health), HoReCa sales (food ingredients and pizza chains), or industrial sales. Further growth within pizza chains and consumer health will gradually reduce some of the concentration on grocers, in favour of HoReCa and online channels.

Relatively stable EBITDA margin around 14%-15%

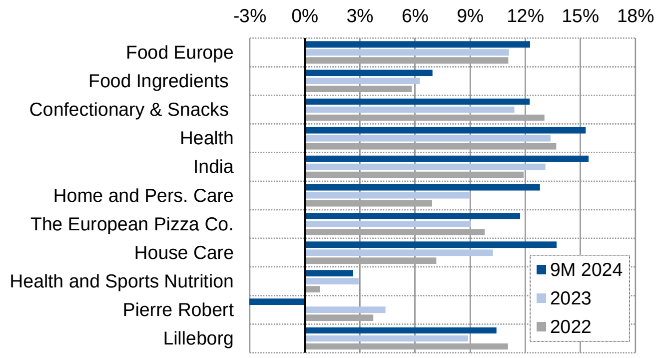
Scope-adjusted EBITDA is higher than the reported EBITDA figure as we include the contribution of the recurring Jotun dividend. Orkla's Scope-adjusted EBITDA margin (excluding the Jotun dividend) averaged around 14-15% in the past five years. We appreciate the relative stability of group margins over time supported by business diversification, including unrelated sectors. In fact, the inflation-driven decline in profitability within branded consumer goods over the years 2022-2023 years has been compensated by the overperformance of the hydro power business. This demonstrated an inversely related performance, serving as a sort of natural hedge (at least on a pre-tax basis) against increasing energy prices.

Figure 8: Scope-adjusted EBITDA development



Sources: Scope estimates

Figure 9: Reported 'adjusted' EBIT margin across portfolio companies (*)



* Reported adjusted EBIT excludes the impact of HQ costs and eliminations, restructuring and other non-recurring items.

Sources: Orkla, Scope

Operating margins below larger peers reflect business mix and size

While the EBITDA margin is below that of larger international consumer staples peers, we believe this is primarily justified by the product mix and, to a lesser extent, by its smaller scale. For instance, Orkla Food Ingredient plays a significant role in the group's operating profits but maintains lower margins than the group's average due to its substantial exposure to B2B distribution. However, future business growth may support synergies and partly reduce the margin gap compared to more profitable companies, such as Orkla Confectionery & Snacks, Orkla Food Europe, Orkla Health and Orkla India. Conversely, the smaller size relative to larger international peers acts as a constraint, in our view, on the profitability within Orkla Home and Personal Care, as well as Orkla House Care. Given its high scalability, we also perceive the European Pizza Company as requiring a larger size to enhance profitability.

Recovering profitability in consumer product thanks to easing cost inflation

Scope-adjusted EBITDA increased only slightly to NOK 9.5bn in 2023 (PY: NOK 9.4bn), but EBITDA margin declined around 200bps to 13.5% mainly because of the lower contribution of hydro power. Conversely, the profitability margin of consumer product companies slightly improved thanks to the strong price increases applied since mid-2022 offsetting inflationary cost pressures. No significant restructuring costs were incurred by changing into the new operating model of an industrial investment company. Delays in the construction and ramp-up of the new biscuit factory in Latvia led to higher costs in recent years but are now solved. We project EBITDA to improve to NOK 10.9bn in 2024 on the back of easing input cost pressures (except for some raw materials such as cocoa) and the hefty dividend of NOK 948m (PY: NOK 365m) received from Jotun due to its strong performance (Scope includes Jotun recurring dividend as part of EBITDA but excluded it when calculating the EBITDA margin).

Mild recovery in profitability recovery over the next few years

Under the new strategy highlighted in the Capital Market Day presentation in November 2023, the group targets a Total Shareholder Return of 12-14% during 2024 to 2026. Implicitly, this indicates a yearly EBIT growth between 8% to 10% and a margin expansion of at least 150 – 200 bps (potentially more if raw material prices decline significantly). All in all, we forecast Scope-adjusted EBITDA to grow from NOK 10.9bn in 2024 to NOK 11.5bn in 2026. We also anticipate that the EBITDA margin will improve to approximately 14% in 2024 and stabilize between 14% and 15% over time. This outlook is based on increased cost discipline resulting from the new operating model and an assumed mid-single digit percentage organic growth as volumes recover.

Strong regional brands, but no global ones

Orkla owns a diverse portfolio of approximately 50 main brands offering a wide array of products, most of which dominate the market in Norway and Sweden (e.g., Felix, Kims, Stabburet, Toro, Grandiosa). These products are associated with good quality in the regions where the group has its strongest presence. Orkla also possesses top brands in specific segments in other countries within Scandinavia, the Baltics, India (MTR, Eastern), and various European countries. Unlike international consumer product giants, Orkla's brands lack global recognition but hold significant local resonance. The absence of major dependency on any single brand is a strength.

We estimate that Orkla allocates approximately 5% of revenues to advertising and R&D activities, with a consistent increase over the past few years to ward off competition from private labels and support volume recovery. While their media footprint is large in Scandinavia, the comparison with larger international peers shows some underinvesting in brands; however, this is partly explained by Orkla’s comparatively higher portion of B2B business with limited advertisement needs which dilutes the ratio.

Financial risk profile: A-

The financial risk profile is assessed at A- and reflects strong credit metrics, including Scope-adjusted debt/EBITDA leverage kept within 2.0x, cash flow cover returning to around 25% on a sustained basis, and a weakened but still strong EBITDA interest cover of above 10x.

Scope adjustments

Key adjustments made on financial items:

- EBITDA adjusted for: Jotun recurring dividend (estimated at around NOK 950m in 2024-2025, 500m in 2026).
- Interests adjusted for pension interests of NOK 72m p.a.
- Debt adjusted for:

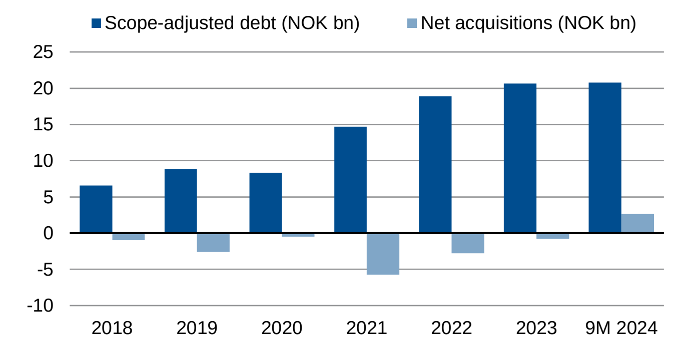
- future unfunded pension obligations, discounted at 50% (around NOK 1.0n p.a.).
- restricted cash of NOK 345m p.a., reflecting security deposits for sales of hydroelectric power, margin deposits for share derivatives, as well as deposits to meet statutory solvency requirements in Orkla Insurance. It also includes a portion of the cash in Orkla companies with minority shareholders and in Orkla Insurance, which are available only to a limited extent to the rest of the Group.
- Cash includes interest bearing receivables, which represent investments in money market funds (NOK 225m in 2023, assumed NOK 200m p.a. going forward).

M&A activity

Given the acquisition-driven nature of the business, changes in Scope-adjusted debt are closely linked to M&A activity. In 2021, there was significant M&A activity, with acquisition spending (net of disposals) amounting to NOK 5.8bn. This includes notable acquisitions such as NutraQ (Health) in Norway, Eastern Condiments in India, and New York Pizza in the Netherlands/Germany. Subsequently, acquisition spending reduced to NOK 2.8bn in 2022 (main targets being Denali Ingredients in the US and Healthspan in the UK) and NOK 0.8bn in 2023 (main acquisition was Bubs Godis within Confectionery & Snacks in Sweden).

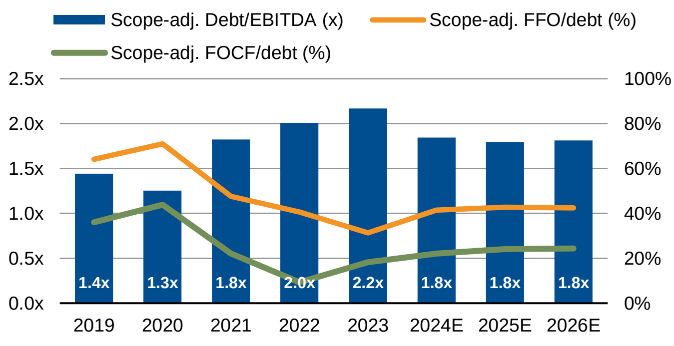
In 2024, Orkla is projected to obtain net M&A proceeds (net of acquisitions) of approximately NOK 2.0bn. In April 2024, Orkla sold a 40% stake in Orkla Food Ingredients (which remains fully consolidated) with proceeds of around NOK 2.5bn. Additionally, in June 2024, Orkla sold 100% of Lilleborg AS for NOK 600m on a cash and debt-free basis (Lilleborg accounted for less than 1% of Group EBITDA in 2023).

Figure 10: Debt development and acquisitions



Sources: Orkla, Scope

Figure 11: Leverage and cash flow metrics



Source: Scope estimates

There has been a strategic decision to limit the amount of acquisition in recent couple of years. This was driven by the ongoing reorganisation of the business model as well as by challenging economic conditions in the consumer products market. However, we expect M&A activity to intensify from 2025.

Increase in Scope-adjusted debt in past years

Orkla's credit metrics remain strong amid gradually improving EBITDA and broadly stable Scope-adjusted debt standing at around NOK 20bn as of September 2024. Cash proceeds from asset disposals and higher dividend received from Jotun in 2024 were largely offset by the payment of an extraordinary dividend of NOK 3.0bn (on top of the ordinary dividend of NOK 3.0bn) and the announcement, in November 2024, of a share buyback up to NOK 600m until April 2025 in connection with the long-term employee incentive programmes. Scope-adjusted debt rose significantly in 2021 due to acquisitions and in 2022 due to working capital needs and has since stabilised.

Debt/EBITDA leverage expected to stay close to 2x

Scope-adjusted debt/EBITDA LTM improved to 1.9x as of September 2024 compared to 2.2x as of YE 2023. We expect leverage to remain moderately below 2.0x over the forecasted period based on broadly stable debt and slightly improving EBITDA. For reference, Orkla has a financial policy target of net debt/EBITDA below 2.5x.

As part of the sale of 40% ownership in Orkla Food Ingredients (OFI), OFI replaced existing financing with a NOK 6.4bn committed bank facility with no recourse to Orkla ASA. Although OFI's debt is non-recourse, we include it in Orkla's leverage calculation, as we assume implicit full parent support. Excluding OFI's non-recourse debt, Orkla reports net debt/EBITDA ratio being 0.4x lower as per September 2024 LTM.

FFO/debt to recover towards 45%

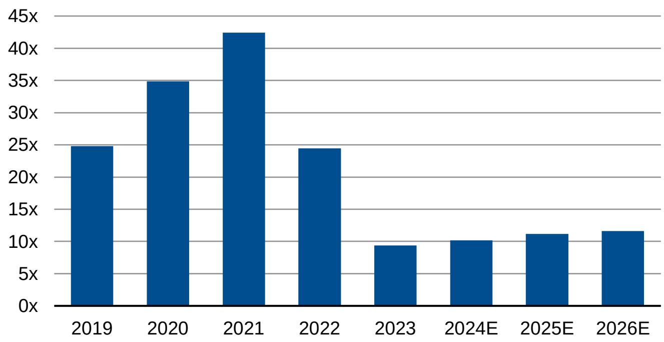
After deteriorating to below 40% in 2023 on higher interest expenses and taxes (especially high tax rate on hydro power activities up to around 70%), we predict FFO/debt to gradually recover in the short term and stabilise around 45%.

Our capital allocation assumptions include dividends of NOK 6.0bn in 2024 – which include an extraordinary dividend of NOK 3.0bn) and between NOK 3.6bn–3.9bn during 2025 to 2026 while net acquisition spending of around 2.0bn per year from 2025. We do not assume further buybacks until 2026.

Interest cover weakened to 10x amid rising interest rates

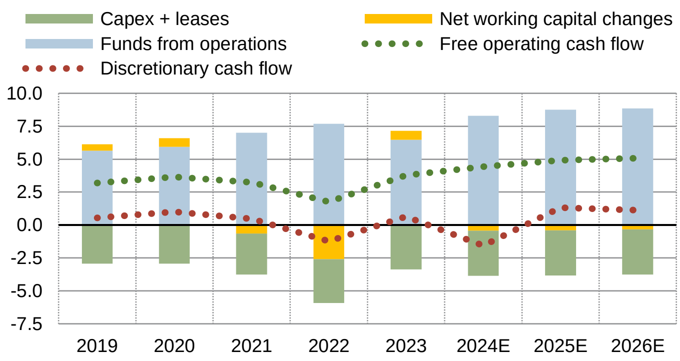
Because of Orkla's debt being entirely at variable rate, the rise in interest expenses led EBITDA interest cover to deteriorate to 9.4x in 2023 (PY: 24x), with more than doubled interest of NOK 1.0bn (PY: NOK 0.4bn). With interest rates slowly declining from 2024, we project EBITDA interest cover to gradually improve over time and remain at solid levels above 10x.

Figure 12: EBITDA interest cover (x)



Source: Scope estimates

Figure 13: Cash flow sources and uses (NOK bn)



Source: Scope estimates

Cash flow cover around 20%

Since the exceptionally high net working capital needs of NOK 2.6bn in 2022 due to elevated inflation and inventory build-up amid supply chain shortages, the inventory situation has then gradually normalised. Scope-adjusted FOCF/debt is expected to oscillate around 25% going forward (2023: 18%) based on assumed yearly capex of around NOK 2.8bn, approximately 4% of revenues.

Adequate liquidity

Liquidity is adequate based on good access to bank and bond markets. As of September 2024, the company had aggregated NOK 11.3bn in cash and undrawn credit lines, well above reported short-term debt of around NOK 3.0bn.

The company's funding policy dictates that cash and undrawn committed credit lines should cover debt maturities and known capital needs by a sufficient margin over the next 12 months. This means that Orkla's credit facilities are normally refinanced one year before maturity and that short-term interest-bearing debt is at all times covered by unutilised long-term credit facilities.

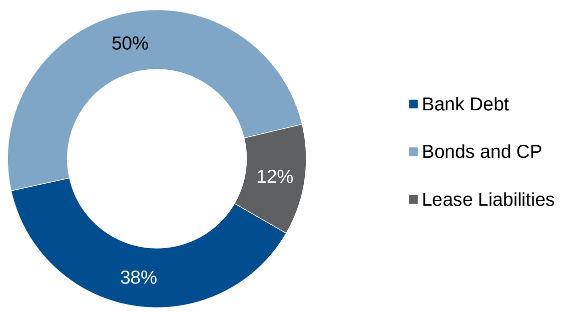
Balanced debt maturity profile

Orkla's main funding sources are bilateral loans from its relationship banks as well as bonds and commercial papers in the Norwegian bond market. Orkla has frequent issued commercial papers in recent years, as they are seen as a cheaper source of funding compared to using undrawn long-term RCF lines. In terms of financial structure, Orkla keeps a good degree of financial flexibility, short-term as well as long-term.

No covenants at Group level

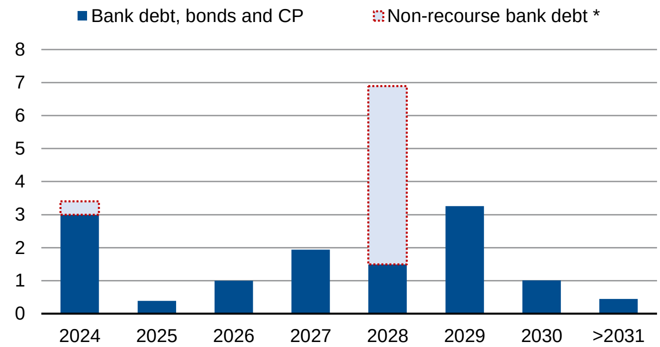
The group does not have any financial covenants attached to its financing. At subsidiary level, OFI's debt is subject to leverage and interest cover covenants, although – as mentioned earlier – such debt is non-recourse for Orkla and covenants are only applicable at OFI's level. Average debt maturity (excl. leases) as of September 2024 was 2.9 years.

Figure 14: Gross debt split as of September 2024



Source: Orkla

Figure 15: Debt maturity profile (excl. leases), as of September 2024, in NOK bn



* This relates to the debt of Orkla Food Ingredients resulting after the sale of 40% shares to Rhone Capital in April 2024. Such debt is non-recourse to Orkla ASA.

Source: Orkla

Orkla's liquidity ratios remain sound well above 200%. Furthermore, the group has a very good standing within the banking and capital markets.

Balance in NOKm	2024E	2025E	2026E
Unrestricted cash (t-1)	991	1,362	897
Open committed credit lines (t-1)	6,038	7,000	7,000
Free operating cash flow (t)	4,428	4,926	5,072
Short-term debt (t-1)	2,780	2,500	3,442
Coverage	**>200%**	**>200%**	**>200%**

Supplementary rating drivers: +/- 0 notches

Financial policy

We apply no adjustments for Orkla's financial policy, which we assess as rather prudent. The company has a long history of maintaining a conservative capital structure consistent with a strong investment grade profile.

Although the new CEO Nils Selte (appointed in April 2022) announced a change in the operating model which may suggest an intensification of M&A activity, the company remains committed to its existing financial target of keeping a net debt/EBITDA ratio below 2.5x. In line with its track record, we expect Orkla to continue being involved in bolt-on acquisitions while keeping some headroom compared to its stated leverage target.

Likewise, Orkla keeps its capital allocation unchanged, including a predictable and shareholder-friendly dividend payout ratio between 50%-70% of previous year's net profits.

Parent support and corporate governance are credit-neutral

Orkla is a publicly listed company and with a strong focus on corporate governance. As we see these factors as credit neutral, they do not warrant any supplementary adjustment.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

The senior unsecured debt rating stands at A-, in line with the issuer rating. Orkla ASA is also the bond-issuing entity.

Short-term debt rating: S-1

The short-term debt rating of S-1 is based on the A-/Stable issuer rating and supported by adequate liquidity, strong banking relations and well-established capital market standing.

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