



# **HKSCAN**

## **Interim Report Q1/2019**

**Jyrki Paappa, CFO**  
**8 May 2019**

# Q1

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## Highlights

- Finnish poultry business and the related Rauma operations improved clearly – EBITDA turned positive in March
- Operational efficiency improvement actions generated results
- Firm cost reduction measures contributed to the result
- Pork export from Finland to China proceeded according to plan. Targets for the first year of export will be met
- Renewed Group Management Team is in place
- Groupwide statutory negotiations have been completed



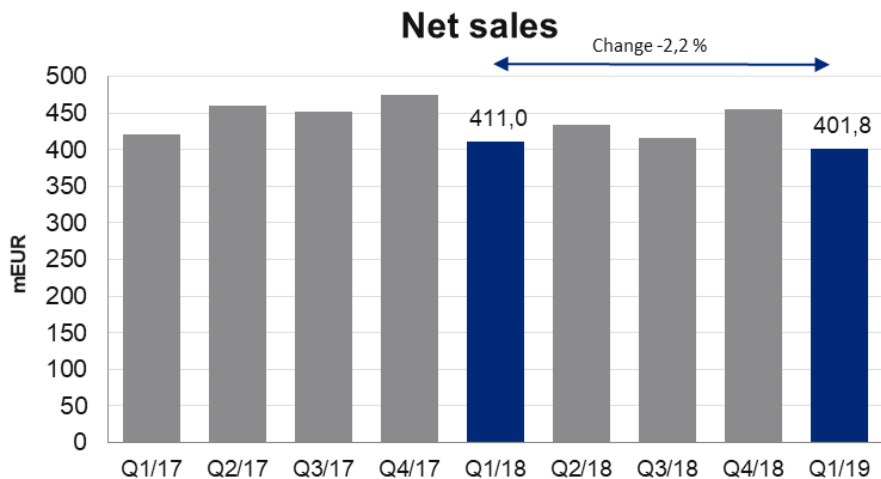
## Lowlights

- The impact of Easter sales, which last year contributed to Q1 net sales, was visible in Sweden and in Finland
- In Sweden, net sales decreased also due to the weakened Swedish krona
- In Denmark, changes in customer structure and sales mix as well as increased raw material costs had a negative impact on EBIT
- Cost increases and low European pork prices are still burdening the performance in the Baltics

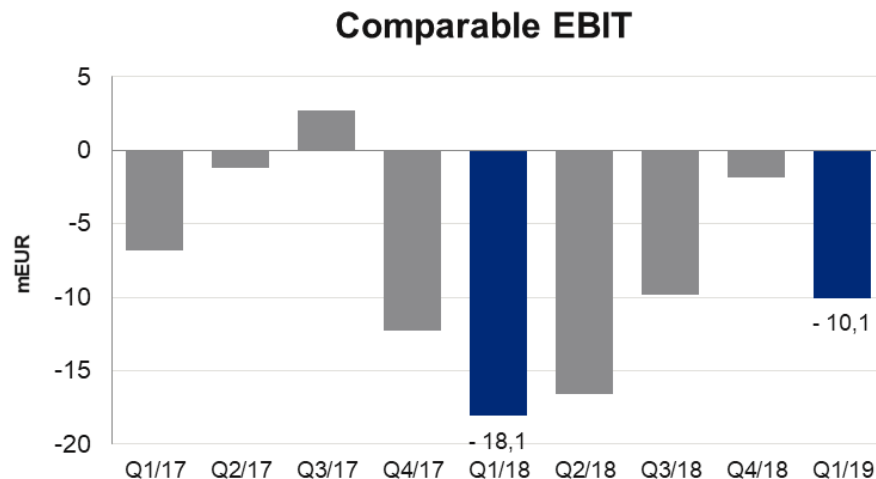
# HKScan Group Q1/2019

EUR million	Q1/2019	Q1/2018	2018
Net Sales	401,8	411,0	1 715,4
EBIT	-14,7	-18,3	-48,3
- % of net sales	-3,6 %	-4,4 %	-2,8 %
Profit/loss before taxes	-17,4	-20,7	-58,5
- % of net sales	-4,3 %	-5,0 %	-3,4 %
Profit/loss for the period	-16,9	-16,7	-51,3
Comparable EBIT	-10,1	-18,1	-46,3
- % of net sales	-2,5 %	-4,4 %	-2,7 %
Comparable profit/loss before taxes	-12,8	-20,5	-56,5
- % of net sales	-3,2 %	-5,0 %	-3,3 %
EPS, EUR	-0,33	-0,31	-1,00
Return on capital employed (ROCE) before taxes, %	-6,1 %	-7,5 %	-6,7 %
Comparable ROCE before taxes, %	-5,2 %	-4,0 %	-6,4 %
Net gearing, %	119,8 %	109,1 %	103,3 %
Personnel, end of month average	6 756	6 943	7 179

# HKScan Group – EBIT improvement continues

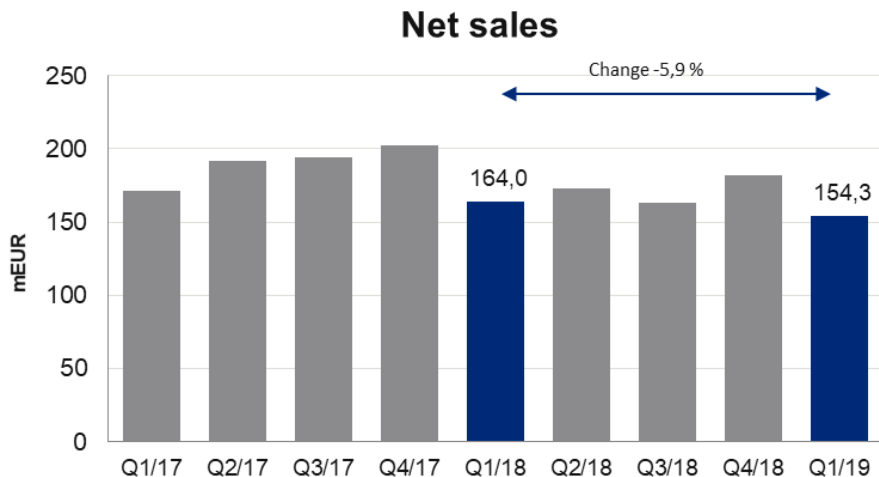


- Net sales decreased due to weaker Swedish krona compared to the previous year
- The impact of Easter sales, which last year contributed to the net sales, was also visible
- Poultry sales in Finland continued to recover as a result of the improved delivery capability of the Rauma plant

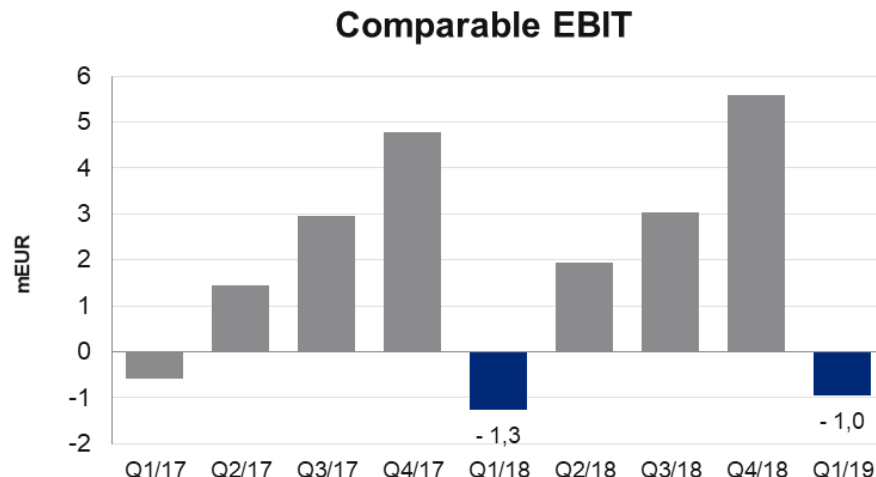


- Poultry business performance improved clearly and contributed to the EBIT improvement
- Operational efficiency improvements and group-wide savings (personnel and administrative costs) generated results
- In market areas Sweden, Finland and Baltics, EBIT improved

# Sweden – steady with positive note in local currency



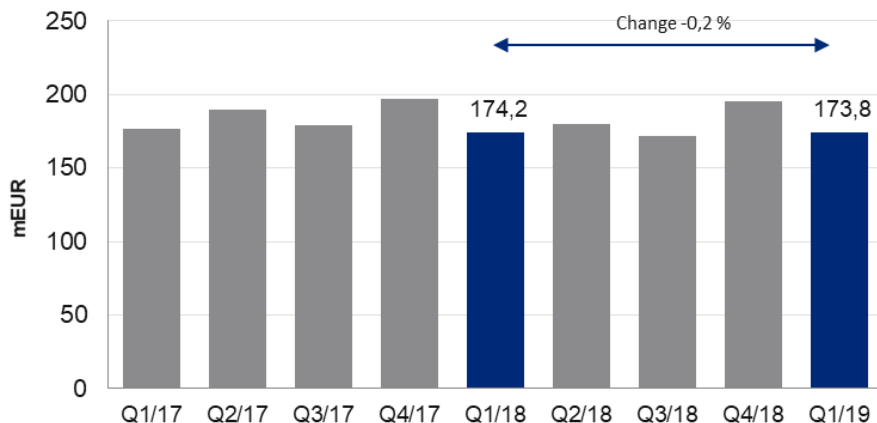
- Net sales decreased mainly due to the weakened SEK
- In local currency, net sales were close to on par with the previous year, despite the fact that the Easter sales did not contribute to the first quarter results
- Sales in processed meat categories and meals developed positively, red meat sales declined



- Despite the negative currency effect, comparable EBIT increased from the comparison period
- Better sales margins, operational efficiency measures and lower administration costs contributed to EBIT

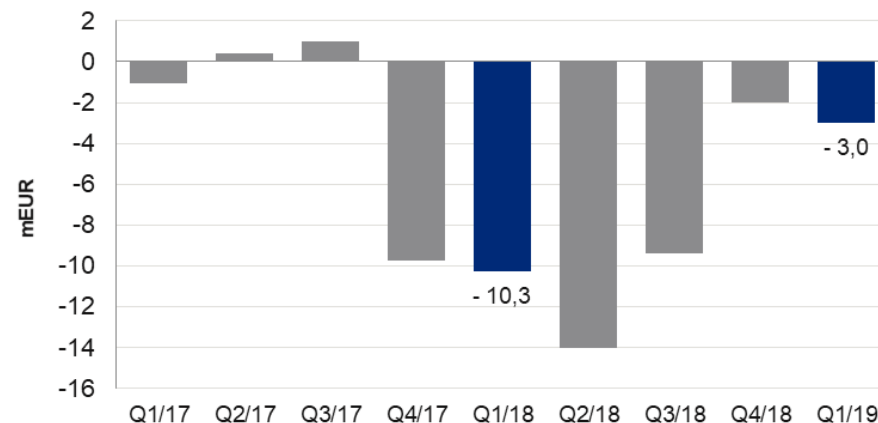
# Finland – clear EBIT improvement

## Net sales



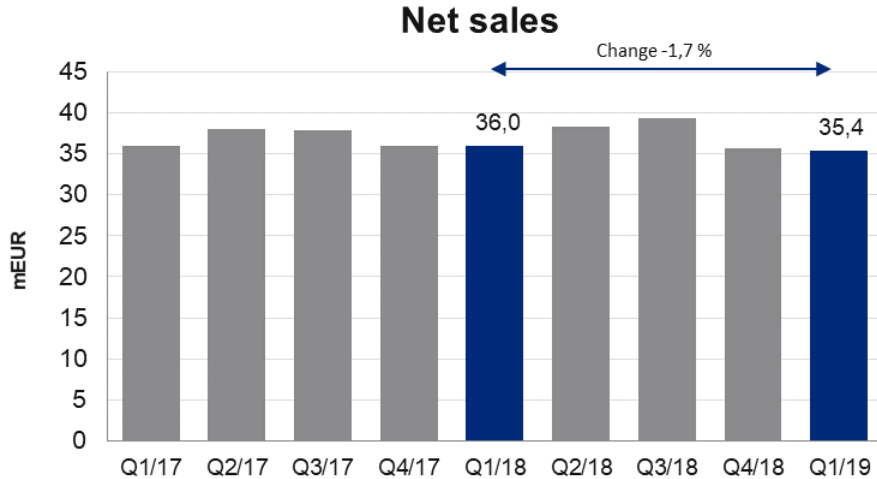
- Net sales decreased compared to the previous year due to the impact of Easter sales, which last year contributed to the first quarter net sales
- Poultry sales continued to recover and sales of meals developed favorably. Sales in other categories decreased
- Exports from Finland to China continued in line with targeted levels

## Comparable EBIT

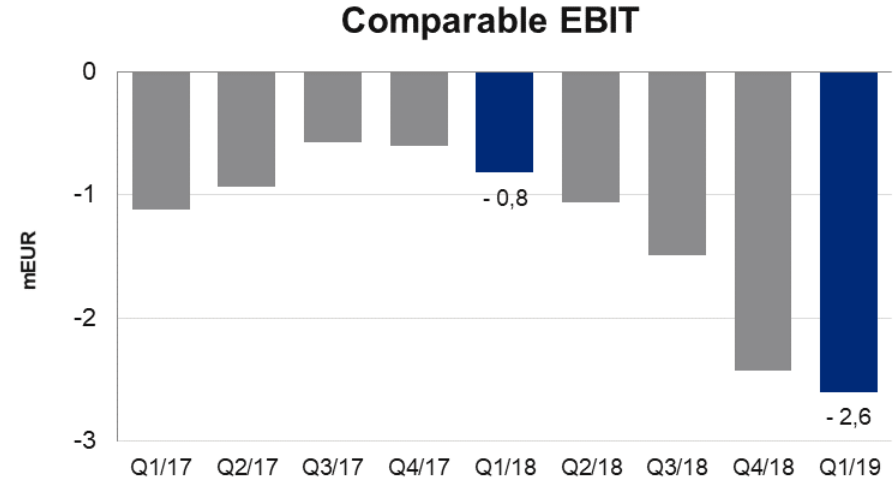


- Performance of the Rauma unit improved clearly, with the unit recording a slightly positive EBITDA in March
- Operational efficiency improvements as well as tight cost control contributed to the result
- Sales margins improved as well

# Denmark – in the midst of a customer base transition

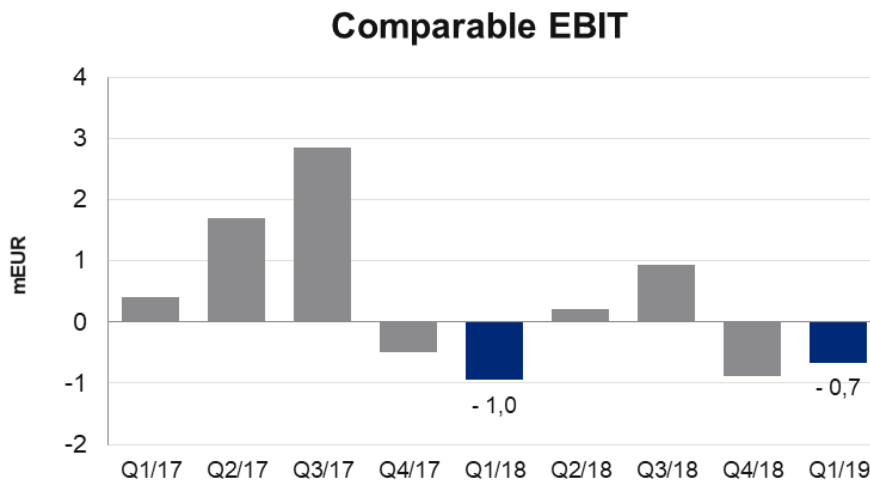
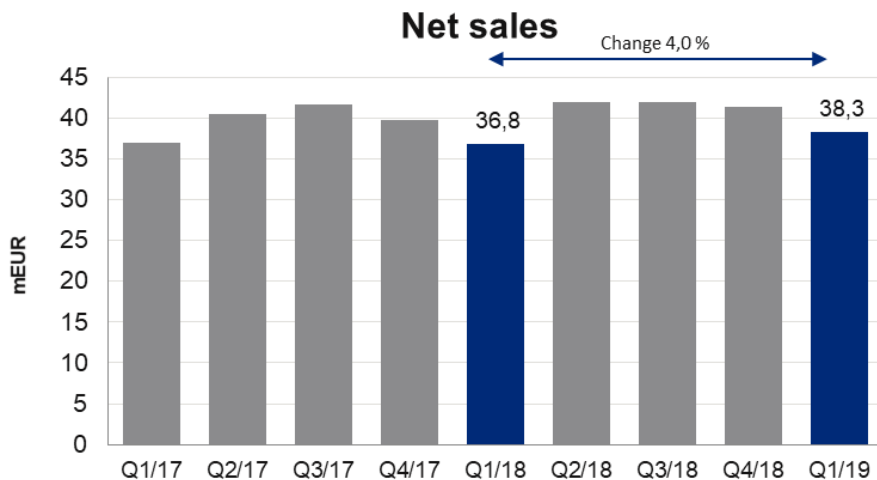


- Decrease in net sales was attributed to lower retail sales, which were partly offset by increased export and industrial sales



- Changes in the customer structure and sales mix as well as increased raw material costs had a negative impact on EBIT. Operational efficiency continued to improve
- An impairment loss amounting to EUR 4.5 million has been recorded in Denmark due to reduction of estimated future cash flow. Impairment had no impact on cash flow

# Baltics – growing with slight EBIT improvement

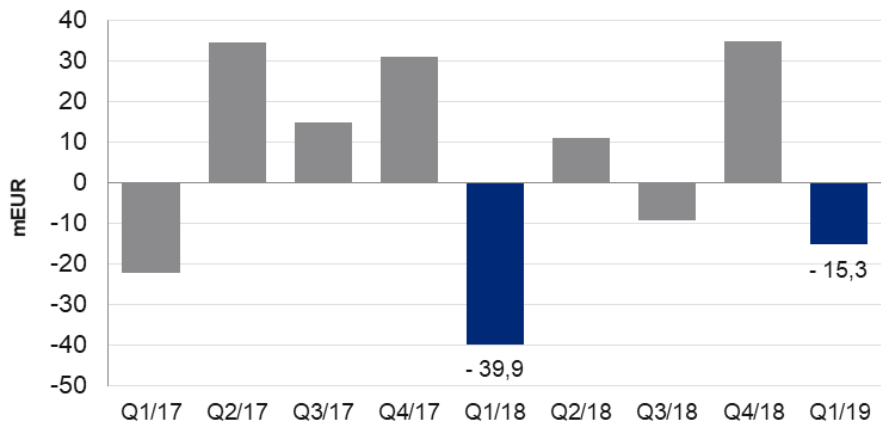


- Domestic retail sales continued to grow, product mix improved
- Branded sales of processed meat products developed positively and demand for poultry products increased
- Pork market remained weak, which also correlated with related sales prices
- EBIT was impacted positively by lower administration costs that, together with change of biological asset revaluation, offset higher animal raw material costs and low European meat market prices

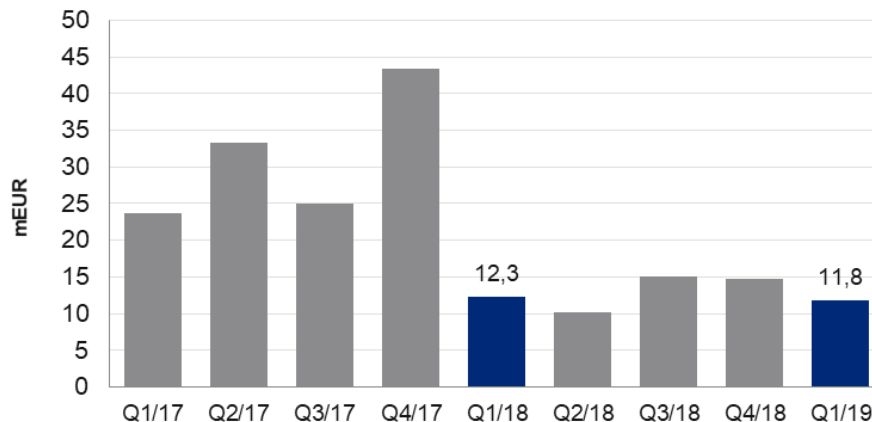


# Cash flow improved significantly

## Cash flow before investments

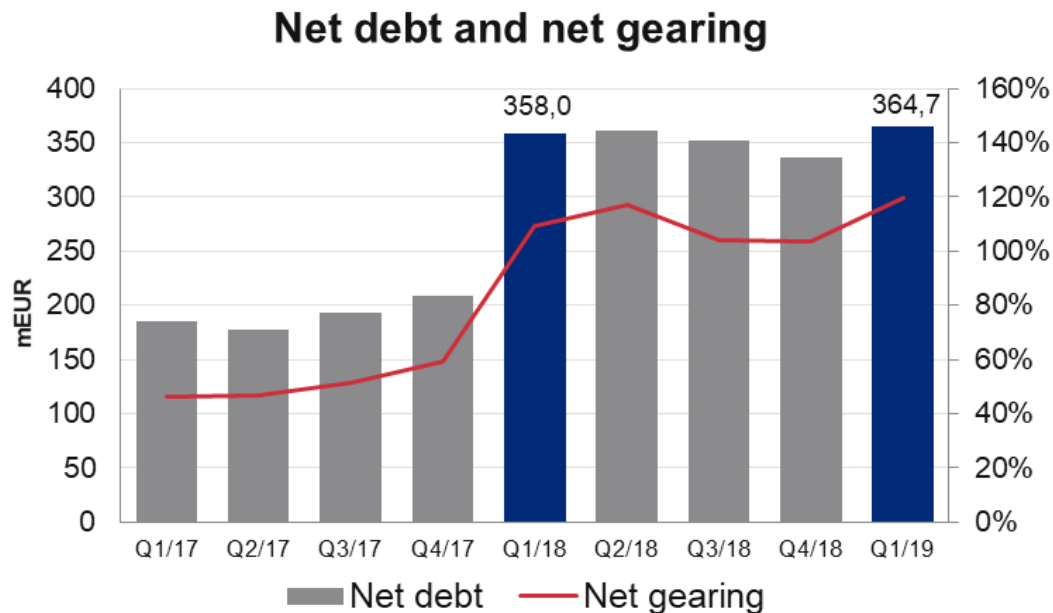


## Capital expenditure



2018 figures re-stated due to IFRS 16

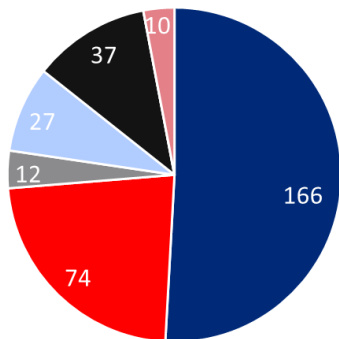
# Net debt and net gearing



2018 figures re-stated due to IFRS 16

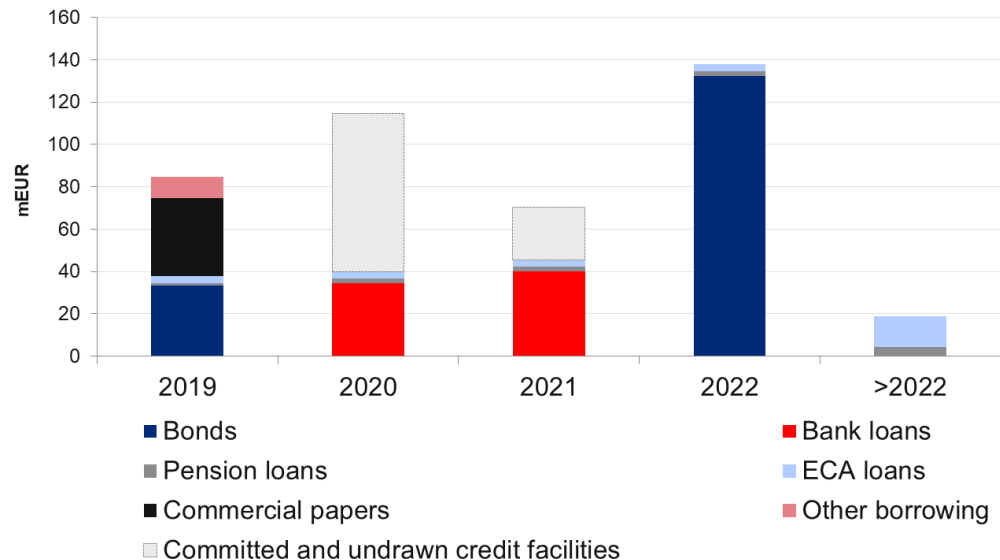
# Funding base and maturity structure

Interest-bearing debt by credit type



Total interest-bearing debt:  
325,9 mEUR

Maturity of Group's interest-bearing debt (EUR million)\*



\*EUR 40 million hybrid bond is treated as equity (early redemption option in Sept. 2023)

# Outlook for 2019

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Global meat consumption is projected to increase during the coming years. Within HKScan's home markets, consumption growth is estimated to be led by poultry and meal categories, while demand in other categories is expected to remain stable. HKScan expects its improvement programmes and other corrective actions to start recording results in 2019 and the company's comparable EBIT is expected to improve clearly from the previous year.

*(Revised on 8 May 2019)*

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*(Previous)*



**Thank you**



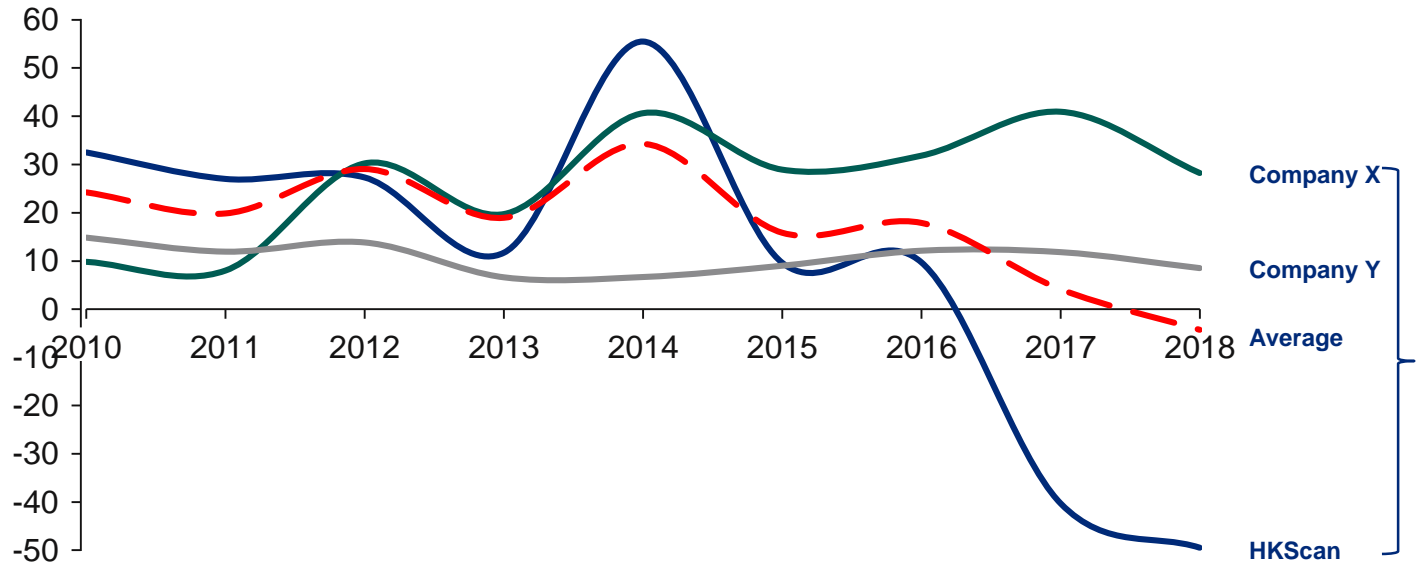
# HKSCAN

## Towards profitable growth by balancing finances

Tero Hemmilä, CEO  
8 May 2019

# Operating profit development in the sector

Operating profit, MEUR



HKScan has lost its market leader position, which has led to weak financial development – the root causes are mainly internal

HKScan's goal is to return to the level of leading players on the market

Note: HKScan's operating profit figures are reported; they don't include a separate adjustment for the 2014 Sokolów S.A. divestment

# Root causes of negative result



- The company's "From Farm to Fork" strategy continues to provide a relevant framework for operating in an environment where the significance of responsible operations and transparency is emphasised
- The focuses in implementing the company's strategy haven't been accurate and that has led to the weakening of the business foundation and a spiralling loss
  - Food, and especially fresh food, are local
    - market-specific special attributes must be identified and acknowledged
  - Product portfolio development as a whole hasn't been balanced—premium has been overemphasised at the expense of volumes and meat balance management
  - The core of the entire meat business, efficient management of the value chain, has not received enough focus
  - The matrix organisation used in business management has been heavy and expensive. Also roles and profit responsibility have been unclear
  - Mistakes have been made in the Rauma poultry unit investment, which has led to a delay and failure in the commissioning



# HKScan's Group Management Team

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**Tero Hemmilä**  
CEO



**Jari Leija**  
EVP Market Area Finland



**Sofia Hyléen Toresson**  
EVP Market Area Sweden



**Anne Mere**  
EVP Market Area Baltics



**Jukka Nikkinen**  
EVP Market Area  
Denmark & International



**Esa Mäki**  
EVP Meat Balance &  
Supply Chain



**Mika Koskinen**  
Chief Operating Officer  
(COO)



**Jyrki Paappa**  
Chief Financial  
Officer (CFO)



**Markku Suvanto**  
EVP Administration  
(HR and Legal)

# Turning loss into profit

(1/2)

## Changes related to management and ways of working



- Changes in the Board of Directors and in company management
- Towards new ways of working in 2019:
  - From a matrix organisation towards clear roles emphasising country-level profit responsibilities, efficient leveraging of Group synergies
  - Streamlining Group management
  - Significant reduction in number of white-collar employees
  - Goal is for a flatter organisation and competent, proactive, well-performing teams per market area and per function
- Strengthening "meat expertise" in management and in key positions
- New Management Team to support balancing of finances
- Supplementing the Management Team's expertise as needed for the Group's development phases

# Turning loss into profit

## Changes related to business operations

(2/2)



- Controlled price increases
- Efficient local management of the meat value chain, meat balance, and yields
- Balanced management of product portfolio and product development, while taking into consideration the entire meat balance
- Restoring brand leadership in selected categories, market leader focus on category development and growth
- Putting customer collaboration at the core of activities in all markets

# Profitable growth through balancing finances



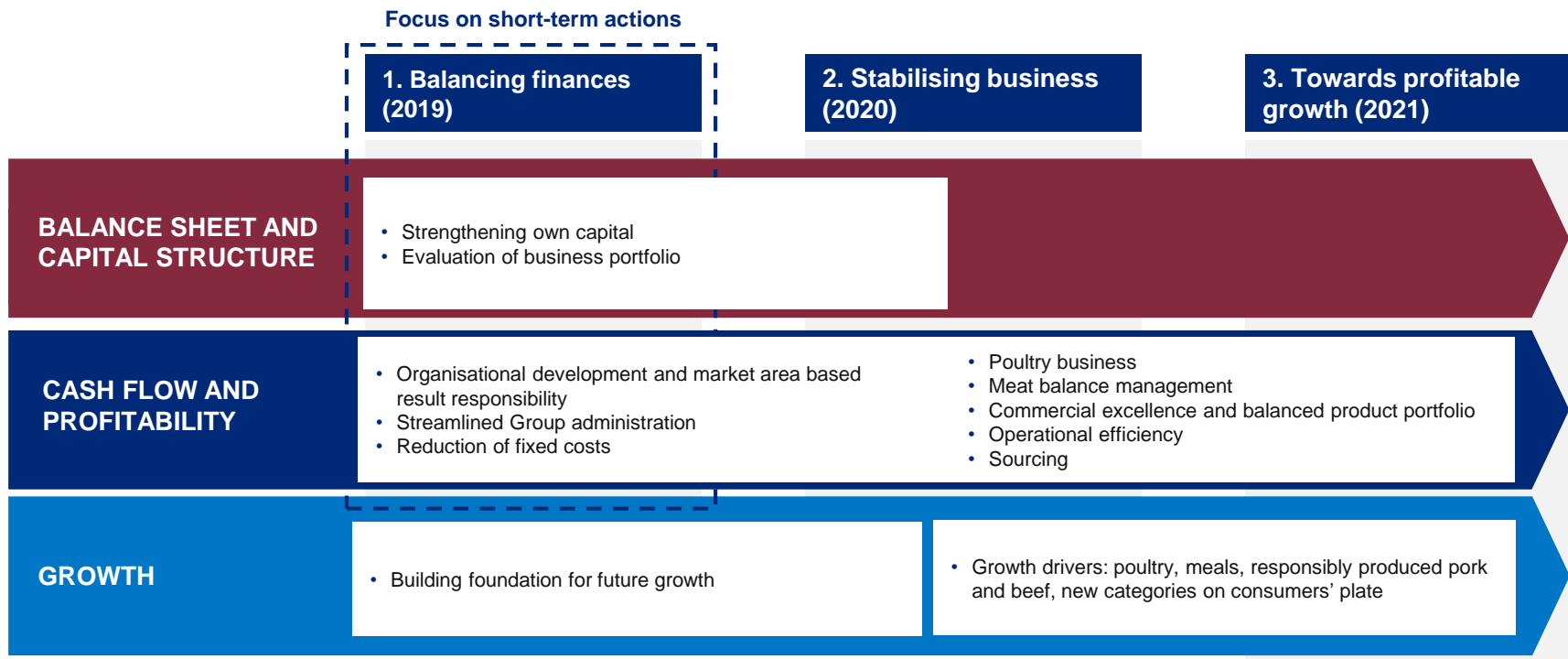
**BALANCING  
COMPANY FINANCES**  
2019

**STABILISING  
BUSINESS**  
2020

**TOWARDS  
PROFITABLE  
GROWTH**  
2021

Cash flow, Profitability, Balance sheet

# Three-year turnaround plan has been kicked off



Source: HKScan Turnaround plan

# HKScan is planning a share issue to strengthen its financial position and capital structure



- The planned share issue is intended to provide a strong foundation for developing HKScan's business portfolio and balancing the Company's financial situation as well as for building future growth
- The Board of Directors of HKScan has decided to convene an Extraordinary General Meeting to be held on 29 May 2019, to authorize the Board of Directors to implement a financing arrangement which would consist of a share issue of up to EUR 60 million. In the event of over-subscription, the Board would be entitled to increase the size of the share issue by a maximum of EUR 12 million
- The Company has, by 8 May 2019, received EUR 54.8 million in commitments from current shareholders and institutional investors to subscribe for new series A shares
- The commitments have at their lowest been given for a subscription price per share not exceeding EUR 1.60

# HKScan has completed group-wide statutory negotiations

- In February 2019, HKScan initiated statutory negotiations that affected all white-collar employees and management in all operating countries (Stock exchange release 6.2.2019)
- HKScan has now completed country-specific reviews in all markets (Stock exchange release 6.5.2019)
- As a result of the negotiations the headcount will be reduced by 183 employees
- With the implemented measures HKScan achieves group-wide annual savings totaling EUR 10 million. The savings are expected to materialise on a phased basis starting in Q4 2019 and take full effect at the beginning of 2020



# Growth with Kariniemen®

	Primary production	Industrial operations	Commercial operations
2019 - 2021	<ul style="list-style-type: none"><li>• Production capacity</li><li>• Feed development</li><li>• Corporate Responsibility activities</li></ul>	<ul style="list-style-type: none"><li>• Yield</li><li>• Productivity</li><li>• Taking back outsourced operations</li><li>• 50 → 70 million kg</li></ul>	<ul style="list-style-type: none"><li>• Growth and increased market share</li><li>• Delivery capability &amp; security</li><li>• Pricing</li><li>• Strong brand</li></ul>
2022 - 202X	<p>New development actions according to strategy</p> <ul style="list-style-type: none"><li>• Production capacity</li><li>• Corporate Responsibility activities</li></ul>	<p>New development actions according to strategy</p> <ul style="list-style-type: none"><li>• Production 70 → 90 million kg</li></ul>	<p>New development actions according to strategy</p> <ul style="list-style-type: none"><li>• Market leadership</li><li>• Renewed product portfolio</li><li>• Most climate friendly poultry – Kariniemen®</li></ul>



- During the first time period (2019-2021), HKScan is able to increase its total production and to achieve a clear result improvement with moderate investments (ca 5 MEUR)
- During the second time period (from the year 2022 onwards), capacity is planned to be further increased through investments. This in order to respond to the market growth and to restore the market leader position



# Redefining HKScan's strategy and strategic focus areas for future growth



## Business focus

- Special focus on poultry as a growth driver
- Strengthening sustainability aspects in red meat
- Growth targets in meals
- Export opportunities for sustainably produced and pure meat
- HKScan's position as part of the consumer's diet, and assessing new product categories

## Redefining strategic focus areas

- Focus on short-term corrective measures while identifying long-term targets
- Key strategic assessments are related to direction of the company's growth and structure in the long-term
- Positioning of different markets as part of the Group's business
- Strategy work advancing during spring and summer

# Strong CR actions for building sustainable future

**Economic  
responsibility**



**Social  
responsibility**



**Animal health  
& welfare**



**Environmental  
responsibility**



**Sustainable & transparent supply chain**

**Stakeholder cooperation & communications**





LIHANTAITAJIA

VUODESTA 1913

# MAAKAREIDEN UUTUDET OVAT TÄÄLLÄ!



# RAIKASTA KESÄÄ!













PER. 1966

*Hyvä syntyy hyvästä*

