



# **HKSCAN**

## **Half Year Report / 2019**

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**18 July 2019**

# Profitable growth through balancing finances



**BALANCING  
COMPANY FINANCES**  
2019

**STABILISING  
BUSINESS**  
2020

**TOWARDS  
PROFITABLE  
GROWTH**  
2021

Cash flow, Profitability, Balance sheet



# Q2 – Result improved clearly and successful share issue enables firm turnaround actions

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## Highlights

- Comparable EBIT improved by over EUR 14 million in Q2 and over 22 million in H1
- Successful share issue strengthened the financial position and balance sheet
- The positive development in the Rauma unit continued and resulted in clear sales growth in the Finnish poultry business
- Profitability continued to improve also in Sweden despite of negative currency impact
- The performance in the Baltics continued to recover
- Operational efficiency improvement actions generated results

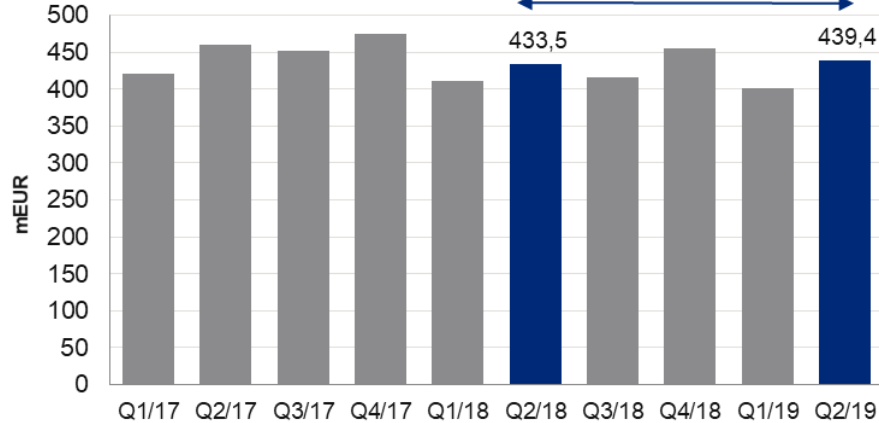
## Lowlights

- Group EBIT was still negative
- The EBIT in Denmark decreased due to lower retail sales and changes in sales structure
- The weakened Swedish krona impacted the net sales in Sweden
- Delivery capability is not yet on a targeted level
- There is no organic market growth in other categories but poultry and meals

# HKScan Group – Result improved clearly

## Net sales

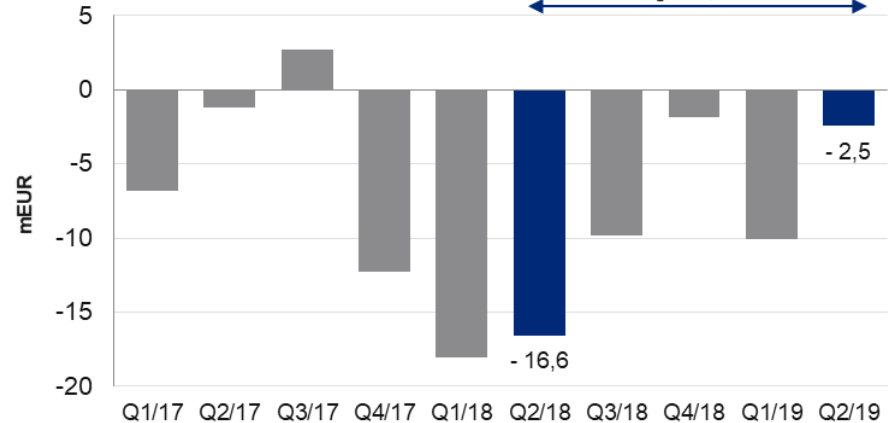
Change 1,4 %



- Net sales increased thanks to improved poultry sales in Finland. Good growth also in other product categories.
- In Sweden, net sales decreased mainly due to weakened Swedish Krona and changes made in poultry sales channels
- In the Baltics, net sales increased as a result of continuing growth in domestic retail sales and improved product mix
- In Denmark, changes in the customer structure caused a slight decrease in sales

## Comparable EBIT

Change +14,1 meur

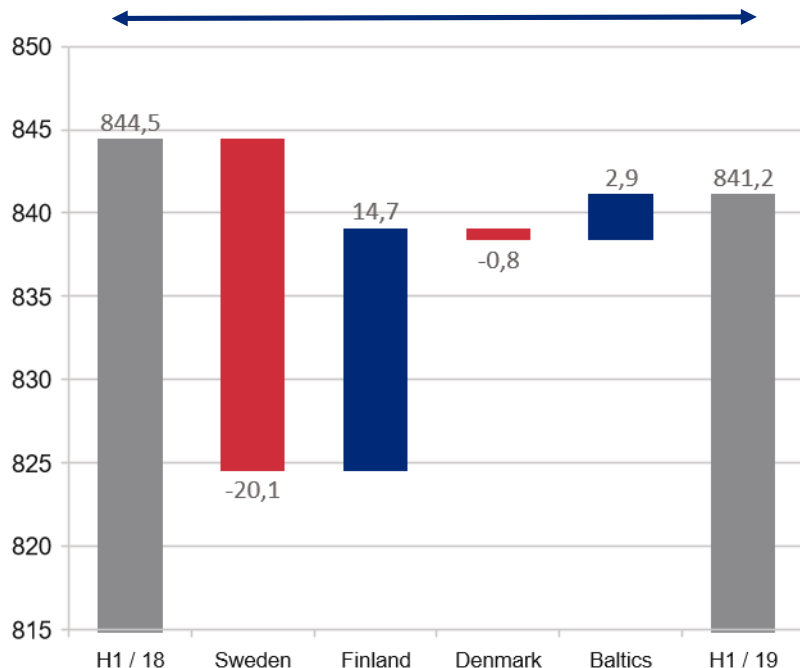


- Comparable EBIT improved by EUR 14.1 million thanks to improvements in Finnish poultry business, price increases, operational efficiency measures and cost control
- EBIT improved in market areas Sweden, Finland and Baltics, but weakened in Denmark

# HKScan Group H1 – Result improved over 22 million euros

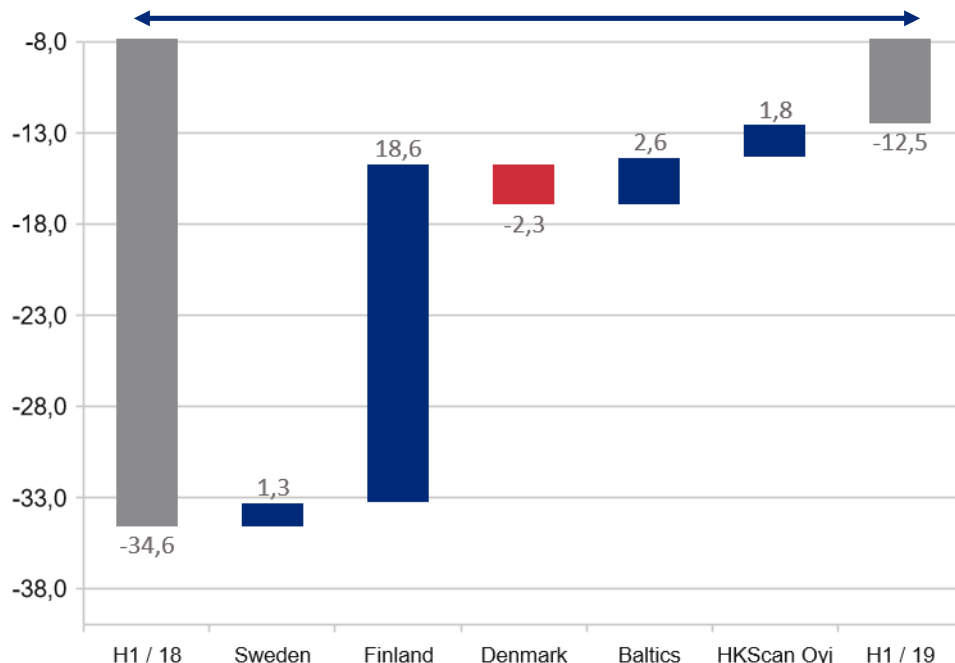
Net sales MEUR, H1 2018 vs. H1 2019

-3,3 million euros



EBIT MEUR, H1 2018 vs. H1 2019

+22,1 million euros



In comparable currencies net sales in H1 were EUR 852,4 million.

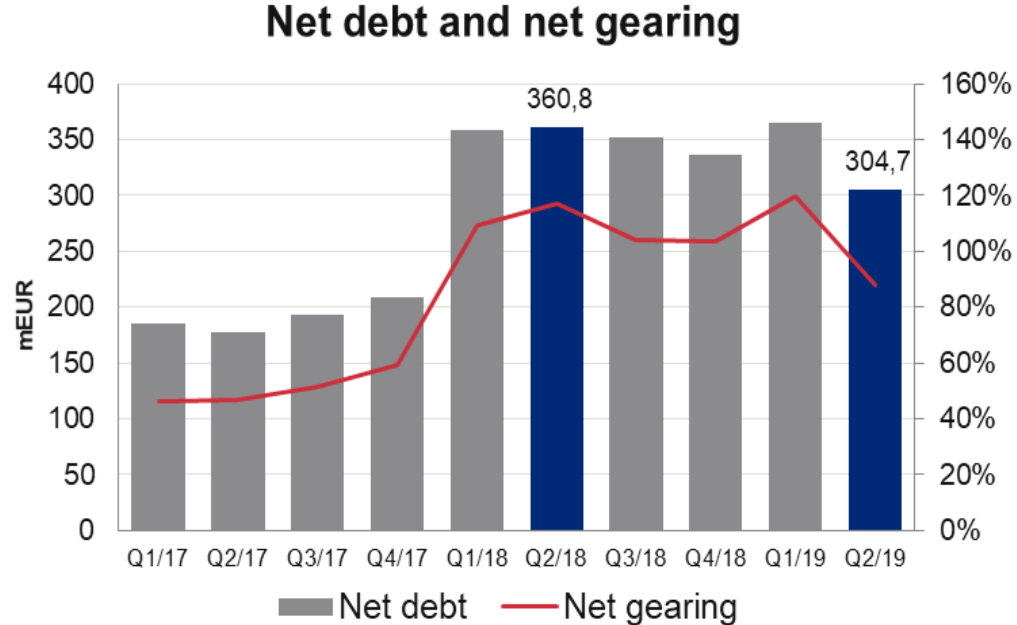
## Share issue strengthened HKScan's financial position and capital structure



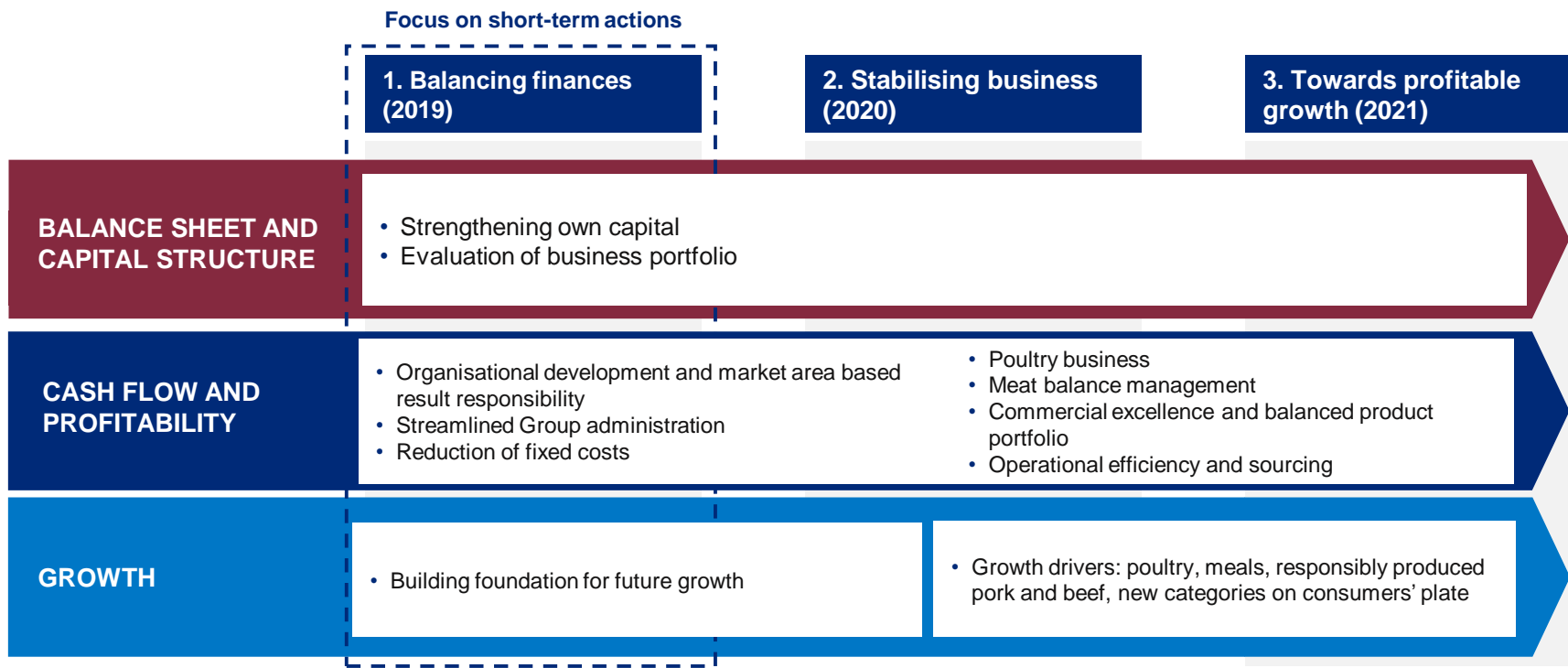
- The share issue succeeded well and the authorisation of the Board of Directors for utilising the upside option was used
- The issue was oversubscribed and the Company raised gross proceeds of approximately EUR 71.9 million in the offering
- The offering strengthened the Company's financial position significantly and enables the controlled balancing of finances. This creates a foundation for developing the Company's business portfolio and building future growth

# Net debt and net gearing decreased as a result of successful share issue

- From the gross proceeds of approximately EUR 71.9 million collected in the share issue a total of approximately EUR 43.7 million of the subscriptions were paid in cash and a total of approximately EUR 28.2 million by setting off the outstanding receivables based on the notes issued. Of this amount, EUR 14.9 million represents the amount set off from the hybrid loan issued by in September 2018.
- As a result of the share issue, net gearing decreased to 88 %.



# Three-year turnaround plan has been kicked off



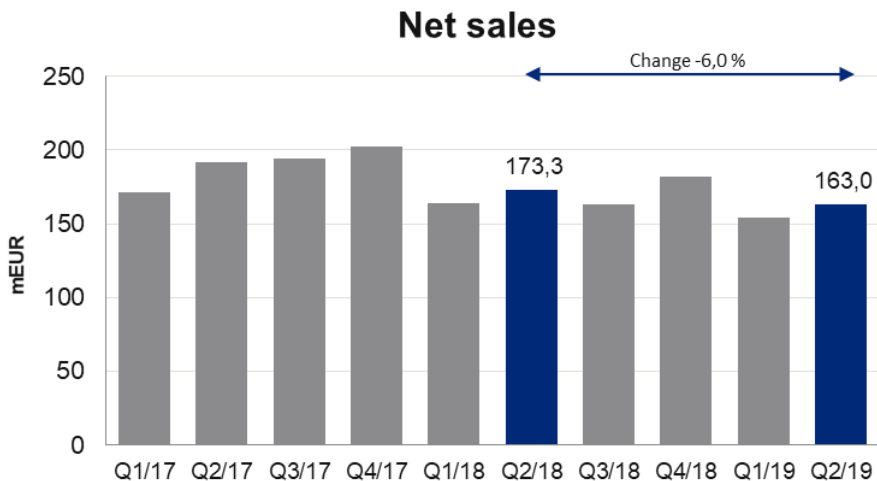
Source: HKScan Turnaround plan



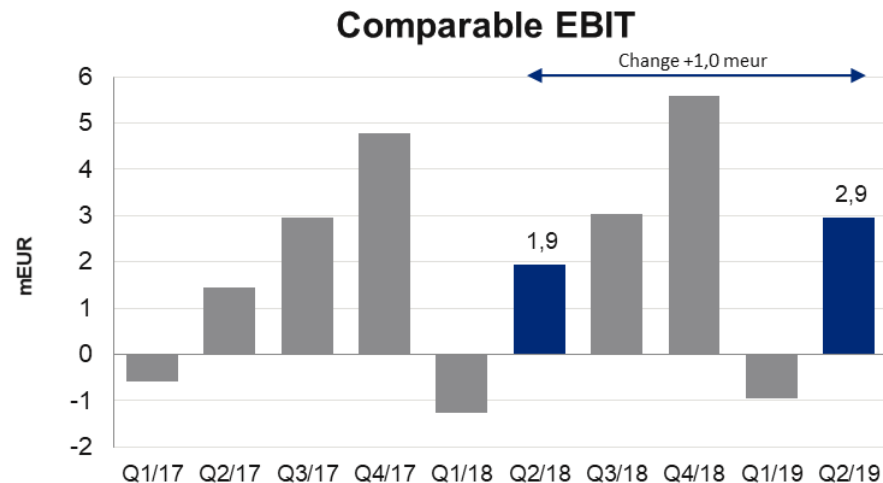
# HKScan Group Q2 and H1 /2019

EUR million	Q2/2019	Q2/2018	Q1-Q2/2019	Q1-Q2/2018	2018
Net Sales	439,4	433,5	841,2	844,5	1 715,4
EBIT	-6,6	-16,7	-21,2	-35,0	-48,3
- % of net sales	-1,5 %	-3,8 %	-2,5 %	-4,1 %	-2,8 %
Profit/loss before taxes	-10,0	-19,4	-27,3	-40,1	-58,5
- % of net sales	-2,3 %	-4,5 %	-3,3 %	-4,7 %	-3,4 %
Profit/loss for the period	-10,4	-16,4	-27,3	-33,1	-51,3
Comparable EBIT	-2,5	-16,6	-12,5	-34,6	-46,3
- % of net sales	-0,6 %	-3,8 %	-1,5 %	-4,1 %	-2,7 %
EPS, EUR	-0,17	-0,31	-0,47	-0,62	-1,00
Cash flow before investments	20,9	11,1	5,6	-28,9	-3,4
Return on capital employed (ROCE) before taxes, %	-4,7 %	-8,7 %	-4,7 %	-8,7 %	-6,7 %
Comparable ROCE before taxes, %	-3,2 %	-6,5 %	-3,2 %	-6,5 %	-6,4 %
Net gearing, %			88,0 %	117,3 %	103,3 %
Personnel, end of month average			7 024	7 261	7 179

# Sweden – Savings driving profitability

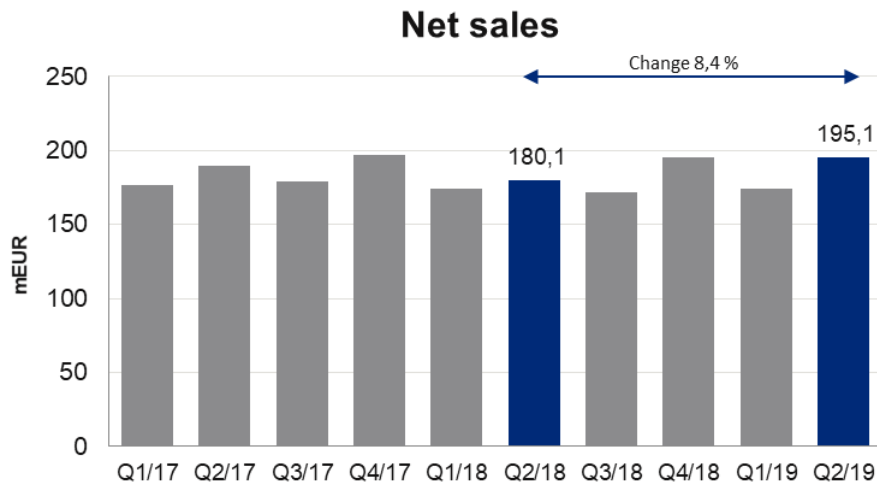


- Net sales decreased from the previous year mainly due to the weakened Swedish krona and changes in poultry sales channels

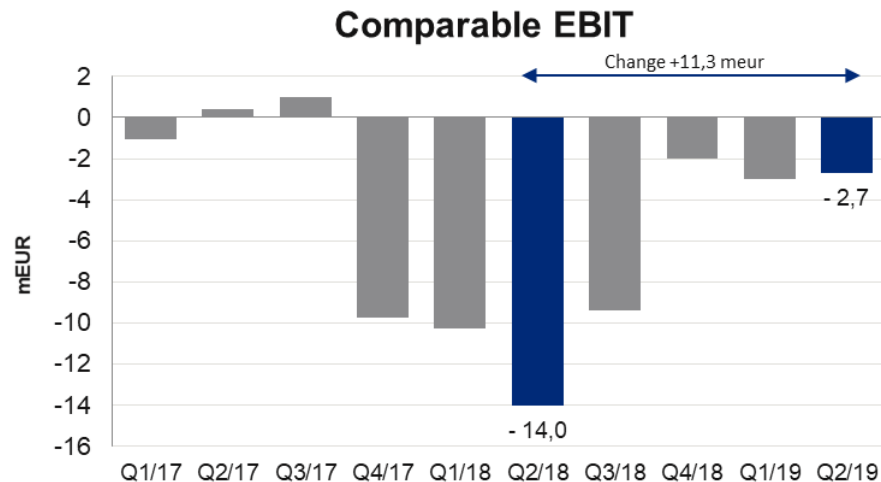


- Despite the negative local currency effect, comparable EBIT increased from the comparison period as a result of better sales margins, higher efficiency in operations and lower administration costs

# Finland – Performance improvement visible in several fronts

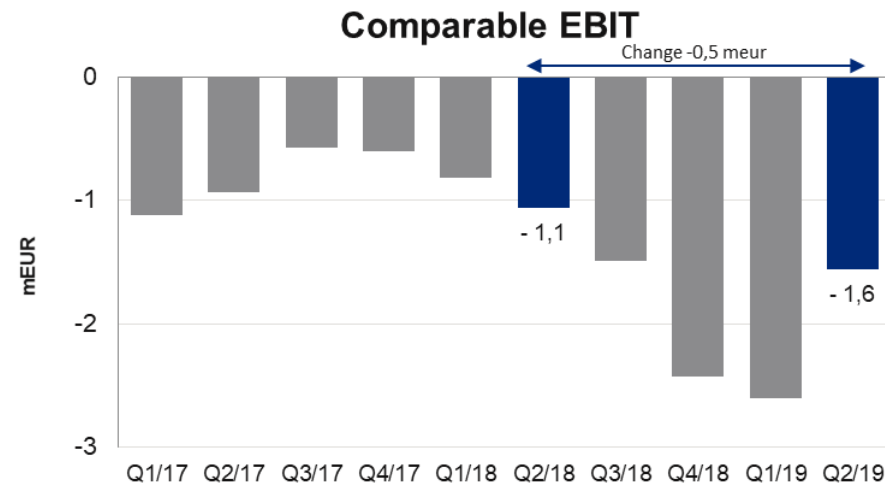
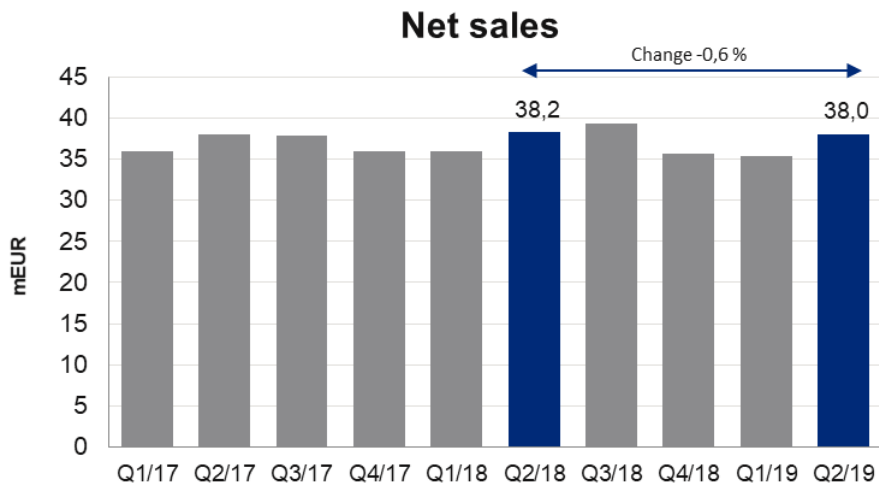


- Net sales increased clearly from the previous year as a result of higher poultry volumes
- Good sales growth in other product categories was also recorded, particularly in meals



- Comparable EBIT increased by EUR 11.3 million thanks to improved poultry operations as delivery capability and efficiency of Rauma plant improved further
- Price increases, better operational efficiency and tight cost control contributed to EBIT improvement as well
- A non-recurring cost of EUR -1.1 million was recorded in relation to statutory negotiations

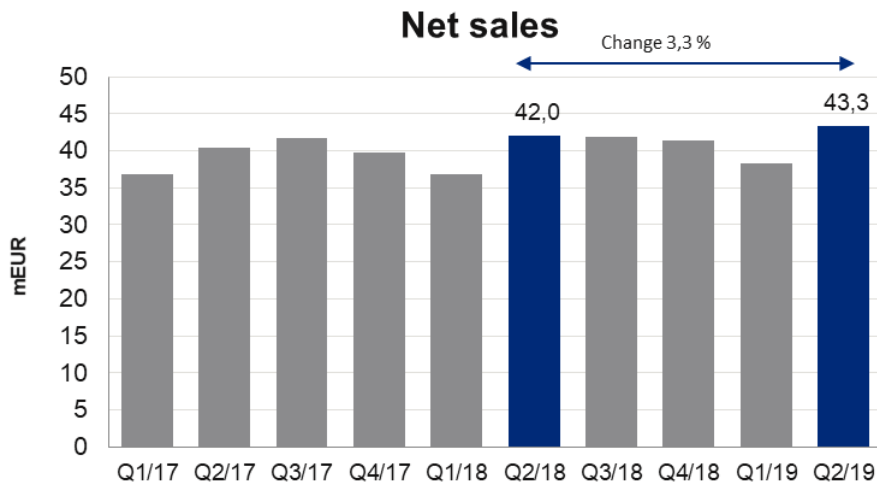
## Denmark – First signs of improvement visible



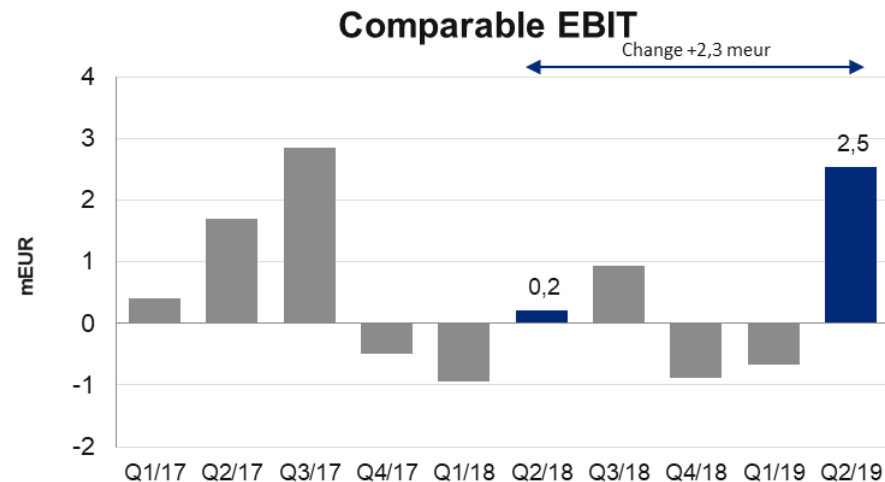
- Net sales were almost on par with the previous year despite of lower retail sales that was partly offset by increased export sales

- Comparable EBIT decreased due to changes in customer structure and sales mix as well as fierce price competition

# Baltics – Growth, margins and market prices driving EBIT



- Net sales increased as a result of the continuing growth in retail sales, improved product mix and higher pork market price

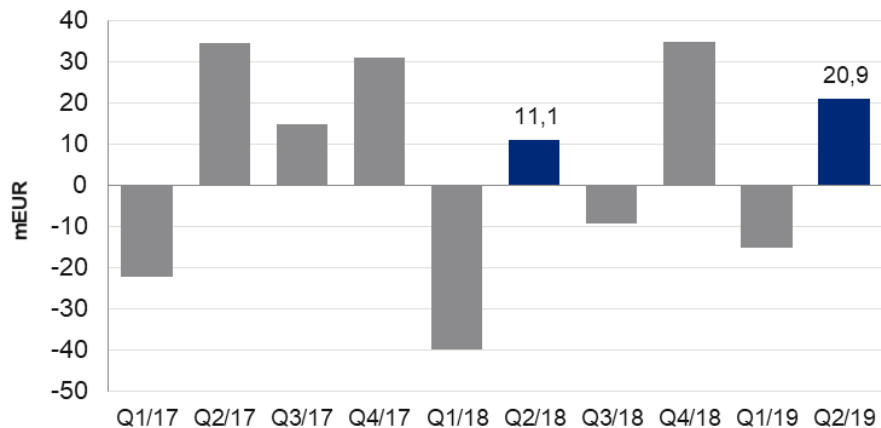


- Comparable EBIT improved from the previous year as a result of improved sales margins offsetting the rising raw material and personnel costs
- The change of biological asset revaluation amounted to EUR 0.8 (-0.2) million

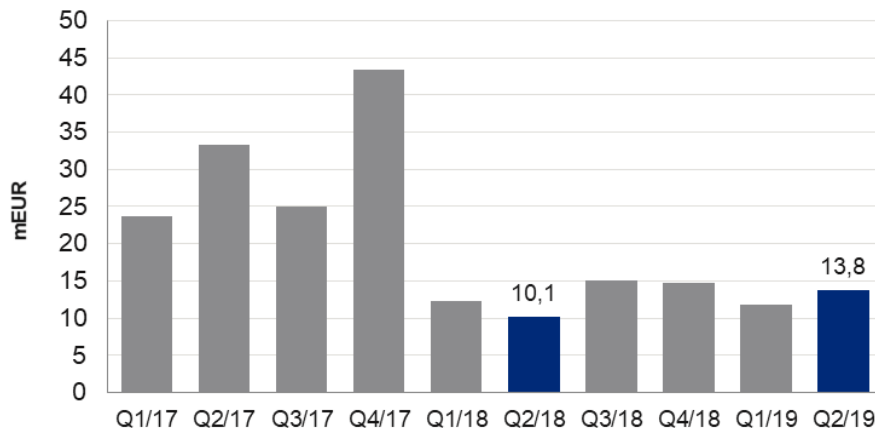


# Cash Flow improving along profitability

## Cash flow before investments



## Capital expenditure

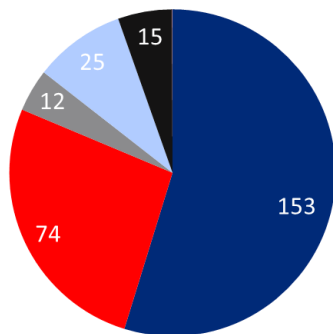


- Cash flow before investments almost doubled as a result of improved performance particularly in Finnish poultry business

- The company's expenditure totalled EUR 25.5 million in H1
- In March, the modernisation of the Kristianstad unit in Sweden was completed
- In June, the renewed parts of the Rakvere unit in Estonia were taken into use

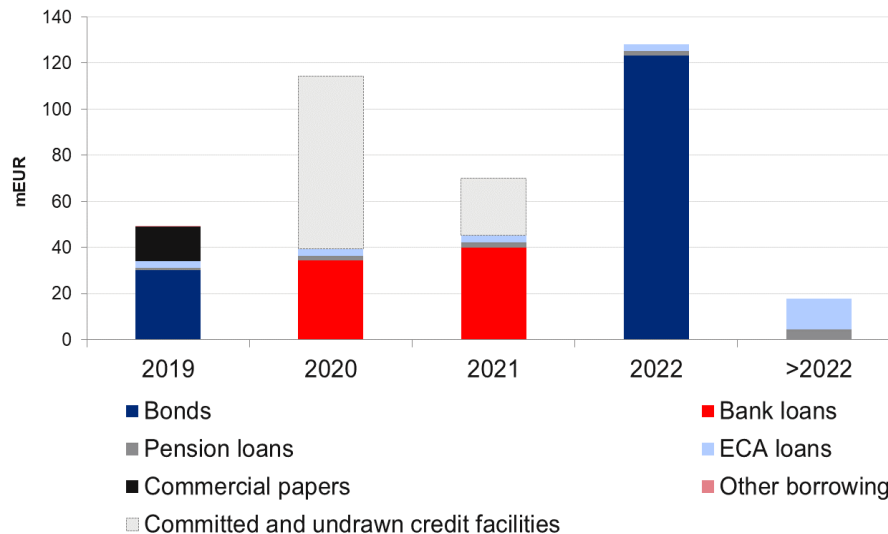
# Funding base and maturity structure

Interest-bearing debt by credit type



Total interest-bearing debt:  
279,6 mEUR

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



\*EUR 26 million hybrid bond is treated as equity (early redemption option in Sept. 2023)

## New loan agreement maturing at the end of 2021

- After the reporting period, HKScan signed a new EUR 174.3 million loan agreement with its financing banks
- The loan agreement consists of EUR 100.0 million revolving credit facility and EUR 74.3 million term loan
- The new loan agreement matures at the end of year 2021. It replaced the earlier revolving credit facilities and bilateral bank loans that were maturing in 2020 and 2021



## Outlook for 2019 (Unchanged)

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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.



**Strategy work is ongoing**



# Strategy work ongoing – Results to be communicated during H2

## STRATEGY FOR PROFITABLE GROWTH

BUILDING GROWTH FOR BUSINESS

IMPROVING EFFICIENCY AND PRODUCTIVITY

WAY TO OPERATE TO SUPPORT ACCOUNTABILITY AND GROUP SYNERGIES

CORPORATE RESPONSIBILITY

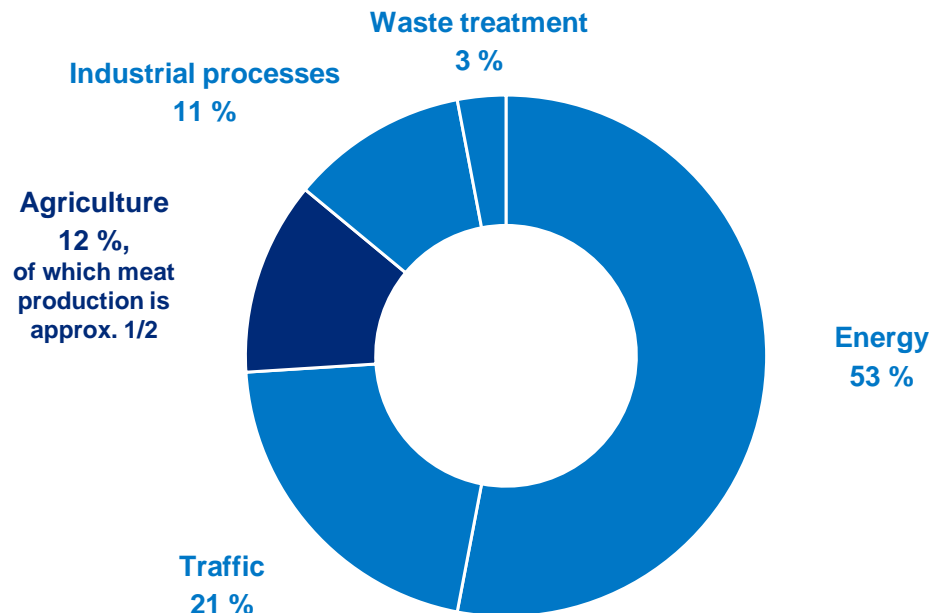
LONG TERM FINANCIAL TARGETS

A top-down view of a wooden cutting board on a white wooden surface. The board holds several slices of medium-rare steak, a portion of a dark, seared steak, and several green beans. A small metal cup with a handle is filled with a dark, rich sauce. A semi-transparent white rectangular box is overlaid on the center of the image, containing the text.

**Solutions to mitigate climate change as  
part of our  
Corporate Responsibility**

# Greenhouse gas emissions: Share of livestock production in Finland

Greenhouse gas emissions in Finland <sup>1)</sup>



Share of the greenhouse gas emissions in livestock production is approximately 6 % in Finland

HKScan is constantly working, together with its producers, to reduce the environmental impact of meat production

The most significant climate impact is achieved by reducing the use of fossil raw materials

<sup>1)</sup> Statistics Finland (Tilastokeskus)

## Meat consumption in Finland follows the nutrition recommendations



Considering the entire meal, the amount of meat and meat products is modest.

HKScan's fact sheet: Meat and nutrition

# Attitude survey of the Finnish Business and Policy Forum EVA (June 2019)


## Finns are concerned about climate change, but are not willing to give up eating meat and driving

Extracts from the research results:

- Many Finns are ready to change their way of life to mitigate climate change, but this group of people is smaller than ten years ago
- A big amount of people consider that flying and energy consumption at home are considerable means for many. "Giving up driving and eating meat is too much for many."
- Most of the respondents feel that "it would be easier to change the way of living if the neighbour would do the same."







***In 2050, as a result of the global population growth (over 9 billion in 2050), food is needed approximately 50 % more than we produce today. At the same time, water will be even a scarcer resource than today.***

*Source: FAO*

## Responsible meat production in our home markets is part of the solution



*Thanks to the responsible methods and principles of livestock production on HKScan's home markets, food production serves as a solution to domestic food security and to climate change on a global scale.*



# Responsibility work for the future

**Economic  
responsibility**



**Social  
responsibility**



**Animal health  
& welfare**



**Environmental  
responsibility**



**Sustainable & transparent supply chain**

**Stakeholder cooperation & communications**



A group of people are gathered around a table outdoors, enjoying a meal. The scene is set by a body of water with trees in the background. The people are engaged in conversation and eating. The table is filled with various dishes, including what appears to be a charcuterie board, bowls of food, and glasses. The overall atmosphere is relaxed and social.

## Domestic food has value