

Johan Westman, CEO  
Fredrik Nilsson, CFO

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# Interim Report Third quarter 2019

**AAK**



# Agenda

- 1 Third quarter 2019
- 2 Key strategic activities
- 3 Business area information
- 4 Q&A



# Highlights Q3

Continued profit growth on the back of a strong Food Ingredients performance

## HIGHLIGHTS

# Q3 19



- Limited organic volume growth
- All-time high operating profit for a third quarter
- Reported tax costs reduced to 25 percent (27)
- Earnings per share increased by 10 percent
- Cash flow impacted by sourcing of strategic raw materials
- Strong trend and improved mix in Food Ingredients
- As expected, the lower yield in our CCF business continued with higher than normal production costs
- Acquisition of 80 percent of Soya International (Europe) Ltd. expands ingredient portfolio

## GROWTH & RETURNS

**Volume**  
**571,000 MT**  
(up 1% y/y)

**Adjusted operating profit**  
**SEK 569 million**  
(up 8% y/y, up 4% y/y\*)

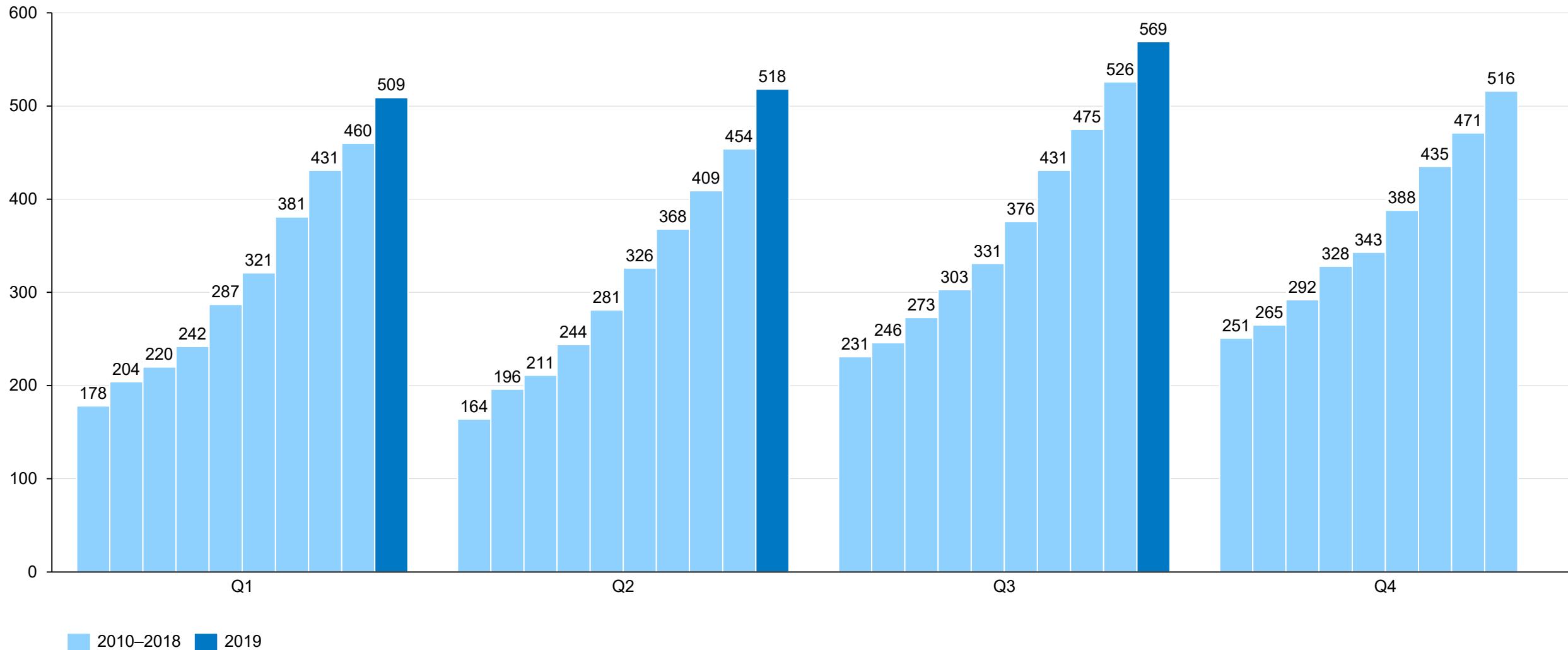
**Adjusted operating profit per kilo**  
**SEK 1.00**  
(up 8% y/y, up 2% y/y\*)

**ROCE**  
**15.1%\*\***

\* Fixed FX

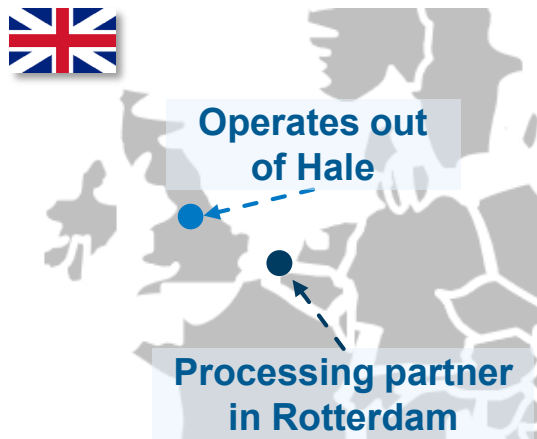
\*\* Rolling 12 months incl. IFRS 16 effect

# Operating profit for Q3 2019 – the trend continued

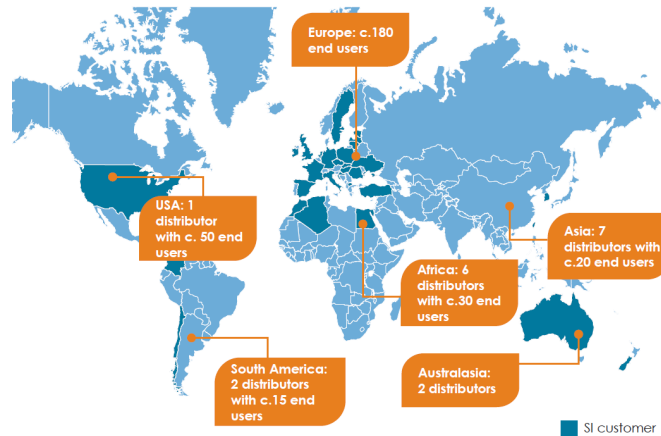


# Soya International, our latest acquisition, is a true global lecithin player with a scalable platform which AAK can leverage

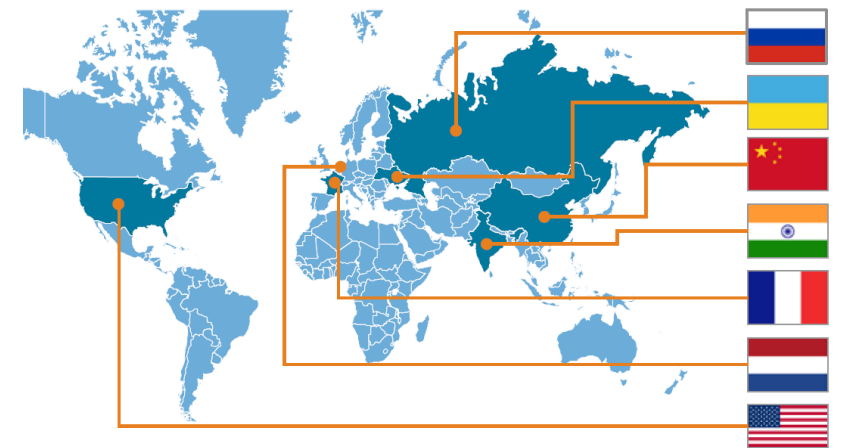
Est. in 1996, headquartered in the UK with ~10 employees



Global presence with ~€15 million of sales to more than 40 markets



Comprehensive lecithin product range sourced from a broad supplier base



● Focus on non-GMO speciality lecithin

# Soya International – strategic rationale



## **Increase customer proximity within key segments**

Lecithin is a critical ingredient with key functionalities for customers within most of AAK's core segments – in particular Chocolate & Confectionery Fats. There is a clear segment for speciality/semi-speciality lecithin.



## **Strong market growth on the back of global trends**

The speciality/semi-speciality lecithin market is benefiting from strong underlying trends such as non-GMO, clean label, organic, sustainability/traceability, and health



## **One of the closest adjacent ingredients to O&Fs**

Similar industry dynamics will increase synergy potential and simplify integration with AAK's existing operations, including sourcing and go-to-market approach

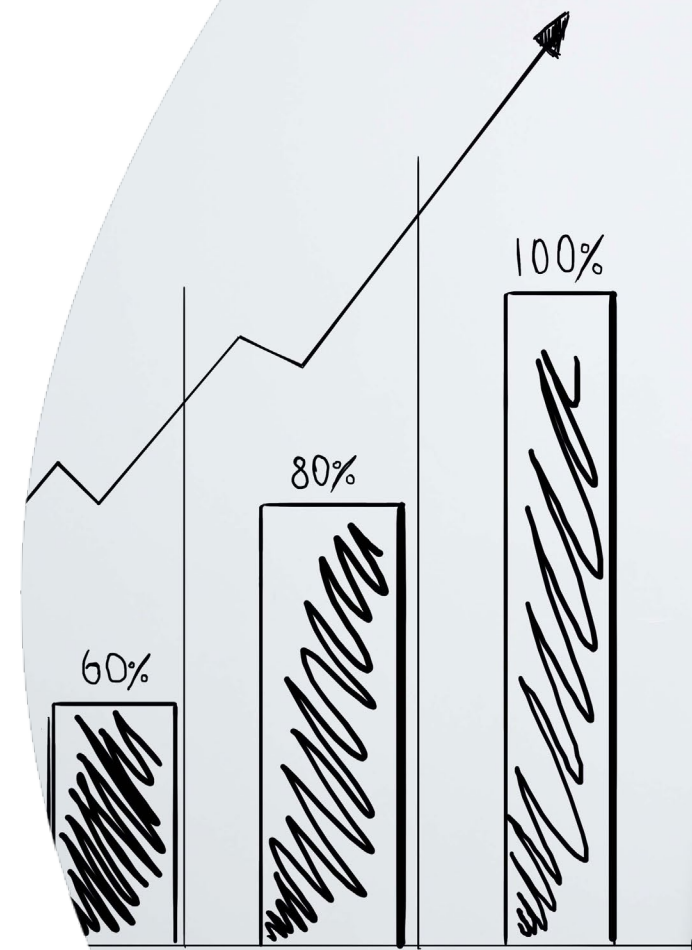


## **Scalable platform with a solid track record**

Soya International has been active in the market for 20+ years and has experienced strong financial development with an asset light approach set for further scaling

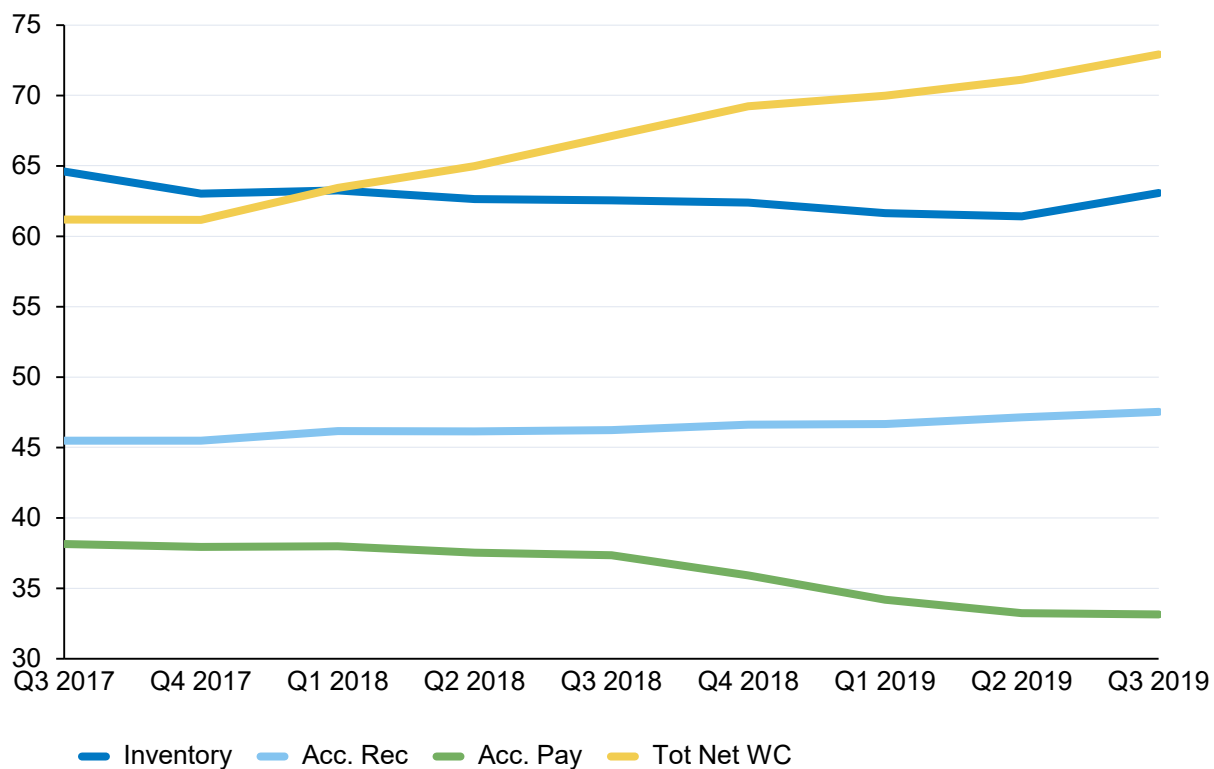
## FX exposure – translation impact positive in the quarter

	Average rate 2018	Average rate YTD 2019	Movement vs SEK	Spot rate Sep
USD	8.71	9.40	➡	9.83
EUR	10.26	10.55	➡	10.72
GBP	11.58	11.95	➡	12.10
MXN	0.45	0.48	➡	0.50



# Working capital days up four days since year-end

Working capital days, rolling 12 months



Development YTD

**Inventory**  
**+1**

**Payables**  
**-3**

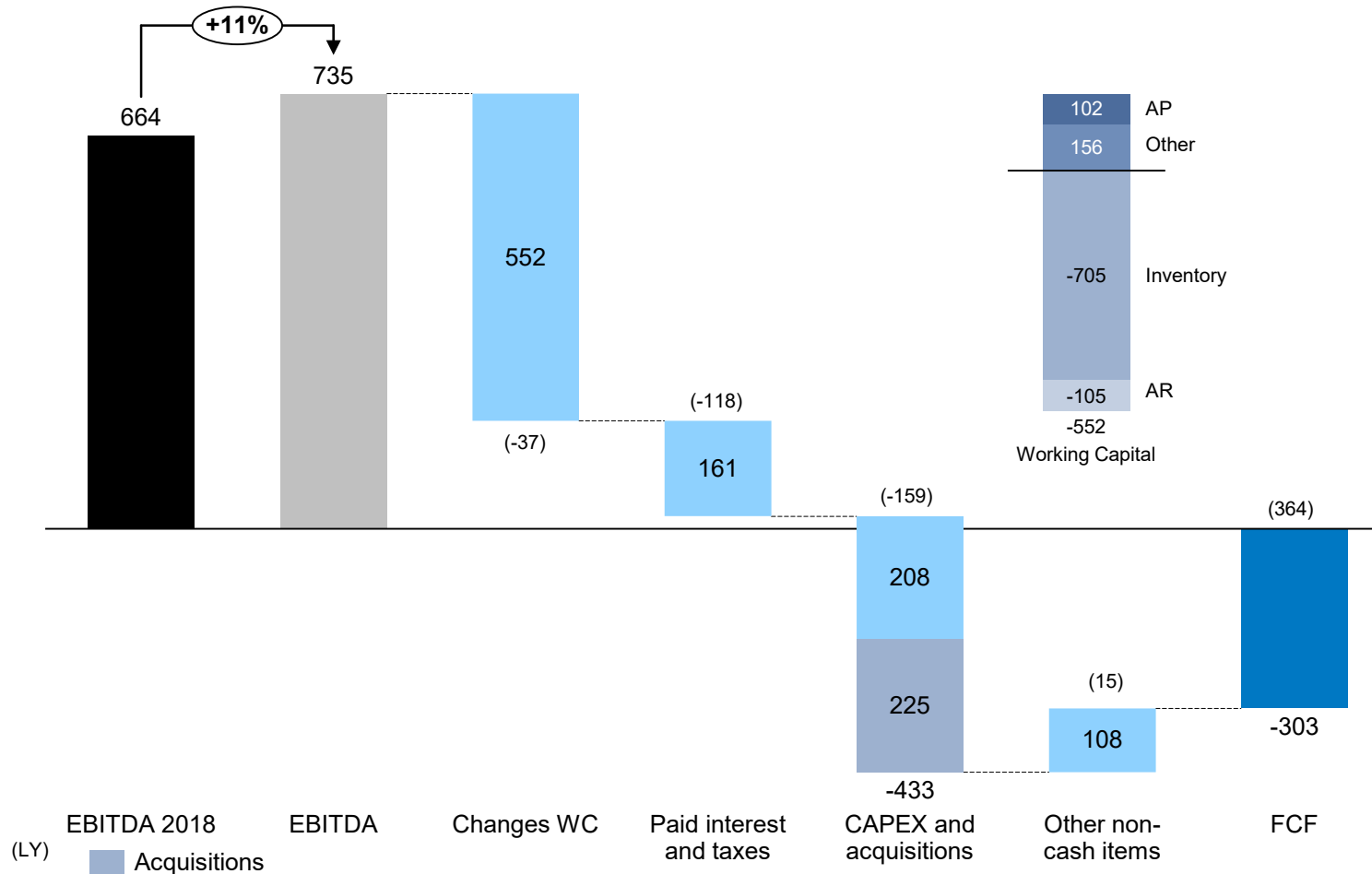
**Receivables**  
**+1**

**Other WC**  
**Flat**



# Good EBITDA improvement but Q3 cash flow was impacted by sourcing of strategic raw materials

## Cash flow Q3 2019



## Comments

- 💧 Cash flow from inventory driven by sourcing of strategic raw materials. Effects of lower raw material prices have diminished.
- 💧 CAPEX related to regular maintenance investments and capacity increases amounted to SEK 208 million.

# Return on Capital Employed (ROCE)

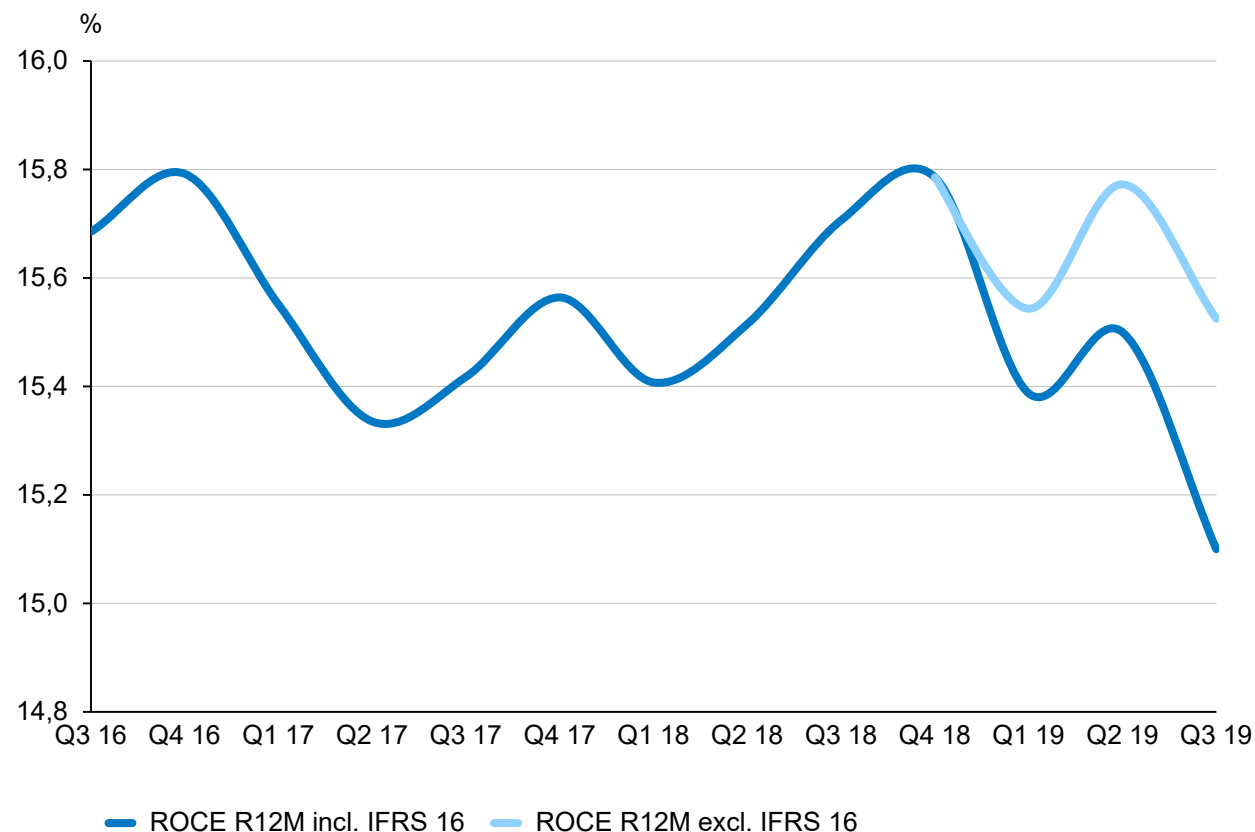
- 💧 We target a gradual and continuous improvement

**ROCE end Q3 2019\***  
**15.1%**

**EBIT LTM**  
**SEK 2,097**  
**million**

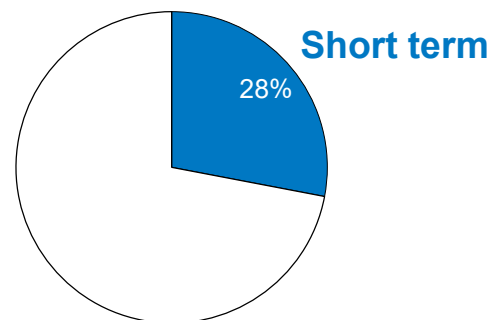
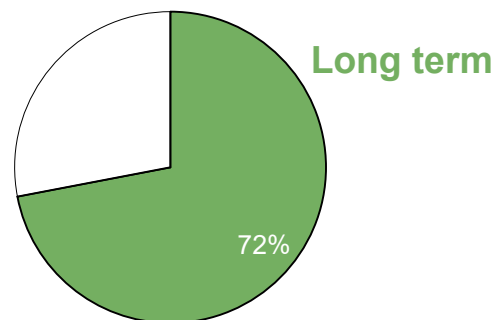
**Capital**  
**employed\***  
**SEK 13,872**  
**million**

Growth and operating leverage  
to drive increase in ROCE



\* ROCE: Return on Capital Employed calculated on rolling 12 months

# Loan and duration profile



	SEK million	Duration
Mortgage	547	13 years
MTN bond	500	5 years
MTN bond	1,100	3 years
Bilateral	300	2 years
Clubloan	550	2 years

	SEK million	Duration
Bilateral	618	6 months
Bank loans	548	6 months
<b>Total loans</b>	<b>4,163</b>	
Cash	-731	
<b>Net</b>	<b>3,432</b>	



# Food Ingredients

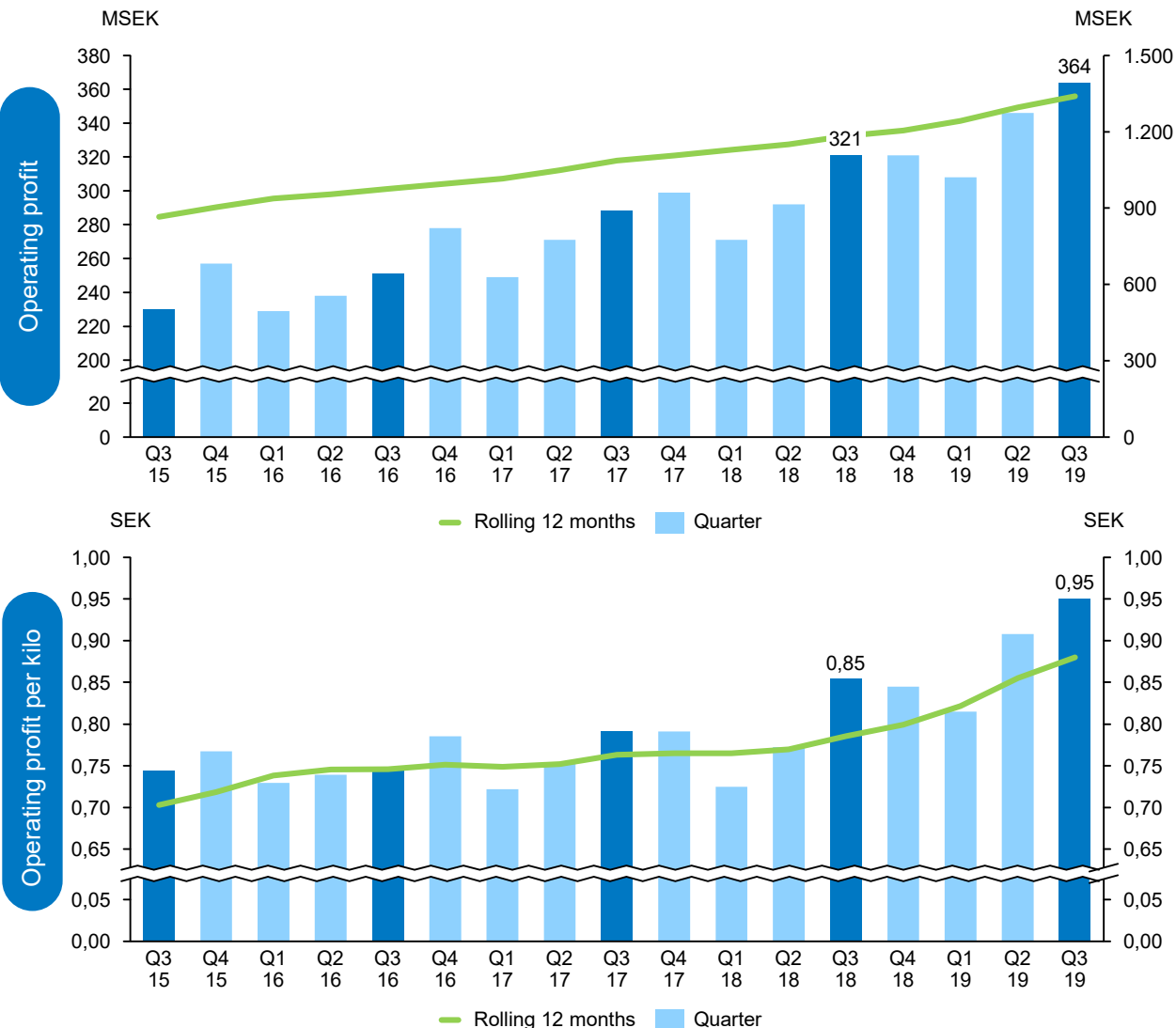
Operating profit  
+13%

Organic volume growth  
+2%

Operating profit per kilo  
+12%

## Business area development

- Strong profit growth driven by Plant-based, Dairy, and Bakery segments
- Special Nutrition had a mixed performance
  - Growth for high-end solutions continued, although at a slower pace
  - Lower volumes for our semi-speciality solutions
  - We have an impact from lower birth rates in China as well as destocking by some customers
- Our business for plant-based solutions has generated strong volume and profit growth, although from a small base. Our pipeline of customer co-development projects has more than doubled between the second and the third quarter
- Foodservice improved profitability with small volume growth



# Chocolate & Confectionery Fats

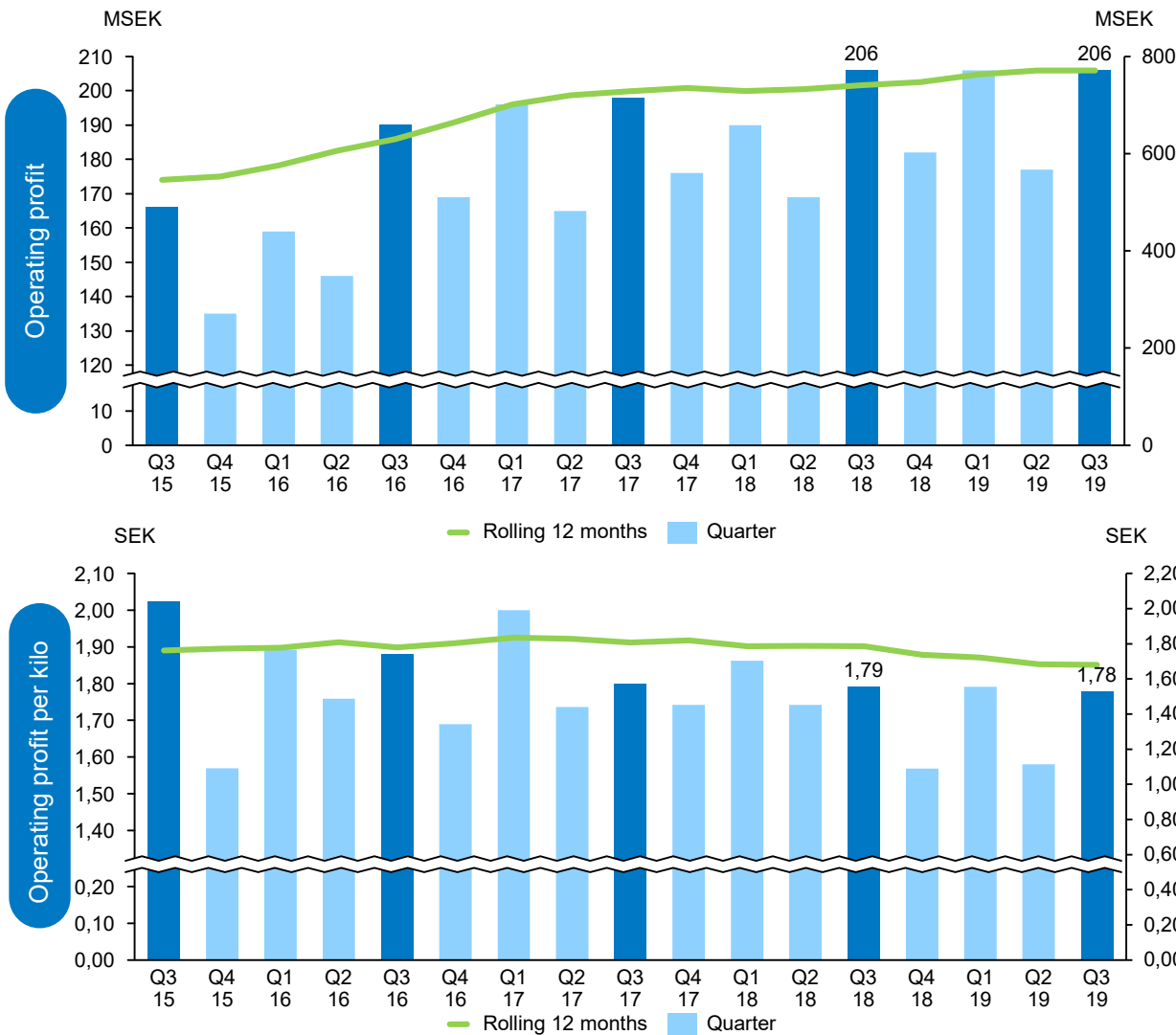
Operating profit  
+0%

Organic volume growth  
+1%

Operating profit per kilo  
-1%

## Business area development

- A quarter with limited volume growth
  - The lower operating profit per kilo was caused by higher production costs due to low-yielding shea kernels
  - We expect to use the last batches during Q4
  - Slightly positive price development on high-end solutions in the quarter
- Capacity expansion investments progress according to plan
- There is a planned extended maintenance stop scheduled for our production plant in Aarhus, Denmark during the first quarter next year
- With new kernels in place and additional capacity, we expect to reach normal cost levels within the business area by the middle of the first quarter next year





# Technical Products & Feed



Operating profit  
-11%

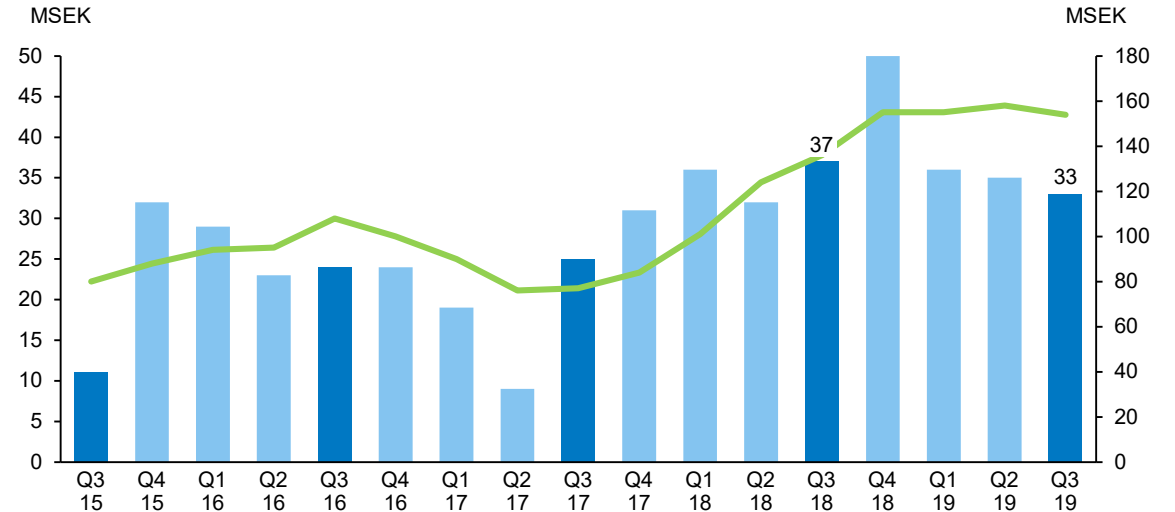
Organic volume growth  
-4%

Operating profit per kilo  
-8%

## Business area development

- Both our fatty acids business and our feed business declined compared to the very strong corresponding quarter last year
- Last year, our feed business was favorably impacted by the dry weather in Scandinavia which resulted in farmers purchasing more feed products than during a normal year
- Compared to historical performances, we continue to operate on a significantly higher operating profit level due to our successful implementation of our customer co-development within the business area

Operating profit



Operating profit per kilo



# Q3 summary

## HIGHLIGHTS

### **AkoPlanet™**

- 💧 Strong growth
- 💧 Strong pipeline development

### **Dairy, Bakery, and Foodservice**

- 💧 Good EBIT/kilo improvement

### **M&A**

- 💧 Step into adjacency
- 💧 Good progress of earlier acquisitions

## CHALLENGES

### **Special Nutrition**

Mixed performance, affected by:

- 💧 Lower birth rates in China
- 💧 Destocking by some customers

### **Chocolate & Confectionery Fats**

- 💧 Rolling of contracts
- 💧 High production costs due to low-yielding shea kernels



# Progress and good results for The AAK Way – strong foundation for our next company program



## Go To Market

- Continuous training on Creating Customer Value
- Follow up on global customer survey – *We listen, We care, We act*
- Training on oils & fats and customers' industries



## Operational Excellence

- Further progressing with multi-oil sustainability
- Global networks enabling best practice sharing on key production capabilities
- Continuous Improvement and Lean practices enabled by a strengthened toolbox



## Special Focus Areas

- Senior and Medical Nutrition business growing
- Launch of AkoPlanet™ – AAK portfolio with solutions for plant-based foods
- Cross-regional collaboration for strengthened INNOBO-Product offerings



## Innovation

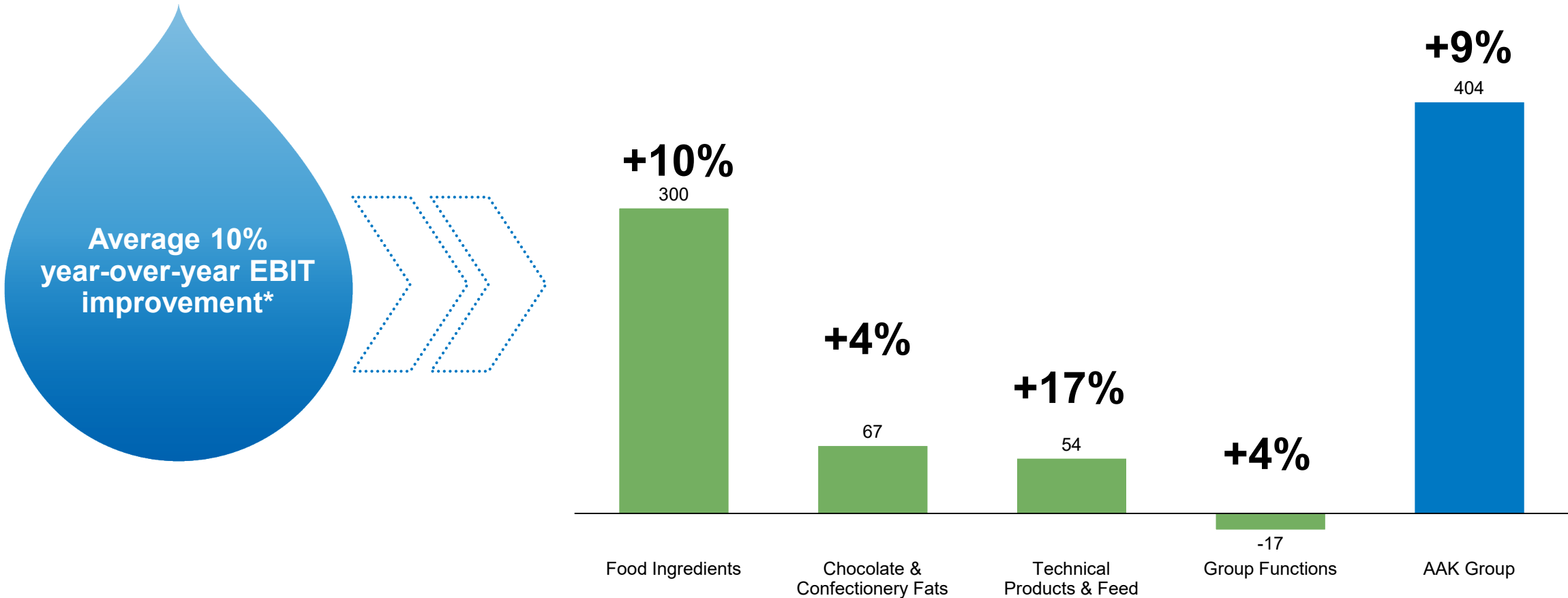
- Market-driven innovation process



## People

- Leadership development
- Preparing the organization for the future

# Almost on target for our management ambition after 33 months



\*Excluding acquisitions and at fixed FX

## Concluding remarks



We are well positioned with our offer of plant-based, healthy, high value-adding oils and fats solutions, using our customer co-development approach. We continue to see favorable underlying trends in our markets and we remain prudently optimistic about the future.



# CAPITAL MARKET DAY 2019

November 20

Aarhus, Denmark

# AAK



# Q&A

# Financial calendar

## Financial calendar 2019

November 20, 2019

Capital Market Day, Aarhus

January 30, 2020

Fourth quarter and year-end report 2019

April 24, 2020

Interim report first quarter 2020

May 13, 2020

Annual General Meeting, Malmö



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**Further Investor Relations material  
can be found at [aak.com/investors](http://aak.com/investors)**





Q3 presentation

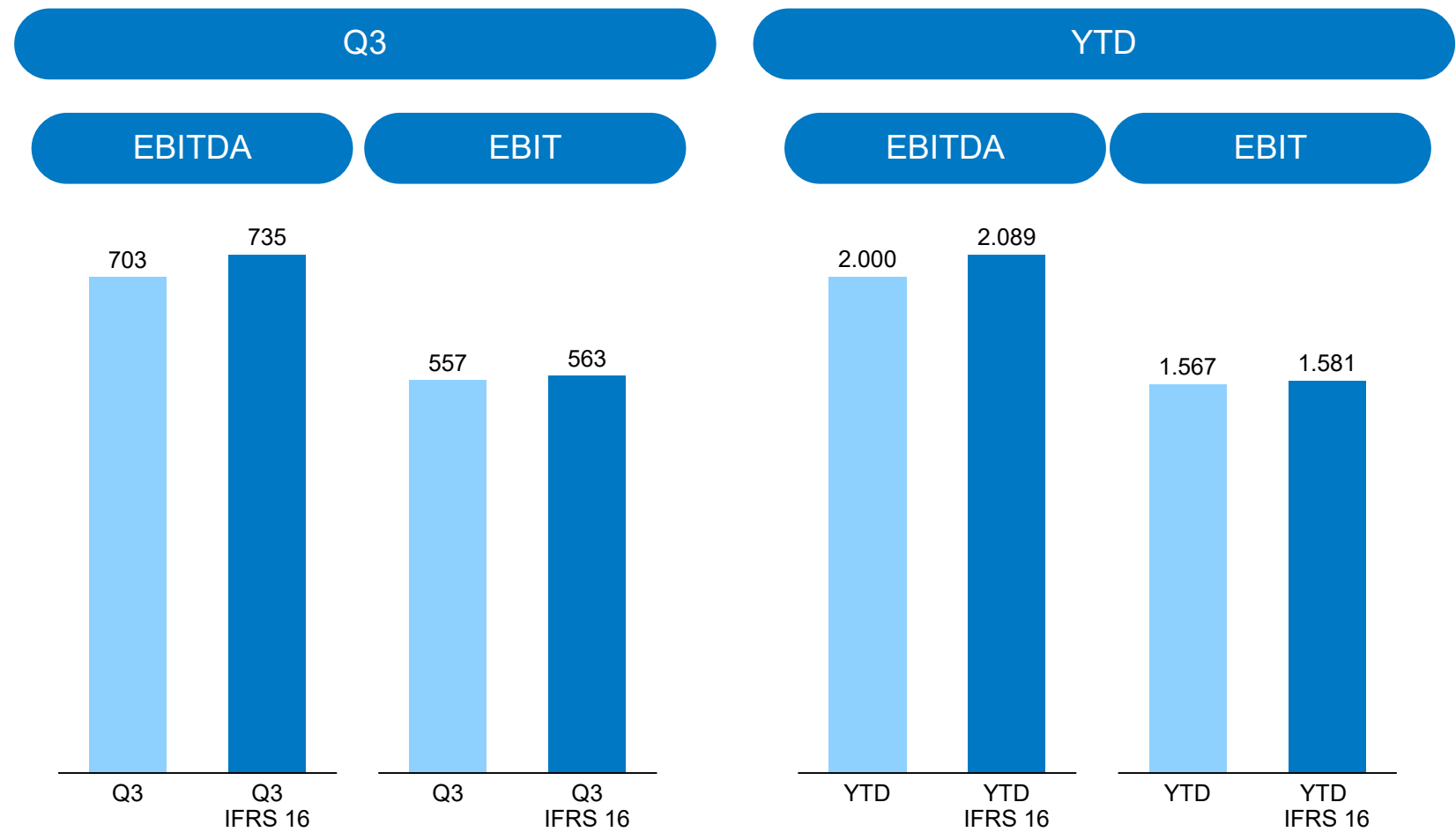
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## Supplementary information

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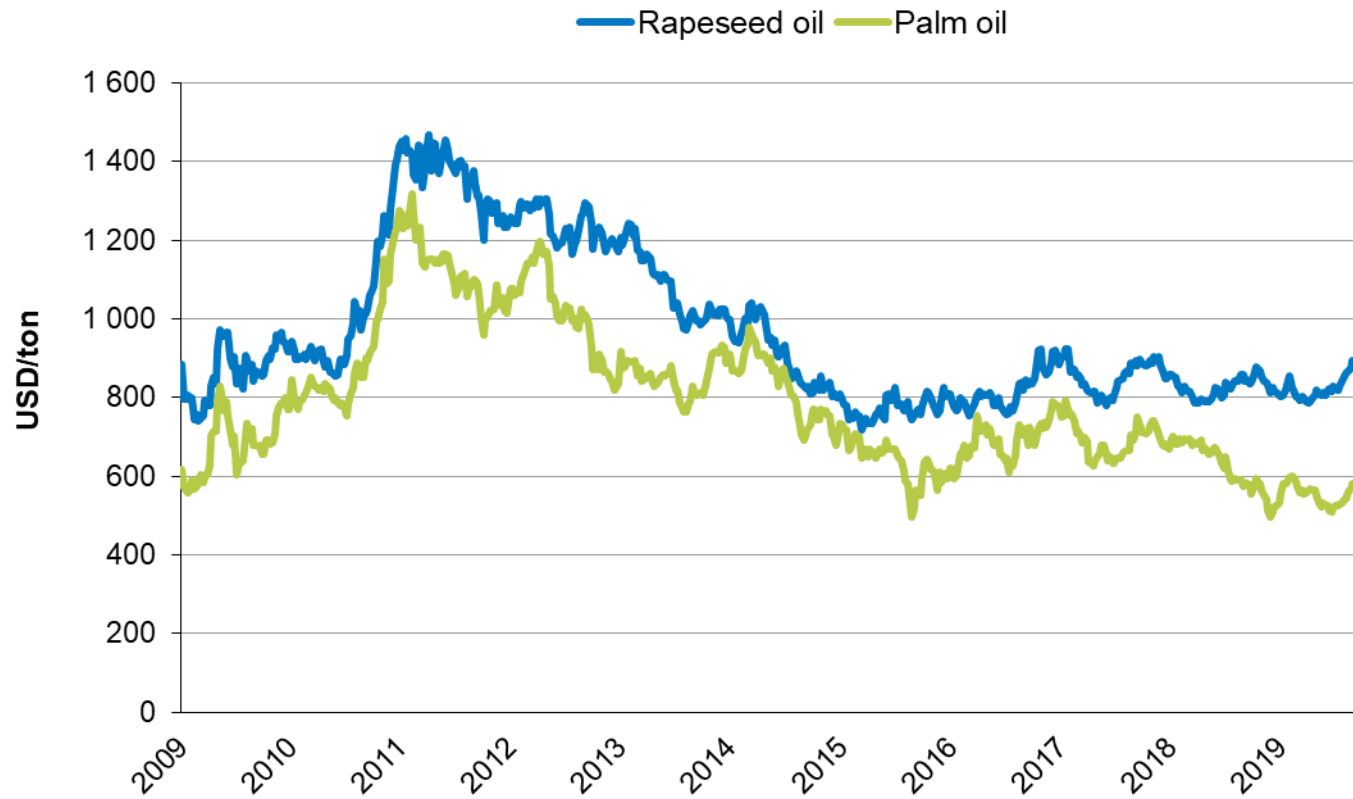
# IFRS 16 effect



# Cocoa butter price

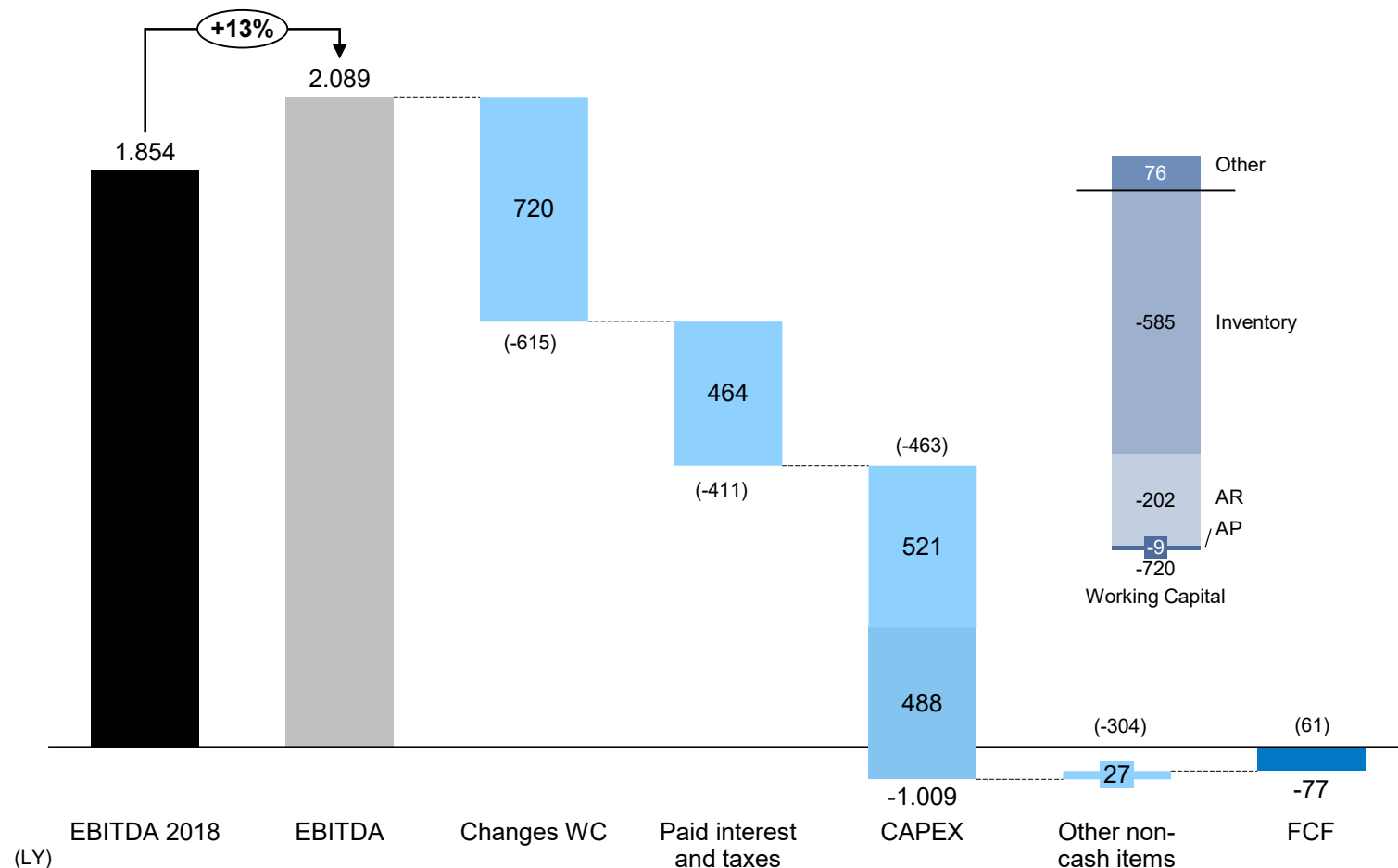


# Rapeseed and palm oil prices



# YTD cash flow impacted by sourcing of strategic raw materials

## Cash flow YTD 2019



## Comments

- Continued volume growth impacted cash flow from accounts receivables negatively. Sourcing of strategic raw materials have a large impact on cash flow from inventory.
- CAPEX related to regular maintenance investments and capacity increases amounted to SEK 521 million.
- Cash flow from acquisitions (MaasRefinery B.V., BD Foods Ltd., Soya International, and an increased ownership in AAK Kamani) amounted to SEK 488 million.