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Transcript of analyst briefing on FY2022 results

Hello and welcome to this analysts' briefing for the annual 2022 financial results. I am Kostas Sarmadakis, KRI-KRI's Chief Financial Officer. In this session, I will first try to elaborate on the figures of our annual report for 2022. Then, and I think this will be the most interesting part, I will try to give you a picture of our estimated performance in 2023. After a short presentation, a Q&A will follow. You can post your questions using the chat tool.

Starting with some macro-economic data, 2022 was substantially characterized by an ongoing energy crisis. Remember that the energy crisis started back in summer 2021, with natural gas, and over the following months, a chain reaction happened, and the crisis spread all over the economy. The direct impact on our business relates to energy cost and transportation cost. Energy prices more than doubled and the transportation cost per pallet had an increase of 13%. The cost surcharge of these, reached €3.3m and €1m respectively. However, the most severe hit was the indirect effect from the climbing prices of raw materials. On the graph below you can see the evolution of the raw milk price, the most important material of use. On average, our raw materials' prices increased by 32% versus 2021, and this accounts €29.7m extra cost.

To respond to this highly inflationary environment, we proceeded to a series of price increases on our products. At first, we were reluctant, and our customers were not keen to accept our revised pricelist. But when the war in Ukraine broke and as the inflation was spreading to all economic sectors, we achieved to increase our products' price level by 26% on average, in yogurt. The process was very demanding, especially in the cases where we had private label contracts. Of course, the time lag between the increase in the raw materials prices and the increase in the products' prices severely affected our profit margins. Hence, in the yogurt segment, our profitability is only marginal.

On the other hand, there is a part of the products price increases that happened in 2022, that is expected to be seen in 2023. As you can see, if we set 100 as our yogurts price in 2021, the current price level in yogurt segment stands at 126 and the average price increase in 2022 was 12%. This leaves roughly more than 10 percentage points of sales growth along with improvement on gross margin, to be seen in the current year.

On the next page, you can see the gross profit bridge. Starting at the gross profit of 2021, there was an increase of 6,5m deriving from quantities. Price rises added an extra amount of 18,3m. But that was not enough to cover the increased costs which derived from raw materials and energy. Therefore, the gross profit for 2022 goes to 31,5m.

Moving to segments review. Let' s start with yogurt exports. The segment shows strong growth of +32,7% in sales. Our major markets of Italy and UK were up by +37,6% and +26% respectively. There are also other countries where our exports performance is strong. Some examples are Sweden and Austria. Now yogurt exports represent more than half of total yogurt sales.

Moving to yogurt domestic market. We can see that we are the only supplier that achieved an increased market share in branded yogurts. That was up by 0.8pp. The most important element, however, is the fast-growing market share of private label. This is a result of the high inflation that turns more consumers to value for money products. We strongly benefit from this, as are the major supplier in the domestic market.

In the ice cream segment, in the domestic market, our sales show a strong double-digit increase (+14,7%). This is mainly due to the expansion of our sales' network and the launch of the new premium range of Master Rich ice creams, combined with the strengthening of tourist flows from abroad. For exports, the tip of our spear is the Greek Frozen Yogurt ice cream series that we have developed and combines the pleasure offered by ice cream with the values of healthy nutrition offered by yogurt.

Let's now see some ratios. Starting with working capital, our cash conversion cycle remained actually unchanged. The gearing was increased to 15,7% because we needed financing, as the cash flow from operations was low. The free cash flow figure was negative, at 4,3m. Finally, CAPEX stood at 7,8m.

We are highly optimistic about the improvement of the Company's financial results in 2023, despite the current demanding economic and business environment.

In the current financial year 2023, sales are expected to continue their upward trend, showing a double-digit growth rate so far. Total sales are expected to reach €200m in 2023 compared to €172m in 2022, an increase of 16%. At the same time, a significant improvement in profit margins is expected. We expect to recover the EBIT margin in 2021. This leads to an EBIT level of 25m. All evidence from Q1 supports this guidance.

Moving to dividend, the Board of Directors decided to propose to the Annual General Meeting of the shareholders flat dividend per share of 0.20€. This gives a dividend yield of above 3%. And part of this dividend will be paid from retain earnings, as the current year's earnings are not as many to cover the whole dividend amount.

Finally, the shareholders' structure. Tsinavos family holds around 73% and legal entities hold 6,7%.

So, this is the end of this presentation. I will allow you a couple of minutes to post your questions with the "chat" tool and then I will try to answer as much as possible. Thank you.

All right, thank you everyone for your questions. Actually, we have received many questions. But I will try to answer as many as possible. Firstly, please note that we will release Q1 Statements later this month. You will see that sales present high growth rates and the margins have recovered. The raw material prices in the current period show a downward trend, and that downward trend gave us spare room for some extra discounts without affecting our budget. And, we have in mind if it is needed to provide some discounts to our customers, because this year's primary target is not losing business, as it is seen that the sales and margins figures will have a good performance. So, this gives us confidence about our guidance.

We have received a question regarding CAPEX. CAPEX will add around 30% extra capacity to our yogurt production facility. This figure is high for 2023 but we expect to decrease in 2024. We expect a figure of less than 10m CAPEX in 2024.

As far as milk price hedging is concerned, unfortunately we could not find a way to effectively hedge against milk price variation. We tried to develop some econometric models to better forecast raw material prices and perhaps to find a correlation with financial instruments which could allows to hedge, especially against those violent variations.

We have also received a question about the mid-term level of EBIT margin. We believe that an EBIT margin of plus 12% is sustainable for the future and could be achieved in mid-term.

Another question we received asked us what percentage of yogurt exports is private label and what percentage is branded KRIKRI. Our yogurt exports consist mainly of private label products. Private label in exports account more than 80-85% of the total sales of this segment.

And finally, there is a question about the maintenance CAPEX. We estimate maintenance CAPEX per year to account around €2m. It is a low figure because most of our machinery is new and there is no need for much maintenance.

Final question, has KRIKRI ever thought of entering the Greek cheese market? The Greek cheese market is a neighboring sector, a dairy sector which also fits our distribution network. However, all those years we were very reluctant to enter such a market because of the low profit margins. However, it is a sector we keep on looking and exploring opportunities that may arise in the future.

So, that’s all. Thanks again for joining us in this webcast. See you, goodbye.