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Transcript of analysts' briefing on FY 2023 results

Hello again and welcome to this webcast. I am Kostas Sarmadakis, KRI-KRI's Chief Financial Officer. In this session, we will discuss in detail our performance for 2023 and I will give you an update on the business for the current year. After a short presentation, Q&A will follow. You can post your questions using the chat tool.

Firstly, let's have a look at the top line. Sales show an increase of +25,9%, exceeding €216m.

Yogurt sales increased by +28,6% in value, amounting to €173m compared to €135m in 2022. Accordingly, yogurt sales in volume increased by +15,3%. In Greece, yogurt sales were up by 21,8%. Yogurt exports sales were up by +34,4%.

Ice cream sales increased by +13,7% in value amounting to €40.7m compared to €35.8m in 2022. Accordingly, ice cream sales in volume increased by +2,3%.

Overall, of this 25,9% of total sales value increase, 13,8% is attributed to higher selling quantities and 12,1% is attributed to higher selling prices.

On the second half of the year, we had to lower our price level in yogurts. Our price level of yogurts had lowered of about 5%. That was a decision to stay competitive and also to defend our market shares. Also, we had to comply with the new Greek law, aiming to control inflation. This law took effect on September 2023, and it still in effect, and it is a law against excessive price increases. It does not allow the gross margin of domestic sales of yogurts per product, to be higher compared to that of 2021.

Moving to raw materials (next slide), which account for the large part of cost of goods sold. On the graph you can see the price of raw milk in Greece. This is a very good proxy to all raw materials cost that we use. At the start of 2023, the index had reached 135 level. During the first half, we experienced a steady decline of the price. In Q3 it stabilized at a level around 120. But then, in Q4 it showed a slight rebound. In general, this development of lowering input cost had a positive impact on our gross profit. It also gave us room to proceed with the necessary product price reductions, without much harm on the margins side.

This graph (next slide) summarizes the effects of the different elements of gross profit. Starting on the left-hand side of the page at the gross profit of 2022, there was an increase of €8.3m coming from increased sales quantities. Because of the increased price level, gross profit was benefited by +€20.9m. Lower raw materials prices added extra €12.7m. And falling energy prices helped compensate for the large part of the increased labor costs that are included in our production expenses. Therefore, the gross profit for 2023 went to €72.5m.

Now, let's have a look at our P&L statement (next slide). Sales show an increase of 25,9%, exceeding 216m. Gross profit margin reached 33,5%. This is about 3 percentage points higher than that of 2021, which is considered a normal year. And it is a +15,2 percentage points compared to gross margin of 2022. EBIT was 40.3m with a margin of 18,6%. Finally, EBITDA stood at 45.1m with a margin of 20,9%.

Moving on to segment review (next slide), export yogurt sales show a strong growth of +34,4%, exceeding €97m. This boost in sales is contributed by the major markets of Italy and the UK as well as other countries such as Sweden, Austria and Belgium. Along with sales growth, we had the recovery of profit margins, and this led to an EBIT figure of €20.1m for the segment. Also, it is important to mention that yogurt exports now represent more than half of yogurt total sales.

In the domestic yogurt market (next slide), our sales show also strong growth. Our sales increased by +21,8% in value, exceeding €76m. The current inflationary environment has led the overall market to limited consumption growth in volume that is +3,4%, while consumption in value shows a double-digit increase by +10,1%. At the same time, there is a strong shift of consumers to private label products, because of their preference to value for money products. Those market developments have strengthened private label market share in volume, which increased by +2,7 percentage points, you can see that in the table on the left-hand side of the page, and that is 7,7 percentage points higher compared to 2021. And of course, this development applies strong downward pressure on branded yogurts. That constant pressure has led KRIKRI branded yogurt to a slight decrease in the market share of-0,7pp in value terms. In general, KRIKRI seems to benefit from those market developments, since we are the largest producer of private label yogurts in the domestic market. In terms of profitability, the gross profit margin reached 29,9%, approaching the level of 2021, which was 30,1%. Economies of scale helped and led EBIT to a strong double-digit margin of 15,5% for the yogurt segment.

In the ice cream segment (next slide), in the domestic market, our sales show a strong double-digit increase +20,4%. Our ice cream market share increased by 0.4 percentage points in volume and decreased by 0.4 percentage points in value. Within the current highly inflationary business environment, that facilitates private label products’ growth, KRIKRI was the only company that managed to increase its branded ice cream market share in volume.

Let me now move to cash flow (next slide). In 2023, we had record high operating cash flows of €49.1m. The key elements were high profitability and shortening of the cash conversion cycle. Also, because of the low profit that we had in 2022, that means that the tax base was much lower, in 2023 the tax authority refunded us with €1.8m that was income tax paid in advance. This was an extraordinary item and helped to this high operating cash flow. Free cash flow, meaning the cash flow from operations less cash flow for investment, was at around €32m.

Let me now move on to 2024 (next slide). We are optimistic about our performance in 2024, although the comparatives of 2023 are very tough. On the top line level, we expect sales to continue their upward trend. Based on the Management's estimate, sales are expected to grow by 8% - 11% compared to 2023, and this is to exceed €233m. The key driver of this growth will be the yogurt exports segment. On the other hand, we expect some pressure to our profit margins. Although, as we have seen before, raw materials prices are on a steady trend and present a slightly bearish trend, the lower products’ price level is expected to trim EBIT margin by around 3 percentage points.

Moving on (next slide), let me say a few things about the key areas of growth of exports that we are now focusing on. Firstly, about the geographical expansion of our footprint. Recently, in March, we launched high protein yogurts in France, as it was scheduled. The initial indications are that sales will be above our budget. The other bet is with the Frozen Yogurts in USA. We have already signed an agreement with importers that serve the east coast of the US. The launch of the product is scheduled for June. Finally, the natural High Protein yogurts series that we have developed, are to be presented at trade fairs in May, trade fairs in Italy, the UK and Austria. We believe that the product will be accepted, and we expect to launch to this market early this autumn, in September or in October 2024.

Finally (next slide), the shareholders’ structure. Tsinavos family holds around 72,8%, domestic institutional investors 11,9% and foreign institutional investors 8,6%.

And about the dividend, the Board of Directors decided to propose to the Annual General Meeting of the shareholders a dividend per share of 0.35€. This gives a dividend yield of above 3%, with the current share price level. And just to remind you that last year the dividend was 0.20€.

This is the end of the presentation. I will stop for 5 minutes to post your questions in the "chat" tool and then I will come back with the answers. Thank you.

Ok, let's start with the questions. The first question is about the EBIT margin of Q4 2023. In Q4, we were expecting much lower EBIT margins, because we have lowered our product prices. We were expecting pressure of costs, that raw material prices were rebounding and also the EBIT is affected much by our seasonality. In Q4, there are no ice cream sales, and all these costs are charged in this quarter. So, this explains much of the lower EBIT that is shown in Q4.

A question about working capital. In 2023, we had lowered receivables days, and this helped to lower the working capital needs and increase operational cash flows. We do not expect this change to lower the receivable days more. But at this level, we believe it is sustainable as it comes from the customers' mix, because as we increase sales abroad our export sales have better credit terms.

A question about the anticipated impact on sales from frozen yoghurt exports in the USA. For the current year, 2024, we do not expect material impact on our sales figures. We will have a better picture later this year, after launching in June with the importers.

A question about the free float. As I'm aware, the major shareholders are in consideration of a small placement this year in order to help the liquidity of the share.

Another question about the US. In the US, we have signed contracts with two importers – distributors that serve the East coast, UNFI and KeHE. Also, we are in advanced discussions with Kroger for private label frozen yogurts. However, with Kroger probable launch will be in 2025, as for this year all their schedule is full.

A question about maintenance CAPEX. We estimate that maintenance CAPEX is around €4m each year.

A question about the average selling prices for US frozen yogurts versus the prices in Italy and the UK. Unfortunately, I am not aware of this detail.

What is the estimation of the growth of ice cream exports? I think we have already answered that question.

A question about Q1 2024. The Q1, the figures up until now strongly support our guidance for the full year 2024.

Should we expect a higher gross margin for frozen yogurts in the US? Probably yes, because the price structure is such that will allow us high profit margins there, as it is a premium product.

A question about the law to control inflation. As I said, there is a law in effect that does not allow us, for each yogurt we sell domestically in Greece, to have a higher gross margin than that we had in 2021. Of course, we comply with this law, and we have lowered the prices in cases we were higher to comply with that law. However, I do not think, without this law in effect, that we would have a materially different picture in our gross margin for this segment for 2023, because as I said the major driver for this decision was to stay competitive and to defend our business.

A question about the milk prices trend. We see that during the first months of 2024 are in a steady state. However, we think in the next months, the trend will switch to bearish trend as it seems the animal feed prices are also bearish and so the cost base of milk production will be lower, and this will allow for lower milk prices too.

Have you met the new low target for margin? Did you proceed with a new price cut, or do you have plans to do in future? I do not understand that question. Perhaps you could write it again with more details.

And finally, a question about our EBIT margin of 15% we expect. The EBIT margin level of 2023 that we achieved is not at a sustainable level. And as I said because of lowering product prices and in order to allow for some increased costs that we will need, our estimate is for an EBIT margin of 15%. Of course, economies of scale may help and may overachieve this target.

Finally, a question about free float. I think we have already answered that. The major shareholders are in consideration of a small placement in order to help the liquidity of the share this year.

So, I think we have finished with the questions. Thank you all again for joining us today. Have a nice day.