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Transcript of analyst briefing on H1 2023 results

Hello and welcome to this webcast. I am Kostas Sarmadakis, KRI-KRI's Chief Financial Officer. In this session, I will first try to elaborate on the figures of the report for the first half of 2023. Also, I will present our updated guidance for the full-year results and the assumptions that this is based. After a short presentation, Q&A will follow. You can post your questions using the chat tool.

Firstly, let's have a look at our P&L statement. Sales show an increase of 35.5%, reaching 113 million euros. Gross profit margin reached 36.6%, a little higher than that of 2021. Operating expenses were €1.5 million higher, increased by only 11.4%. Thus, this dilution of operating expenses led to an even higher gain in EBIT margin. EBIT was 26.33 million euros with a margin of 23.3%. Finally, EBITDA stood at €28.7 million with a margin of 25.4%.

On the next page, you can see the gross profit bridge. Starting at the gross profit of the first half 2022, there was an increase of €2.6 million coming from increased sales quantities. The carryover effect of prior price increases adds extra €18.1 million. Also, a small decline in raw materials prices adds plus 1.5 million of euros to our gross profit. And falling energy prices helped compensate for increased labor costs. Therefore, reduced production expenses added an extra half a million to gross profit. Therefore, the gross profit for the first half 2023 goes to €41.3 million.

Moving on, you can see the EBIT bridge. Starting at the EBIT of the first half 2022, increased gross profit adds 22.7 million euros. Increased OpEx reduced EBIT by 1.5 million euros, leading to a final EBIT figure of €26.3 million. Also, because sales increased by 35.5% and OpEx increased by only 11.4%, this dilution added 2.8 percentage points to our EBIT margin.

Moving on to segment review, we start with yogurt exports segment. Export yogurt sales show a strong growth of 49.8%, exceeding €49 million euros. 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. As far as our profitability figures are concerned, we have recovered back to their normal levels. Of course, the EBIT margin has improved significantly. And this is mainly the result of economies of scale and also the dilution OpEx. OpEx are in the most part fixed or variable to quantities and not values.

Also, moving on now to domestic Greek market, yogurt sales show a strong growth increased by +37.8% and exceeding €38.7million. The current inflationary environment has led the overall market to a decrease in consumption volume of 0.6%, while the value increased by +12.1%. This was caused by the rise in the overall price level. At the same time, there is a strong shift of consumers to private label yogurts, because of their choices for value-for-money products. As a result, you can see that private label yogurt market share increased by 4.8 percentage points in volume, applying strong pressure on branded yogurts. That pressure has led KRI-KRI branded yogurts to a small market share loss of 0.2 percentage points, and you can see that this is lower compared to our main competitors. In general, it seems that we benefit from those market dynamics, because we are the largest producer of private label yogurts in the domestic market. In terms of profitability, the gross profit margin reached 32.7%, which is slightly lower than that of 2021. This is a result of our decision and tactic to absorb part of the additional input costs that occurred. Of course, economies of scale and dilution of OpEx, in which we previously referred to, led to strong EBIT margin.

Let me now move to the ice cream segment. In the domestic ice cream market, our sales increased by 9.1% in value. The conditions during the critical months of May and June were not favorable. There were many rainy days during those months. But in the next months of the season, ice cream sales recovered and that led the entire ice cream season sales to be at a 15% increase level compared to 2022. Of course, our exports show development with the Greek frozen yogurt, and this is something that we strongly believe that it can be a vehicle to even stronger export sales abroad.

Moving on to a page with some ratios. You can see that our inventory days are at the same level as last year. Trade receivables days are much lower, so there is an improvement. Trade payables are higher. So, our cash conversion cycle has improved significantly. Our gearing for this year stands at 13% but we have a net cash position. And our cash flow from operations shows a very strong improvement, strong cash flows, of 16.5 million euros.

As part of our growth strategy, we show respect to all our stakeholders. In that framework, we recently had some initiatives for consumers, farmers and our employees. For consumers, we have increased the budget for product price reductions through promotions. For farmers, we had an additional payment of total €500.000 as a "premium for cooperation". This is an one-off bonus. Finally, to our employees, an additional average monthly salary was given to every employee, as an one-off bonus. That total cost was approximately 1 million euros.

For the rest of the financial year 2023, we believe that the strong growth on our financial figures will continue. We are very optimistic about that. In that respect, we have updated our profitability estimates. So, we expect total sales to exceed 200 million and it is expected EBIT to reach €33 million against our initial estimate of €24.8 million. Just note that this guidance has taken into account the extra cost arising from the bonus initiatives, as I said earlier, and also some possible implications of the recent extensive floods in Thessaly. So, we expect possible higher raw milk prices driven by damages in crops that may raise prices in animal feeds and, also, shortage in raw milk supply because of damage in cow farms. In any case, we believe that such a turbulence will be temporary and we can soon get back to normality.

Finally, about our shareholders' structure. Tsinavos family holds 73,2%, institutional investors 20,1% and individuals retained 6,7%.

So, this is the end of the presentation. You may now post any questions you have using the "chat" tool and then I will try to answer as much as possible. Thank you.

Thank you all for posting your questions. There are many questions this time. I will try to answer as many as possible.

Let me start. Will there be enough production of milk in Serres to support sales of €500 million? We are still far from reaching that number. However, in that case I think that we will have to expand our area of sourcing the milk.

I also have some questions about our updated guidance and whether if that is conservative. For the second half of the year, we have planned some price reductions on our products. That, along with the extra costs, and the uncertainty of raw material prices, were taking into account to form this updated guidance. Of course, this might be proved conservative in the end, but at this time this is our best estimate for the full year.

We have a question about seasonality. Seasonality is mitigated by the higher contribution of yogurt sales.

We have a question about dividends. If we achieve those targets for this year, we expect to increase the dividend significantly to match higher profits.

A question about CAPEX. Our guidance for CAPEX is €20 million for this year. Only €4 million of those were for the first half. We expect much higher capital expenses in the second half of the year. Perhaps a part of these investments will be moved in the first months of 2024 because of the lead times that our suppliers of machinery need for delivery.

A question about if the current pricing is sustainable. I believe that with some minor adjustments that the pricing is sustainable. I think a new price level is set for food products. Figures of inflation have reduced significantly, as per the report by the Greek statistic authority where they have reported inflation of 2.4%. So, at this level, the market can adopt the new level of food prices.

A question about the sustainability of our higher margins. Our margin improvement does not derive from one off events or from some cyclicality. Much of that improvement is sustainable because it comes from economies of scale, from dilution of OpEx. Of course, this period we have not settled yet. I think we will have to wait for some time and then see a new balance of our margins. But of course, much of this margin improvement is sustainable for the future.

A question about financial instrument of 2 million euros on our balance sheet. This is short term bond of Greek state.

A question about our CAPEX plan. Most of our CAPEX plan includes the expansion of our production facilities and our warehouse storage. Also, our CAPEX plan includes new production lines aiming to increase capacity, mainly for the yogurt factory.

A question about growth rates of yogurt exports. Can high growth rate of yogurt exports above 20% be maintained for the next 5 years? This is a very challenging target. I think we can achieve high double-digit growth in yogurt exports, but above 20% will be difficult for all the next five years, because also the current level has risen significantly.

A question about exporting to the US. Is it unprofitable to export to the US? Or the supermarket chains are not interested in cooperating? For the yogurt we have a limitation of the short shelf life of yogurt. So, we cannot export in a cost-efficient way to the US. We must transport the yogurt by airplane, which is very expensive. In the US market, we believe there is an opportunity there for ice cream and we are now in discussions to place Greek frozen yogurt in the US market.

I think we covered many of your questions. Once again thank you for joining this webcast. You have a nice rest of the day.