



Announcement to stock exchanges:

Arla Foods announces Half-Year Results for 2023: Finding the Right Balance in a Downward Market

As expected, the first half of 2023 was dominated by continued inflationary pressure, declining dairy commodity prices, and a shift in consumer behaviors towards discount channels and private label products. This impacted Arla's performance in the first half of 2023, however, the cooperative was able to soften the negative impact of the market dynamics and deliver a performance price of 49.7 EUR-cent/kg milk, enabling a half-year supplementary payment to farmer owners of 1 EUR-cent/kg milk based on the half-year volumes as planned.

Arla group revenue was EUR 7,067 million for first half of 2023, a 10.7 per cent increase compared to EUR 6,382 million in the first half of 2022, primarily driven by earlier implemented price increases in Arla's retail and foodservice. Branded revenue grew by 6.9 per cent, driven by Lurpak with 7.2 per cent and the Arla brand with 3.6 per cent. Arla's average performance price, which measures the value created per kilogram of owner milk, remained on par with the first half of 2022 with a slight increase of 0.1 EUR-cent/kg to 49.7 EUR-cent/kg. However, compared to the performance price for the full year of 2022, the performance price in first half 2023 saw a decrease of 5.4 EUR-cent/kg.

MILK PRICE AFFECTED BY DECLINING COMMODITY PRICES

Driven by changes in commodity prices, Arla's milk price dropped from its all-time high, seeking a new balance in a market where milk production is going up and consumers are spending less. Arla's average pre-paid milk price increased to 48.2 EUR-cent/kg in the first half of 2023 compared to 46.6 EUR-cent/kg in the first half of 2022 and 52.0 EUR-cent/kg for the full 2022 year.

"As anticipated, the market conditions put our branded products under pressure. However, we managed to protect our relative market shares against our competitors, and I am pleased that we were able to secure group earnings, a competitive milk price and a half-year supplementary payment to our farmer owners of 1.0 EUR-cent/kg milk based on the half-year volumes as planned." says Arla Foods CEO, Peder Tuborgh.

In the first half of 2023, Arla achieved a net profit of EUR 103 million, or 1.5 per cent of revenue compared to 3.0 per cent in the same period last year.

BRAND PERFORMANCE IMPACTED BY NEGATIVE CONSUMER SENTIMENT

After years of extraordinarily high growth in branded volumes, growth rates were impacted by changing consumer patterns. Strategic branded volume growth landed at -6.0 per cent in the first half of 2023 (adjusted for the impact from our former Russian business, which was divested in the first half of 2022, our Strategic branded volume growth would have landed at -5.1 per cent). This was primarily driven by a drop in volumes in Europe of 5.7 per cent, and a 4.0 per cent decrease in International volumes.

"During the first half of 2023, we continued to see inflationary pressure resulting in consumers moving towards discount channels and private label products and putting a pressure on our branded products," says Arla CFO, Torben Dahl Nyholm."

In Europe, a few brands managed to maintain strong volume growth in an unpredictable market. Arla's strategic investments delivered strong volume growth, with the Starbucks™ business growing by 21.6 per cent and Arla@Protein by 51.6 per cent. In the International zone, both the Starbucks™ business and Puck@ achieved a 3.3 per cent growth in branded volumes.



Taking the volatile market conditions into account, our foodservice business experienced volume growth of -1.8 per cent, compared to 19.0 per cent in the first half of 2022, where the surge in demand due to Covid-19 lockdown rebounds resulted in exceptionally high figures. Positive growth numbers are expected again in the second half of the year.

COMMERCIAL ZONES

Arla divides its business into 4 commercial segments:

In Arla's European business segment (including The United Kingdom), revenue increased by 15.4 per cent, to EUR 4,081 million compared to EUR 3,535 million in the same period last year, while branded volume driven revenue declined by 5.7 per cent following the general market trend of negative retail category growth across all European markets.

Arla's International business segment increased revenue by 3.6 per cent to EUR 1,243 million. Revenue was impacted positively by price increases executed during 2022, offset by an unfavorable development in main currencies of -3.7 per cent, as well as an underlying decline in branded volume driven revenue by 4.0 per cent due to lower demand (adjusted for the effect from divestment of our former Russian business).

Arla Foods Ingredients increased revenue by 10.8 per cent to EUR 513 million compared to EUR 463 million in the same period last year. The value-added whey protein product volumes grew by 5.2 per cent. The value-add share of 80.3 per cent fell from 81.8 per cent in the same period last year due to an increase in standard volumes.

Arla's Global Industry Sales business increased volumes significantly in the first half of 2023 driven by higher milk intake from our farmer owners and lower retail demand in European and International zones. Volumes increased by 33.1 per cent compared to the first half of 2022, with the highest increase in powder products. Compared to year-end 2022 volumes increased by 20.5 per cent.

SUSTAINABILITY INCENTIVE IN PLACE

In 2022, Arla introduced its new Sustainability Incentive model to reward and accelerate Arla farmer owners' implementation of climate and sustainability initiatives on farms. Throughout the first half of 2023, Arla farmers have familiarized themselves with the new science-based reward system. By June, 7,300 or 94 per cent of Arla's farmer owners had submitted their annual Climate Check data and uploaded almost 30,000 documents to register sustainability activities such as feeding optimisation, manure handling, energy optimisation and renewable electricity.

"From 1st July 2023, the Incentive model will be an integral part of the monthly milk price payment, which will give farmers a clear and very tangible financial incentive to reduce their carbon footprint from month to month and from year to year," says Peder Tuborgh, Arla Foods CEO.

OUTLOOK 2023

While Arla expects inflation to soften, commodity markets continue to be marked by uncertainty in the coming half year.

"We anticipate that inflation and its influence on consumer patterns will continue to mark the remaining part of 2023, putting pressure on branded volumes in most markets. However, we expect an increase in the underlying category growth to contribute to branded growth slowly picking up again," says Peder Tuborgh, Arla Foods CEO.

Arla has lowered its full-year expectations for revenue to EUR 13.2-13.7 billion and expects to deliver a profit within the range of 2.8-3.0 per cent of revenue, narrowed from 2.8 - 3.2 per cent, making room for a supplementary payment in line with retainment policy.

INCOME STATEMENT

(EURm)	Note	H1 2023	H1 2022	Development	2022
Revenue	1.1	7,067	6,382	11%	13,793
Production costs	1.2	-5,857	-5,090	15%	-11,145
Gross profit		1,210	1,292	-6%	2,648
Sales and distribution costs	1.2	-857	-848	1%	-1,771
Administration costs	1.2	-219	-206	6%	-439
Other operating income		18	61	-70%	162
Other operating costs		-19	-74	-74%	-131
Share of results after tax in joint ventures and associates		28	27	4%	60
Earnings before interest and tax (EBIT)		161	252	-36%	529
Specification:					
EBITDA		399	485	-18%	1,001
Depreciation, amortisation and impairment losses		-238	-233	2%	-472
Earnings before interest and tax (EBIT)		161	252	-36%	529
Financial income		28	10	180%	37
Financial costs		-66	-32	106%	-117
Profit before tax		123	230	-46%	449
Tax		-12	-31	-61%	-49
Profit for the period		111	199	-44%	400
Allocated as follows:					
Arla Foods amba's share of profit for the period		103	192	-46%	382
Non-controlling interests		8	7	14%	18
Total		111	199	-44%	400

COMPREHENSIVE INCOME

(EURm)	Note	H1 2023	H1 2022	2022
Profit for the period		111	199	400
Other comprehensive income				
Items that will not be reclassified to the income statement:				
Remeasurements of defined benefit schemes		-9	47	-1
Tax on remeasurements of defined benefit schemes		2	-10	2
Items that may be reclassified subsequently to the income statement:				
Value adjustments of hedging instruments		-113	213	225
Fair value adjustment of certain financial assets		-3	-	-3
Adjustments related to foreign currency translation		-32	21	-48
Tax on items that may be reclassified to the income statement		-	-	-19
Other comprehensive income, net of tax		-155	271	156
Total comprehensive income		-44	470	556
Allocated as follows:				
Arla Foods amba's share		-52	463	538
Non-controlling interests		8	7	18
Total		-44	470	556

BALANCE SHEET

(EURm)	Note	H1 2023	H1 2022	Development	2022
Assets					
Non-current assets					
Intangible assets and goodwill	3.1	965	942	2%	954
Property, plant, equipment and right of use assets	3.1	3.029	3.036	0%	3.031
Investments in associates and joint ventures	3.1	541	572	-5%	565
Deferred tax		24	23	4%	22
Pension assets	4.1	14	90	-84%	16
Other non-current assets		24	29	-17%	23
Total non-current assets		4.597	4.692	-2%	4.611
Current assets					
Inventory	2.1	1.560	1.613	-3%	1.772
Trade receivables	2.1	1.140	1.153	-1%	1.267
Derivatives		132	271	-51%	239
Other receivables		336	362	-7%	319
Securities	4.1	429	437	-2%	432
Cash and cash equivalents	4.1	172	130	32%	106
Total current assets		3.769	3.966	-5%	4.135
Total assets		8.366	8.658	-3%	8.746

(EURm)	Note	H1 2023	H1 2022	Development	2022
Equity and liabilities					
Equity					
Common capital		2.190	2.236	-2%	2.150
Individual capital		513	510	1%	540
Other equity accounts		55	280	-80%	203
Supplementary payment to owners		64	63	2%	208
Attributable to the owners of Arla Foods amba		2.822	3.089	-9%	3.101
Non-controlling interests		65	58	12%	67
Total equity		2.887	3.147	-8%	3.168
Liabilities					
Non-current liabilities					
Pension liabilities	4.1	148	201	-26%	161
Provisions		30	27	11%	28
Deferred tax		74	80	-8%	86
Loans	4.1	2.793	2.140	31%	2.640
Total non-current liabilities		3.045	2.448	24%	2.915
Current liabilities					
Loans	4.1	679	1.097	-38%	709
Trade payables and other payables	2.1	1.334	1.541	-13%	1.597
Provisions		19	15	27%	20
Derivatives		95	80	19%	36
Other current liabilities		307	330	-7%	301
Total current liabilities		2.434	3.063	-21%	2.663
Total liabilities		5.479	5.511	-1%	5.578
Total equity and liabilities		8.366	8.658	-3%	8.746

CASH FLOW

(EURm)	Note	H1 2023	H1 2022	2022
EBITDA		399	485	1.001
Reversal of share of profit in joint ventures and associates		-28	-27	-60
Reversal of other operating items without cash impact		14	-26	21
Change in net working capital	2.1	46	-375	-707
Change in other receivables and other current liabilities		27	-34	11
Dividends received, joint ventures and associates		18	-	15
Interest paid		-71	-25	-67
Interest received		23	3	23
Taxes paid		-36	-30	-53
Cash flow from operating activities		392	-29	184
Investment in intangible assets	3.1	-31	-36	-92
Investment in property, plant and equipment	3.1	-181	-144	-373
Sale of property, plant and equipment	3.1	2	4	13
Operating investing activities		-210	-176	-452
Acquisition of financial assets		-6	-9	-16
Sale of financial assets		7	9	17
Sale of enterprises		3	-	8
Financial investing activities		4	-	9
Cash flow from investing activities		-206	-176	-443
Half-year supplementary payment		-	-	-61
Supplementary payment regarding the previous financial year		-203	-211	-211
Transactions with owners		-24	-22	-22
Transactions with non-controlling interests		-1	-3	-11
New loans obtained		517	248	1.310
Other changes in loans		-357	267	-643
Payment of lease debt		-36	-34	-71
Payment to pension plans		-11	-11	-22
Cash flow from financing activities		-115	234	269
Net cash flow		71	29	10

(EURm)	Note	H1 2023	H1 2022	2022
Cash and cash equivalents at 1 January		105	97	97
Net cash flow for the period		71	29	10
Exchange rate adjustment of cash funds		-4	4	-1
Cash and cash equivalents at 30 June		172	130	106
Free operating cash flow				
Cash flow from operating activities		392	-29	184
Cash flow from operating investing activities		-210	-176	-452
Free operating cash flow		182	-205	-268
Free cash flow				
Cash flow from operating activities		392	-29	184
Cash flow from investing activities		-206	-176	-443
Free cash flow		186	-205	-259

Financial comments

The positive cash flow from operating activities of EUR 392 million was the result of EBITDA of EUR 399 million and the release of cash tied up in working capital items of EUR 46 million, offset by higher interest costs.

In contrast, the first half of last year was an extraordinary period with significant extra cash being tied up in working capital positions driven by higher milk prices and inflation.

Cash flow from investing activities amounted to EUR -206 million compared to EUR -176 million in the same period last year.

Free cash flow for the half-year totalled EUR 186 million, representing an increase of EUR 391 million compared to the same period last year.

Cash flow from financing activities amounted to EUR -115 million compared to EUR 234 million last year. The decrease was the result of supplementary payments being consistent with last year, but less new loans compared to last year.

Cash and cash equivalents amounted to EUR 172 million compared to EUR 130 million at the end of the same period last year.