

MHGVY Earnings Call Transcript

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Quarter: 2

Ivan Vindheim: Good morning, everyone, both in the room and online, and thank you very much for joining us this morning in connection with release and the presentation of Mowi's second quarter results of 2025. My name is Ivan Vindheim, and I'm the CEO of Mowi; and together with our CFO, Kristian Ellingsen. I will take you through the numbers and the fundamentals this morning and to the best of my and our ability add a few appropriate comments fit to them. And after presentation, our IRO, Kim Dosvig, will routinely host a Q&A session. For those of you who are following the presentation online can submit your questions or comments in advance as we go along by e-mail. Please refer to website at mowi.com for necessary details. Disclaimer. I think we leave for a self-study. So with pleasantries, practicalities and the disclaimer out of the way, I think we are ready for the highlights of the quarter. And to begin with, and on a general note, I think it's fair to say that the second quarter was like the first quarter, characterized by well supplied markets across the industry, both in the Northern and Southern Hemisphere driven by strong biology, which led to seasonally record high industry supply in the quarter and an industry supply growth of as high as 18% year-over-year. This is a number we haven't seen in many years. I think we have to go back to 2012 to see something similar. And this put, of course, pressure on the prices in the quarter. For Mowi, however, wrestling with prices was partly offset by seasonal record-high harvest volumes of 133,000 tonnes in the quarter, which is up by as much as 21% year-over-year for our part, translating into seasonally record high sales of EUR 1.39 billion and operational profit of EUR 189 million. Further on that note, lower realized blended farming costs, i.e., weighted farming costs for 7 farming countries was significantly down in the quarter and contributed EUR 49 million to our earnings in the quarter and EUR 67 million to our earnings year-to-date following the positive cost trend you have seen over the past few quarters. I mention in kilogram, down by EUR 0.45 year-over-year and EUR 0.50 quarter-over-quarter to EUR 5.39 per kilo in realized production costs in the second quarter. And an expectation of continued good cost performance in the third quarter on economies of scale in addition to improved biological metrics and lower feed costs in outstanding biomass. So all in all, another strong operational quarter for Mowi Farming, I would say, at least when it comes to the things we control ourselves, which are most definitely not prices, which is where the shoe pinches this year. Carrying on 2 other divisions, Consumer Products and Feed also delivered strong quarters, I would say, the seasonally record high results. And in terms of our previously announced strategic review of the Feed division, it's progressing. But beyond that, we will not comment any further on this, this morning out of respect for the integrity of the process. And finally, as the last bullet point here reads, our Board of Directors has decided to distribute a quarterly dividend of NOK 1.45 per share after the second quarter. I think that does it for the highlights of the quarter. So then we move on to our farming volume guidance, which we have upped since last time we reported from 530,000 tonnes to now 545,000 tonnes, which is up from the 520,000 tonnes we guided for originally when we started this year. And this is equivalent to a growth of as high as 8.7% year-over-year. And next year, with Nova Sea on board, we expect to harvest at least 600,000 tonnes, and that translates to another 10% growth year-over-year. And finally, we reaffirm our 2029 organic farming volume target of at least 650,000 tonnes. And this will be achieved through increased smolt stocking and by means of postsmolt because we have still unutilized license capacity in Mowi in several countries where we operate. And with postsmolt, we can increase the productivity on licenses already in operation, which are to be set into

operation. So Mowi's idiosyncratic growth continues unabated after the rather quiet 2010 as for the latter due to a confluence of factors, which will not break up again today. So now our farming volume -- sorry, now our farming volume growth is surpassing that of the wider industry and our listed peers by a large margin cementing our #1 position in the market for the Atlantic salmon. Then from the grand scheme of things to more specifically about the third -- sorry, the second quarter and first key financial figures. Kristian will go through all these numbers in depth and more later this morning. So it's not to be too repetitive. We will just touch briefly upon the most important ones now. And turnover and profit, I think we skip as we have just been through them. So let's start with cash and net interest-bearing debt. It stood at EUR 1.90 billion at the end of the quarter. And with Nova Sea on board, it would have been EUR 2.48 billion with a corresponding pro forma equity ratio of 45% indicating a sustainable debt level also post closing of this transaction, which is pending the approval by the European competition authorities, which we expect to have in place sometime in the second half of this year. But as we have said previously, we will revert with our new long-term debt target for Mowi post closing of Nova Sea. Furthermore, underlying earnings per share was EUR 0.25 in the quarter, whilst the annualized return on capital employed was 13.3%. And in terms of leading margins for the value chain, we will get back to every single one shortly, when we go through the different business entities. So I think we'll leave it at that for now. And instead move on to prices, which is the elephant in the room this morning. Of course, as we said initially this morning, the second quarter was like the first quarter characterized by well-supplied markets following strong biology across the industry, both in the Northern and Southern Hemisphere, which led to a seasonally record high industry supply in the quarter and industry supply growth of as high as 18% year-over-year, which is a number we haven't seen in many, many years, putting, of course, pressure on the prices in the quarter. And we're now at the time of year where high sea temperatures are translating into even higher industry supply and hence, putting further pressure on prices. On a positive note, however, the number of individuals in sea is now relatively stable year-over-year, indicating a normalization of industry supply growth next year at a modest 1% according to our latest figures, which is down from 8% this year and which under normal circumstances should pave the way for better prices. So in our view, 2025 is just an anomaly and an exception to the limited supply growth we have seen in recent years and which we expect to see for a long time to come and in which our entire growth strategy is grounded, I think it's fair to say. Then our own price performance in the quarter, which I would characterize as strong as it was 11% above the reference price, which is the standard we like to hold ourselves to internally and against which we measure ourselves, as you can hear. Positively impacted by contract share of 24% in the quarter and contract prices above the prevailing spot price, unfortunately, in addition to good harvest weights and a high quality of our fish across the board, which are also important elements for good price performance. With that, I think we are ready to drill down into the different business entities, and we start as usual with Mowi Norway, the locomotive of our business model. And if you take the numbers first, operational profit was EUR 139 million for Mowi Norway in the quarter, whilst margin was EUR 1.91 per kilo and harvest volumes almost 73,000 tonnes. And another strong quarter for Mowi Norway, I would say, with lower cost year-over-year, as we can see from the chart here and harvest volumes reaching seasonally record high to mention some. But unfortunately, outweighed by lower prices year-over-year, which is where the shoe pinches this year, as we said just a few minutes ago. These comments apply more or less to all the regions in Mowi Norway in the quarter, including Region Mid, whose margin on this chart is reflective of past since because if you go behind the numbers for Region Mid in the quarter, we will see that the second quarter was like the first quarter, a reasonably good quarter biologically, suggesting that we could have something going on in this region if we can manage to stay on this course. Otherwise, I have to say it's very encouraging to see that Region South, Region West and now also Region North continue to deliver industry-leading margins. And it's also very satisfying to see that Nova Sea is closing in on Mowi in Norway, margin-wise after a rather soft first quarter to be them and soon to be us, hopefully. Then our volume guidance for Mowi Norway, which we have upped since the first quarter from 315,000 tonnes to now 320,000 tonnes. And Nova Sea on board and its 50,000-odd tonnes harvest volumes, we're now in a good position to reach the next harvest volume milestone for Mowi Norway of 400,000 tonnes in the not-too-distant future. Then our last slide on Mowi Norway, our sales contract portfolio. Contract share was 23% for Mowi Norway in the quarter and was that spot on

our guidance, and these contracts contributed positively to our earnings in the quarter. As for the third quarter, contract level is relatively stable, as you can see from the chart here, relatively -- relative stable contract prices quarter-over-quarter. So with that, I think we can have a look at our 6 other farming countries and we start as usual with Mowi Scotland. Like Mowi Norway, Mowi Scotland leaves behind another strong operational quarter, I would say, with strong biological results. And this manifested itself in operational profit of EUR 31 million for Scottish operation and a margin of EUR 1.29 per kilo on quarterly record high harvest volumes of 24,000 tonnes. And like Mowi Norway, Mowi Scotland can point to improvements on all fronts in the quarter apart from price achievement, which is down year-over-year following lower spot prices. Then overseas to Chile. Mowi Chile posted an operational profit of EUR 18 million in the second quarter, which is substantially better than the EUR 12.5 million we posted in the second quarter last year, notwithstanding much lower prices in large part due to lower cost year-over-year. And further on that note, Mowi Chile was our best cost performer in the second quarter, both in terms of cost to stock and in terms of realized cost or release from stock cost. Their child has many names. So second to none. There can also be mentioned that somewhat higher harvest volumes of 15,500 tonnes contributed positively to our improved earnings in Chile year-over-year. That was not the case for Mowi Canada where relatively stable cost and volumes did not offset lower prices, reducing operational profit from EUR 7 million in the second quarter last year to EUR 2 million in this quarter. Biology was, however, good in Canada in the quarter, both in the West and in the East. But over the summer, we have encountered some seasonal issues with algae in British Columbia, and we had one low DO incident at one of our farms in New [indiscernible], which combined will impact our third quarter numbers by approximately EUR 5 million, all else being equal, which brings us to our 2 smolt farming entities, Mowi Ireland and Mowi Faroes. And if we take Mowi Ireland first, our Irish operation was close to breakeven in the second quarter with its EUR 1 million in operational profit following soft prices because cost was relatively stable in Ireland in the quarter year-over-year and harvest volumes reached quarterly record high 5,000 tonnes. And these comments apply more or less to Mowi Faroes as well in the quarter, which saw a drop in operational profit from EUR 10.5 million in the second quarter last year to EUR 4 million in this quarter despite almost a doubling of harvest volumes from 2,500 tonnes to 4,500 tonnes. Biology was, however, once again strong in the Faroes in the quarter, whilst it was more of a mixed bag in Ireland. Then our last farming entity this morning, Arctic Fish, our Icelandic operation. Arctic Fish leaves behind a reasonably good quarter, biologically, I would say, with very low harvest volumes of 2,000 tonnes and soft prices took the toll on our profit in Iceland in the quarter and dragged it into negative territory of minus EUR 5 million. On the positive side, however, our cost-cutting measures in Iceland run their course and paired with more harvest volumes, we still believe we will get the cost level down to a sustainable level in Iceland as we have it in all other regions in Mowi. So with that, I think we can conclude Mowi Farming and move on to Consumer Products, our downstream business. Consumer Products made an operational profit of EUR 52 million in the second quarter, which is seasonally record high and more than a doubling of the EUR 25 million we made in the second quarter last year. Thanks to strong operational performance, of course, but also thanks to lower raw material costs, which is another confirmation of the hedge between Mowi Farming and Mowi Consumer Products, where low prices to farming lead to lower raw material costs for Consumer Products and hence, better earnings, which is one of the positive things that comes with being vertically integrated in addition to being a good business in itself. Otherwise, we continue to see good demand for our products, although high industry supply is weighing on prices to farming currently. Then our last business entity this morning, Mowi Feed. The second quarter is like the first quarter low season for our feed operation with all that in tails following sea temperatures and feed demand from farming. But adjusted for that, I would say the second quarter was another strong quarter for our feed operation with records left and right. Because operational EBITDA of EUR 40 million is seasonally record high and so our sold volumes of 135,000 tonnes. And our feed performance was evidently strong in the quarter. And finally, as we said earlier this morning, our strategic review of this division is progressing. But beyond that, we will not comment any further on this, this morning out of respect for the integrity of the process. So please bear that in mind when we come to the Q&A; session after the presentation. So with that, Kristian, the floor is all yours. You can take us through the financial figures and the fundamentals. Thank you so far.

Kristian Ellingsen: Thank you very much, Ivan. Good morning, everyone. I hope you are doing well. And as usual, we start with the overview of profit and loss, which shows a top line of EUR 1.39 billion, which is a record high level for a second quarter and an increase from last year on strong volumes. Despite lower cost and higher volumes, there was a negative development in operational EBIT from Q2 last year due to lower prices. Earnings translated into an underlying earnings per share of EUR 0.25. Return on capital employed was 13.3% and return on equity, 15.1%. And net cash flow per share improved to EUR 0.11 from EUR 0.06 in Q2 '24. When it comes to the difference between operational EBIT and financial EBIT, this was for the most part explained by the net fair value adjustment on biomass, which was negative this time around related to the price development. With regards to associated companies, this was mainly related to Nova Sea and the operational result was EUR 1.67 per kilo in Q2. And we still expect competition clearance sometime in the second half. And from that point, Nova Sea will be consolidated into the group figures. We then move on to the balance sheet, which was stable compared with Q2 '24. Mowi's financial position is strong with an equity ratio of 47%. Pro forma covenant equity ratio, including the effects of Nova Sea acquisition would have been 45% or 49% measured on the covenant methodology. Net interest-bearing debt was quite stable during the quarter. Working capital was neutral with the effect of lower cash cost in farming being offset by other working capital fluctuations. Tax payments lower than last year. And while CapEx was somewhat up, interest payments have decreased as expected with lower interest rates on our euro-based financing. And with regards to net interest-bearing debt, we will come back with an updated long-term target after closing of the Nova Sea transaction. We maintain the guidance on the cash flow items listed here for the full year of 2025. So we leave the details here for self-study. On the financing side, we have refinanced the bank facility, which is our main source of external financing. The previous EUR 2 billion facility, which was maturing in 2026 is replaced by a EUR 2.6 billion facility maturing in 2030. The covenant structure is maintained with only a 35% equity covenant. There is a EUR 400 million accordion option, and the lenders are DNB, Nordea, ABN AMRO, Rabobank, Danske Bank, SEB and Cr dit Agricole, and we are glad to cooperate with renowned banks that have good faith in our company and in our business. In addition to the credit facility, we have 2 green bonds and also Schuldschein. And when the latter is refinanced, we will get to 100% green financing. A low financing cost is important, and the same goes for the costs related to our main operations. And here, we have some positive messages today. As shown in the graph above here, we see that the blended farming costs across our regions has, of course, increased in recent years, driven by feed prices and high inflation. But on a positive note, feed prices decreased in 2024. This has continued in 2025. And we have had a lot of cost measures, which also contribute to lower cost. So the cash cost has come down and the cost per kilo standing biomass in sea has been reduced, and this has also started to show in the realized cost figures as we also see here from the graph. Q2 cost was down to EUR 5.39 per kilo blended. That was the lowest level since 2022. In euro terms, this is a saving of EUR 49 million, and the corresponding year-to-date figure was EUR 67 million. If you look more closely at the feed prices, these are down 8% from Q2 last year and the cost at stock for standing biomass is down with the same magnitude. We have expectations of continued decline in feed prices due to positive raw material price developments, and we expect this to contribute to further reductions in cash cost and in P&L; costs. We see the P&L; cost down in 2025 and further down in 2026. When it comes to the Q3 P&L; costs, we see currently that this is relatively stable from Q2. It is very positive that our various cost measures are showing in our numbers. Since 2020, the cost focus has been significantly increased in Mowi, including clearly stating costs as one of our strategic pillars. Operational improvements across the value chain and the cost saving programs in recent years with almost 2,000 different initiatives that has, of course, given results. And we have a very good starting point for our cost work as we are the #1 or the #2 performer in the various regions we operate, as shown in the graph below. On a positive note, the 3-year average shows that we are now #1 also in Norway. But we are by no means finished with our cost work. We have identified a potential for EUR 300 million to EUR 400 million in the next 5 years in cost savings. This is related to postsmolt, Mowi 4.0, yield, automation in addition to the cost saving programs and the productivity program. And that keyword brings us to the next slide, productivity and FTEs. Because salary and personnel costs, that is the second largest cost item for Mowi. Since we

initiated the productivity program in 2020, we have reduced close to 3,500 FTEs on a like-for-like basis. According to me, that's quite impressive. If you look at nominal FTEs, they are down 8% in a time with significant volume increase for Mowi. So productivity has improved significantly, which we will see more details on the next slide. This has been achieved through automation, rightsizing, natural turnover through retirement, reduced overtime and reduced external contracted labor. So it has been an effort from the entire organization. And we are very glad to see that this is giving results on the FTEs, on productivity, also on the costs. And this slide shows some more details on our achievement when it comes to productivity. It also includes some 2026 estimates. In Mowi Farming, we have a 36% improved productivity, i.e., increase on tonnes per employee. In Farming Norway, we started on a higher level, but we have achieved as much as 23% productivity increase also here. And in downstream, number is impressive, 39% productivity improvement. This has been achieved through automation, digitalization, combined with a general focus on FTEs, a lot of concrete initiatives, plans for the various departments, business units and the hard work from the organization. So a lot has happened in this area since the productivity program was launched 5 years ago, almost to the day, 5 years ago. We then move on to the market fundamentals in the quarter. In the second quarter, there was a significant supply growth of 18%, the highest we have seen since 2012. This was driven by strong biological performance and 2025 is a recovery year on industry supply after 3 years of zero growth in practice. Supply was higher from all the major producing regions, including Norway. We see that in Norway, higher harvesting in July, lower feed sales have reduced the biomass growth for the industry to an estimated 2% year-on-year and July, down from 13% at the end of Q1. The number of individuals for the industry in sea in Norway is down 3% year-on-year. The global biomass figures show a modest plus 1% change in the number of individuals in sea per end July. And in our view, these numbers limit the potential for further supply growth for the remainder of 2025 and into 2026 compared with the year before. Inventory buildup was immaterial and consumption increased by 17%. Global demand for salmon was good during the quarter, increased 5% year-on-year in value terms on significantly increased consumption. This was partially offset by lower blended prices. We have started to see declining shelf prices in retail. This is positive for demand, and we expect further drop ahead with lower spot prices and promotions. Overall, market development remained good. Consumption in Europe increased by 15% from Q2 '24, supported by a strong retail performance in the major regions, Western Europe, Central Europe, including Germany and also the U.K. Consumption in the U.S. increased by 13%, with growth mainly driven by retail. The fresh prepacked category continued to be the key here, confirming solid demand in the higher value segment of the market. The development was further supported by Mowi's strong growth in the skin pack sales, which are up 24% year-on-year. The online grocery segment was also solid with e-commerce volumes more than doubling compared with '24. Consumption in Asia increased by 40%, and we had strong development in all major markets, but particularly in China with a 52% increase in consumption year-on-year. This was driven by better availability of large-sized fish, eased import restrictions and lower price points. Food service consumption also improved. Yes. And when, of course, spot prices have been impacted by temporary high supply, we have expectations of a tighter market in 2026 as we have already touched upon. That's also according to consensus. And this slide provides more detail on the industry supply situation. There was no growth in '22 to '24, and then we have 8% now in '25 is the estimate, which we expect to fall to 1% in 2026. The inflection point on year-over-year growth is now in August. And the next 12 months, the growth estimate is 1%. When it comes to volume guidance, we have adjusted this up by 15,000 tonnes to 545,000 tonnes following favorable developments in sea and high harvest volumes. Then we conclude this section, and we are ready for Ivan and some comments on the outlook.

Ivan Vindheim: Thank you, Kristian. Much appreciated. And it's time to conclude with some closing remarks before we wrap it all up with our Q&A; session hosted by our IRO, Kim Dosvig. And to begin with and on a general note, and as already said earlier this morning, the second quarter was characterized like the first quarter by well-supplied markets following strong biology across the industry, both in the Northern and Southern Hemisphere, which led to seasonally record high industry supply and an industry supply growth of as high as 18% year-over-year in the quarter which is a number we haven't seen in many, many years and which put, of course, pressure on the prices in the quarter. And we now at the time of year where high sea temperatures are translating into even higher industry

supply and putting further pressure on the prices. On a positive note, however, the number of individuals in sea is now relatively stable year-over-year, indicating a normalization of industry supply growth next year at a modest 1% as we just heard Kristian say, which is down from 8% this year and which under normal circumstances should pave the way for better prices. So in our view, 2025 is just an anomaly and an exception to the limited supply growth we have seen in recent years and which we expect to see also in the coming years and in which our entire growth strategy is grounded, I think, is fair to say. Otherwise, we continue to see good demand for our products. And with the recent developments in geopolitics, it looks like we will avoid a trade war this time, which is, of course, very, very important for an international product like the salmon. So despite current headwinds in the market, I would argue that the future still looks bright for this fantastic protein. Carrying on, our operations continue to develop positively, both on land and in the sea, I would say. And further this, we have upped our farming volume guidance for this year from 530,000 tonnes since last time we reported to now 545,000 tonnes which is up from 520,000 tonnes when we guided for this year, the first time back in November last year. And this is equivalent to a growth of as high as 8.7% year-over-year. And next year, we expect to harvest at least 600,000 tonnes with Nova Sea on board, and that translates to an over 10% growth year-over-year. So Mowi's idiosyncratic growth continues unabated and is now surpassing that of the wider industry and our listed peers by a large margin. And finally, I have to say it's very encouraging to see that cost has come somewhat down after a few years of unprecedented inflation. So once again, a big thank you to all of my colleagues who have made all of this happen. So with that, Kristian and Kim, I think we are ready for the Q&A session. So if Kristian can please join me on the stage and help me out with answering some of the questions, and then you, Kim, can administer the questions from the audience and from the web.

Kim Galtung Dosvig: Thank you, Ivan. So the first question is from Alexander Sloane in Barclays. He's got 2 questions. The first one on cost. Can you break down the expectation for stable cost outlook for H2 versus Q2? If feed costs expected to be an incremental tailwind, are you expecting more challenging biological conditions or just lower operational leverage to offset this feed tailwind?

Kristian Ellingsen: Yes. I would say that we have a very positive message when it comes to cost here today. We see that the Q2 cost is down to EUR 5.39 per kilo blended. That is I think it's fair to say that, that was a larger reduction than that was expected really by the market in advance. So we are talking about a reduction to -- in Q3 to -- or down in Q2 to a good level. And then we have indicated that, that level will continue to go down. We have said that we expect further reduction in 2026 and that the cost at stock is down in the biomass in sea. And then, of course, if you look at Q3 compared with Q2, we have to remember that there can always be phasing effects, right? And when it comes to the feed price reductions, that's not necessarily 100% smooth downwards effect all the time. Sometimes it goes a little bit stepwise. So if you look at the biomass to be harvested in a specific quarter, then we have our forecast. But I think it's important to look a little bit beyond the phasing effects here in the P&L; and look at the bigger picture, and that is that we say that the cost is going down. We expect further reductions on the feed price. That means that we also expect both cash cost and the P&L; cost to come further down from this level.

Kim Galtung Dosvig: Very clear. And then the second one, maybe to you, Ivan, on tariffs. You had at Q1 indicated tariffs were manageable at 10%, but would be concerned if higher than that. What is the outlook at 15% for Norway?

Ivan Vindheim: Well, not much has really changed in my view. I think this outcome is the best outcome we could hope for. So for us, this hasn't changed anything. Mowi also have, what should I say, a relative advantage in this because of our production in America. So we source the U.S. first and foremost from Chile and Canada. So compared to our peers, it gives us a small edge. But all in all, I don't think this is a make or break for the industry. I think this outcome was as good as we could hope for. And in total, they're talking about 10% impact on demand, at least over time, and that's also something we can deal with, I think. So our take is actually positive. So let's hope this was it because that part we don't know.

Kim Galtung Dosvig: Then [indiscernible], Sparebanken Markets. He's got a question about contract prices. Can you comment on contract expectations for next year? Any more comments on share of contracts and also price expectations, if any?

Ivan Vindheim: Yes. The short answer is no. We are negotiating as we speak. And I think we have to play the cards close to our chest. So sorry, we will have to revert to at a later stage.

Kim Galtung Dosvig: Then Alexander Aukner, DNB. He's got a question about the supply. Are you able to build new markets with current supply boost? Any markets in particular worth mentioning?

Kristian Ellingsen: I think that we have a lot of focus on the market work in our organization. We are present in all the major markets, and we have a big presence in the largest salmon market in the world, the U.S., where we have had a lot of, yes, different developments on products, on logistics, on distribution, new contracts. And this is really also the plan and the work we do in all -- in the major regions. I think that it's positive that we now see, of course, also that the shelf prices are coming somewhat down. We see that in June, we are talking about around 7% reduction in shelf prices, at least in Europe in retail. That's higher than the general reduction in shelf prices for Q2. So I think we will see more of that development on promotions, on lower spot prices. And that's also positive when it comes to building markets and really making this fantastic product, more available and having it out there and having the good demand for this product. Of course, the higher shelf prices and the delays in having these spot price reductions taking fully out in the value chain that has had some tailwinds for -- or headwinds for demand, sorry. But I think that we are now seeing the right development with -- yes, some shelf prices starting to come down. And yes, this is a big focus, of course.

Kim Galtung Dosvig: So very good. No more questions.

Ivan Vindheim: Right. Then it only remains for me to thank everyone for the attention. We hope to see you back already in November at our third quarter release, if not before. In the meantime, take care and have a great day ahead. Thank you.