Midsona Year-End Report 2021

Increased costs for input goods and a challenging market burdened earnings for the quarter

October–December 2021 (fourth quarter)

● Net sales amounted to SEK 1,012 million (1,083).

● EBITDA amounted to SEK 61 million (114) before items affecting comparability, corresponding to a margin of 6.0 percent (10.5).

● Profit for the period was SEK 1 million (55), corresponding to earnings per share of SEK 0.01 (0.85) before and after dilution.

● Free cash flow amounted to SEK –25 million (102).

● Midsona took possession of the acquired Vitality on 1 October.

● In its annual climate survey, global environmental initiative CDP awarded Midsona a high ranking for its climate change strategy.

January–December 2021 (full year)

● Net sales amounted to SEK 3,773 million (3,709), but with challenges in organic growth as a result of certain delivery problems, as well as the previous year's hoarding effects and increased household consumption.

● EBITDA amounted to SEK 313 million (390) before items affecting comparability, corresponding to a margin of 8.3 percent (10.5).

● Profit for the period was SEK 89 million (176), corresponding to earnings per share of SEK 1.31 (2.70) before dilution and SEK 1.30 (2.69) after dilution.

● Free cash flow amounted to SEK –94 million (252).
● The Board of Directors proposes that no dividend be paid for 2021.

Comment by the CEO

As previously communicated, the fourth quarter was challenging. Reopening effects following the pandemic hampered sales as customers and consumers phasing out inventories and generally consuming less. Higher costs for input goods, energy and transport had a considerable negative impact on the gross margin. We also experienced major delivery disruptions.

We captured market shares in a tough market
In terms of sales, the quarter began very weak and it was not until December that sales were in line with the preceding year, a trend that continued in January. Sales for the quarter amounted to SEK 1,012 million, a decrease of slightly more than 6 percent compared with the strong fourth quarter of 2020. Although development was relatively weak for our brands, our assessment is that we captured market shares, particularly in France and Spain, where the roll-out of our Happy Bio brand continued as planned and showed growth. The Davert brand in the DACH region experienced a weaker quarter, but we are pleased that Davert was recently introduced at a number of test stores in a leading German grocery chain.

Weak margin to save customer relationships
During the quarter, poor harvests and continued supply disruptions led to shortages and dramatic price increases on several key raw materials, including organic chia seeds – a major product in Germany. In general, we saw sharply increased costs for all of the Group's divisions, although our production unit in Tilst, Denmark was hit particularly hard because System Frugt, which is strong in dried fruit and nuts, has its high season approaching the holidays. To secure deliveries, we purchased raw materials for parts of the Group at high prices on the spot market, greatly hampering the margin. We believe this was nonetheless the right choice in taking care of our customer relationships in the long term. The gross margin fell to 23.9 percent and EBITDA before items affecting comparability decreased to SEK 61 million.

Price increases and other profitability-improving measures
To offset the cost increases, we have, as previously announced, increased the prices on most of our goods, which was generally well received. Due to agreed notification windows and negotiations, however, there is a built-in delay of about five months between cost increases occurring and our price increases being implemented, and we do not expect to achieve the full effect until the beginning of the second quarter. We have also initiated other profitability-improving measures and taken action to improve the supply chain in order to achieve greater reliability in goods supply and more stable pricing.

Focus on cash flow

Strong long-term cash flow is a prerequisite for our capacity to invest in our brands and to generate the scope for our continued participation in the consolidation of the European market through acquisitions. To strengthen cash flow, we are initiating programmes to reduce the amount of capital that the company has tied up. The Board has also decided to propose to the Annual General Meeting that no dividend be paid for 2021.

Outlook for 2022

We have established a position as one of the leading players in organic products and plant-based meat alternatives in the European grocery trade. Our success is exemplified by our agreement with Spain's largest grocery chain Mercadona, which we announced after the end of the period. Our chilled plant-based meat-alternatives will be sold under Mercadona's own brand Hacendado – a recognised stamp of quality. Production will make use of our expanded production capacity at Castellcir alongside our own plant-based meat-alternative brands, thus strengthening the margin for our business.

We anticipate continued uncertainty in 2022 with volatile pricing and challenges in the value chain. The gross margin will be strained during the first quarter of 2022. Not until the beginning of the second quarter will we have fully implemented the price increases announced in the autumn. We are monitoring cost trends for raw materials, transport and energy closely and do not rule out the need for further price increases. We are also implementing a number of changes to strengthen the supply chain and our commercial vigour, with the clear ambition to generate organic growth for our brands. We have performed a thorough review of the markets in which we experienced problems, primarily Denmark and Germany, and anticipate a gradual improvement.

I am therefore optimistic about the future, despite the current challenges. Fundamentally, there remains a strong consumer trend for our products. We remain convinced that the measures we are now taking will have an impact and return us to profitable growth.

Peter Åsberg
CEO

This is information of the type that Midsona AB is obligated to make public in accordance with the EU Market Abuse Regulation. The information was submitted for publication through the agency of Peter Åsberg and Max Bokander on February 4th, 2022 at 8am CET.

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