

# Annual report 2011/12

CHR. HANSEN HOLDING A/S

31 October 2012

**CHR HANSEN**

*Improving food & health*

# Highlights Q4 2011/12

- Revenue EUR 185 million, up 15%
- Organic revenue growth of 10%
  - 14% adjusted for carmine price effect
- EBIT EUR 50 million, up 10%
  - EBIT margin 27.2%, down from 28.4%
  - EBIT margin affected negatively by 2.6%-points from impairments (EUR 4.8 million)
- EPS, continuing operations EUR 0.28, up 4%
- Profit, continuing operations EUR 39 million, up 7%
- R&D expenditures incurred EUR 10 million, 5.5% of revenue (EUR 11 million or 7.1% of revenue Q4 last year)
- Free cash flow EUR 67 million, down 3% (excluding divested operations)

	Q4 11/12	Q4 10/11
Organic growth	10%	9%
Organic growth excl. carmine price	14%	8%
EBIT margin	27.2%	28.4%



# Highlights FY 2011/12

- Revenue EUR 699 million, up 10%
- Organic revenue growth of 8%
  - 11% adjusted for carmine price effect
- EBIT EUR 185 million, up 16%
  - EBIT margin 26.5%, up from 25.0%
  - EBIT margin negatively affected by 0.7%-point from impairments (EUR 4.8 million)
- Profit for the year, continuing operations EUR 131 million, up 15%
- EPS, continuing operations EUR 0.95, up 14%
- R&D expenditures incurred EUR 47 million, 6.7% of revenue
- Free cash flow EUR 113 million, up 8% (excluding divested operations)

	FY 11/12	FY 10/11
Organic growth	8%	14%
Organic growth excl. carmine price	11%	10%
EBIT margin	26.5%	25.0%

- NIBD EUR 364 million or 1.5x EBITDA (1.9 adjusted)
- Share buy-back program concluded 19 Oct. (3.5 million shares acquired/EUR 80 million)

# Revenue Growth per Division 2011/12

CULTURES & ENZYMES (60%)



HEALTH & NUTRITION (15%)



NATURAL COLORS (25%)



## Growth

**10%** organic growth

**11%** EUR growth

**13%** organic growth

**18%** EUR growth

**2%** organic growth\*

**3%** EUR growth

**\*12%** adjusted for carmine prices

# Revenue Growth per Region 2011/12

**EUROPE (46%)**



**1%** organic growth

**0%** EUR growth

**Excluding carmine price effect**

**4%** organic growth

- Decline in carmine volume
- Probiotics for dairy down, but, total cultures & enzymes growing

**NORTH AMERICA (24%)**



**17%** organic growth

**24%** EUR growth

**17%** organic growth

- Growth across all divisions

**SOUTH AMERICA (13%)**



**22%** organic growth

**18%** EUR growth

**26%** organic growth

- Growth primarily driven by conversion in natural colors and cultures

**APMEA (17%)**



**10%** organic growth

**16%** EUR growth

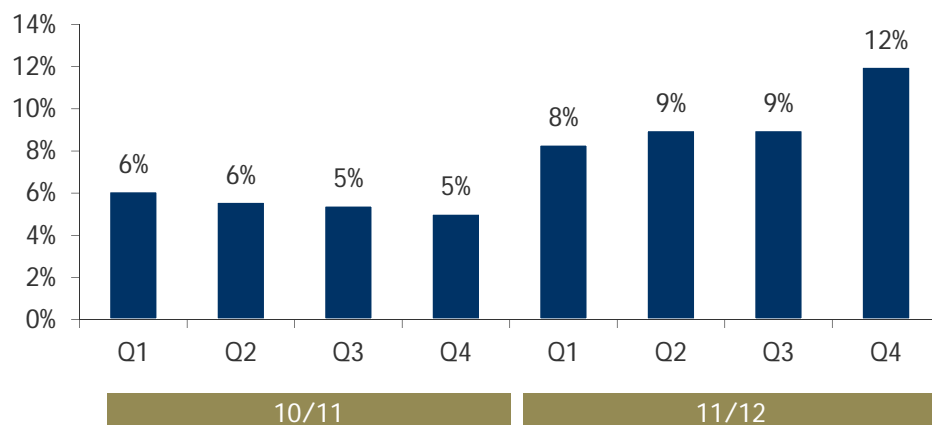
**12%** organic growth

- Growth across all divisions

# Cultures & Enzymes Division

EUR million	Q4 11/12	Q4 10/11	FY 11/12	FY 10/11
Revenue	113.0	97.5	419.8	378.8
Organic growth	12%	5%	10%	6%
EBITDA	44.8	41.7	155.2	143.3
EBITDA margin	39.6%	42.8%	37.0%	37.8%
EBIT	33.5	33.5	119.8	111.3
EBIT margin	29.6%	34.4%	28.5%	29.4%
ROIC excl. goodwill			31.8%	29.7%

Organic growth



## Organic growth

- Driven by continued strong growth in sales of cultures for cheese and fermented milk as well as enzymes
- Probiotic cultures slightly positive FY
  - In Q4 decline in Europe partly offset by growth in APMEA and South America. North America flat

## EBIT margin

- EBIT margin down 0.9%-point primarily due to impairment (EUR 2 million)
- Q4 EBIT margin negatively impacted by impairment (1.8%-point) and reduction in inventory level

## ROIC excl. Goodwill

- Up 2.1 percentage point driven by the improved result

# Health & Nutrition Division

EUR million	Q4 11/12	Q4 10/11	FY 11/12	FY 10/11
Revenue	30.6	23.9	107.3	90.9
Organic growth	18%	24%	13%	16%
EBITDA	15.8	11.0	48.1	36.8
EBITDA margin	51.6%	46.0%	44.8%	40.5%
EBIT	10.8	9.3	37.6	30.4
EBIT margin	35.3%	38.9%	35.0%	33.4%
ROIC excl. goodwill			39.1%	33.6%

## Organic growth

- Strong growth in both human and animal health businesses

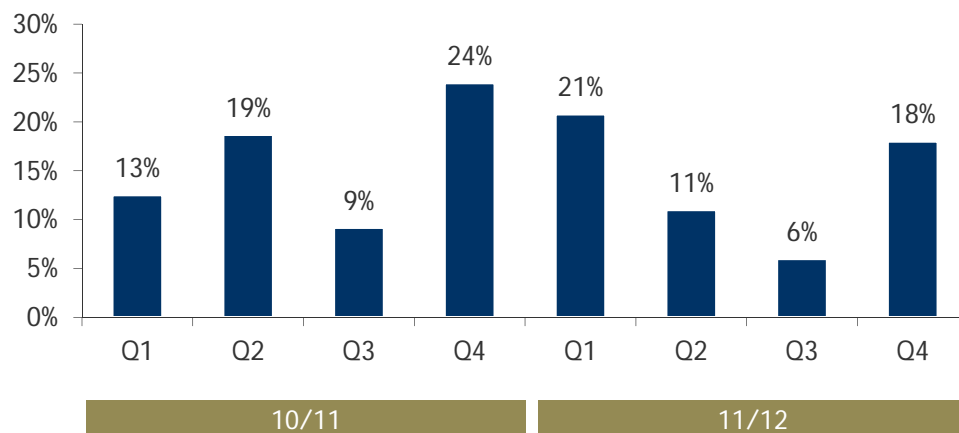
## EBIT margin

- Improvement primarily driven by scalability effects from the increased sales volume, production efficiencies and positive currency effects
- Q4 EBIT margin negatively affected by impairments primarily related to clinical studies

## ROIC excl. goodwill

- Up 5.5 percentage point driven by scalability
- Invested capital excl. goodwill increased 11% mainly due to investments in new freeze drying capacity and clinical studies

## Organic growth



# Natural Colors Division

EUR million	Q4 11/12	Q4 10/11	FY 11/12	FY 10/11
Revenue	41.4	40.1	171.6	165.9
Organic growth	1%	12%	2%	40%
- excl. carmine price effect	15%	6%	12%	19%
EBITDA	7.2	4.4	32.2	21.6
EBITDA margin	17.4%	11.0%	18.8%	13.0%
EBIT	6.0	3.1	27.6	17.5
EBIT margin	14.5%	7.7%	16.1%	10.5%
ROIC excluding goodwill			40.5%	27.6%

## Organic growth

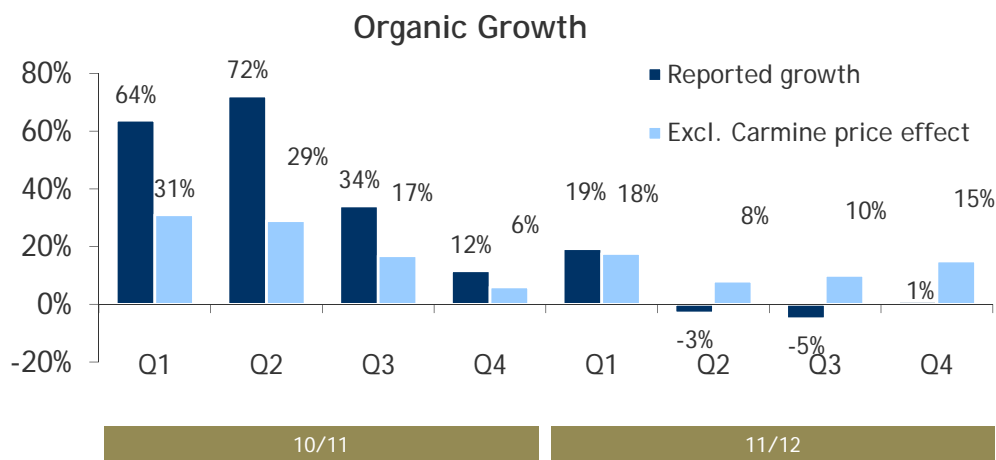
- Solid growth across all applications and color types except carmine which was down on price and volume
- The conversion continued during Q4 with solid growth outside of Carmine.

## EBIT margin

- Improvement driven by margin improvement in carmine and scalability from the increased sales volume in other colors than carmine
- Q4 EBIT margin up 6.8 percentage points primarily due to scalability effects and Q4 last year being affected by inventory write-downs

## ROIC excl. goodwill

- Up 12.9 percentage point driven by scalability
- Invested capital excl. goodwill up 8% mainly due to investments in production facilities





# Profit & Loss

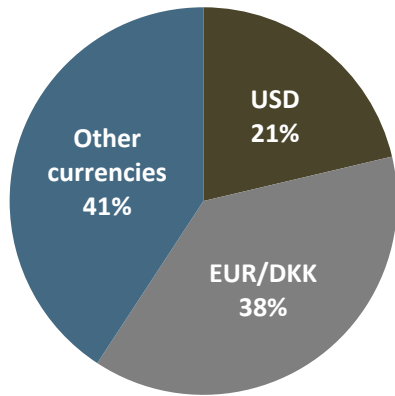
EUR million	Q4 11/12	Q4 10/11	Index	FY 11/12	FY 10/11	Index
Revenue	185.0	161.5	115	698.7	635.6	110
Organic growth	10%	9%		8%	14%	
Organic growth excl. carmine effect	14%	8%		11%	10%	
Gross margin	53.6%	49.5%		51.5%	48.6%	
EBIT	50.3	45.9	110	185.0	159.2	116
EBIT margin	27.2%	28.4%		26.5%	25.0%	
Net financials	(2.3)	(1.9)	121	(12.7)	(10.9)	117
Tax	(8.7)	(7.3)	119	(41.0)	(34.1)	120
<b>Profit, continuing operations</b>	<b>39.3</b>	<b>36.7</b>	<b>107</b>	<b>131.3</b>	<b>114.2</b>	<b>115</b>
<b>EPS continuing operations, diluted</b>	<b>0.28</b>	<b>0.27</b>		<b>0.95</b>	<b>0.83</b>	

- Gross margin improvement primarily driven by
  - Lower raw material prices for carmine,
  - Scale benefits
- Net financials up 17%
  - Positive exchange rate adjustments in 2010/11 of EUR 5 million - zero effect this year
- Tax rate 24%, positively affected by one off utilization of tax loss carry forwards

# Currency impact

## Revenue

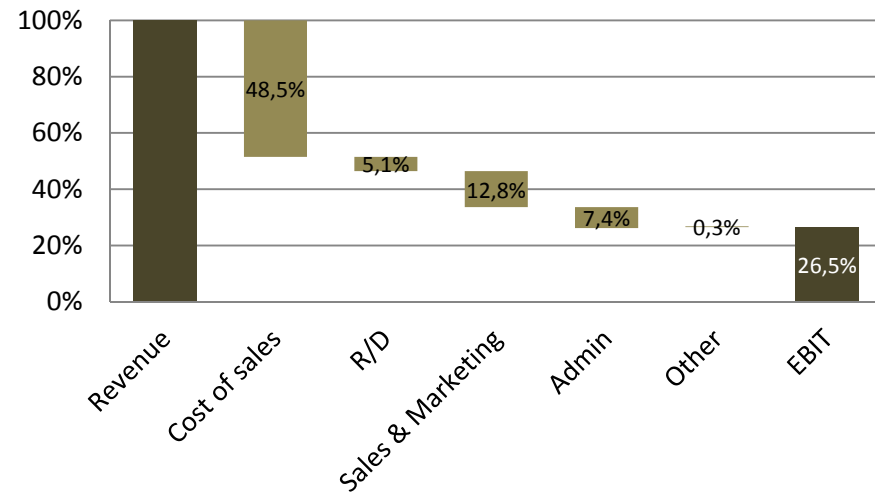
- F/X impact positive 2%-point in 2011/12
- F/X impact positive 5%-point in Q4 2011/12



- Other currencies mainly BRL, AUD, PLN & RUB

## EBIT margin

- F/X impact 0.6%-point in 2011/12
- F/X impact 1.1%-point in Q4 2011/12



# Research & Development

EUR million	Q4 11/12	Q4 10/11	FY 11/12	FY 10/11
R&D expenses	11.8	6.6	35.7	28.2
- Amortization	1.1	1.2	3.1	2.5
- Impairment	4.8	0	4.8	0
+ Capitalization	4.3	5.9	19.3	16.3
R&D expenditures incurred	10.2	11.4	47.1	42.0

## Selected Product Launches in Q4

- FreshQ® bioprotective cultures (CED)
- Probiotic stick powder with Lactobacillus rhamnosus LGG® and oral rehydration solution (HND)
- Ultra Stable Red™ anthocyanin solution for naturally colored red beverages (NCD)

## Clinical studies

### Immune health

- Preliminary analyses from the second study indicated beneficial effects, however, the study did not reconfirm the positive results seen in the previous immune study
- Data currently available assessed to be insufficient for approval of an EU health claim
- EUR 4 million impairment of capitalized development costs. Other impairments EUR 1 million related to other intangible assets

### Gastrointestinal health

- Clinical studies continuing as planned with first results expected around year-end 2012

## EFSA status

- The transition period for rejected health claims for use on food under Article 13.1. is set to end by 14 December 2012

# Cash flow and Balance sheet

EUR million	Q4 11/12	Q4 10/11	FY 11/12	FY 10/11
<b>Cash flow</b>				
Cash flow - operating activities	86.6	86.4	176.4	150.4
Cash flow - investing activities	(20.0)	(17.8)	(63.1)	(45.2)
Cash flow - divestment	-	19.4	-	19.4
Free cash flow	66.6	88.0	113.3	124.6
<b>Balance sheet</b>				
Total assets			1.343	1.353
Equity, excl. minorities			655	641
Net interest-bearing debt (NIBD)			364	348
<b>Key Figures</b>				
ROIC excluding goodwill %	35.3%	33.8%	34.1%	30.0%
Net working capital %			14.1%	15.3%
Capital expenditure %	11.1%	11.1%	9.1%	7.1%
Research & Development %	5.5%	7.1%	6.7%	6.6%
NIBD/EBITDA			1.5x	1.7x

- Cash flow from operating activities improved by EUR 26 million
  - Higher operating profit (EUR +35 million)
  - Working capital (EUR +13 million)
  - Higher taxes paid (EUR -22 million)
- In Q4 cash flow from operating activities unchanged from last year due to working capital and paid taxes offsetting higher operating profit
- Increased CAPEX driven by
  - Frozen packaging and freeze drying capacity for cultures
  - Clinical studies
  - Production facilities for Ultra Stable Red™
- NIBD/EBITDA 1.5x, but 1.9x when adjusting for proposed dividend and full impact of share buy-back program

# Outlook 2012/13



Org. growth excl. carmine price effect	Org. growth	EBIT margin before impair. & special item	Free cash flow before acquisitions and divestments
8-10%	7-9%	Above last year	Same level as last year

## Long term financial ambition (3-5 years)

Org. growth	EBIT margin b.s.i.	Free cash flow	R/D exp.* (% of revenue)
8-10%	Increasing	Increasing	~7%

The 2012/13 outlook and long term financial ambition are sensitive to major changes in the global economy including fluctuations in currencies and raw material prices for natural colors which could impact the financial performance of the company

\* Including capitalized development costs

# Q & A

## **Annual General Meeting**

Tuesday, 27 November 2012 at 4pm CET

Chr. Hansen's headquarter

Boege Allé 10-12, 2970 Hoersholm

Deadline for proxy votes 23 November 2012

# Disclaimer

This presentation contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. Although Chr. Hansen believes that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors many of which are beyond Chr. Hansen's control



# Chr. Hansen - A Bioscience based Company

Founded in 1874

**Dairy Enzymes**  
(12% of revenue\*)



▼ Cheese



**Cultures**  
(37% of revenue\*)



▼ Yogurt

▼ Meat

▼ Cheese

▼ Wine



**Probiotic cultures**  
(26% of revenue\*)



▼ Yogurt



▼ Food supplements

▼ Infant formula



▼ Animal health

**Natural colors**  
(25% of revenue\*)



▼ Beverage

▼ Confectionary

▼ Dairy & fruit preparation

▼ Prepared food

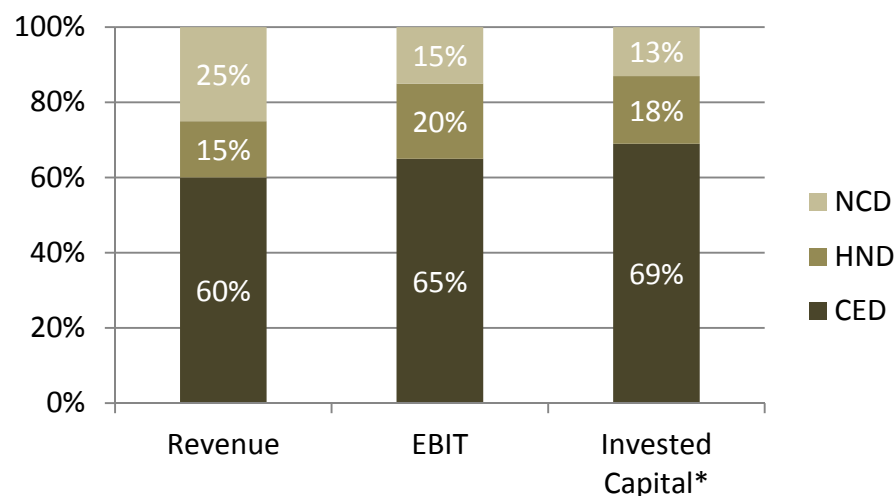




# Chr. Hansen at a glance (2011/12)

## Chr. Hansen

Revenue	EUR 699m
Organic growth	8%/11%
EBIT	EUR 185m
EBIT margin	26.5%
Invested capital*	EUR 552m
ROIC*	34.1%



## Cultures & Enzymes

Revenue	EUR 420m
Organic growth	10%
EBIT	EUR 120m
EBIT margin	28.5%
ROIC*	31.8%
Market share	~45%

## Health & Nutrition

Revenue	EUR 107m
Organic growth	13%
EBIT	EUR 38m
EBIT margin	35.0%
ROIC*	39.1%
Market share	~15%

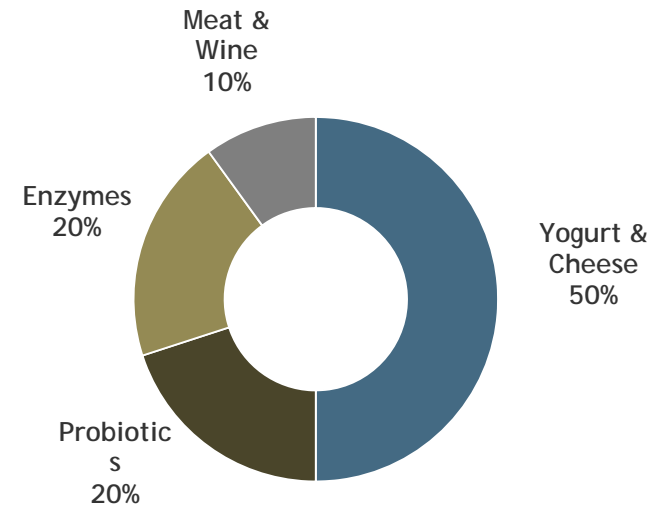
## Natural Colors

Revenue	EUR 172m
Organic growth	2%/12%
EBIT	EUR 28m
EBIT margin	16.0%
ROIC*	40.5%
Market share	~25%

# Cultures & Enzymes Division (60% of revenue)

## What are Cultures & Enzymes:

- Cultures are living microorganisms which control fermentation processes in a range of food products
  - Define texture, taste and stability in yogurt, cheese, meat & wine
- Probiotics are cultures with documented health benefits
- Enzymes are proteins which catalyze naturally occurring processes
  - Transforms milk to cheese



## Production:

- Produced through fermentation and delivered to customers – primarily dairies – in concentrated ready-to-use packages (frozen or freeze dried)

# Cultures & Enzymes Division (60% of revenue)

## Growth Drivers

### Fundamental Market Growth

- GDP Growth
- Increased demand for healthy food products
- Increase in middle income groups in Asia, South America and Africa

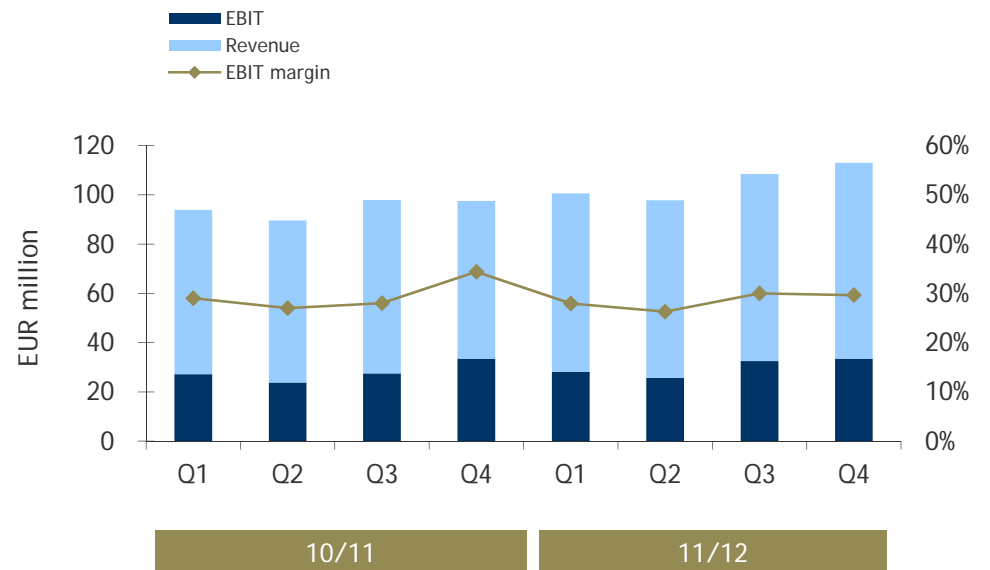
### Conversion of Culture Production

- Dairies outsourcing production of cultures
  - Yogurt: approx. 75% converted\*
  - Cheese: approx. 45% converted\*

### Increased functionality

- Probiotics
- Low fat

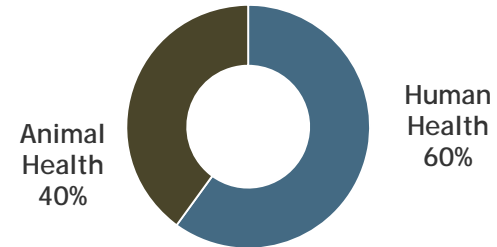
### Improved yield/efficiency



# Health & Nutrition Division (15% of revenue)

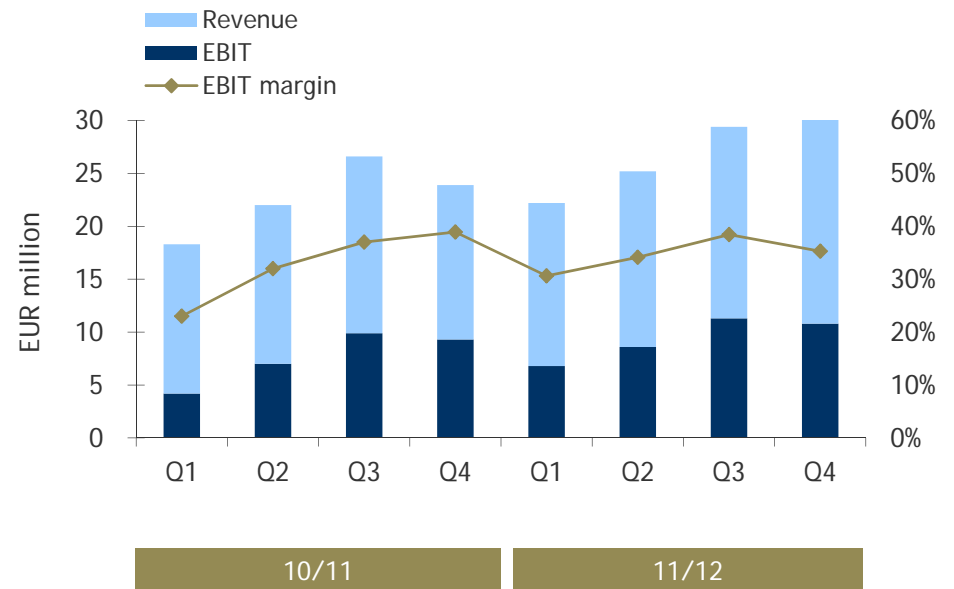
## Human health

- Food supplements with documented health benefits on:
  - Intestinal flora
  - Immune system
- Ingredient in infant formula
- Customers: Pharmaceutical and health companies



## Animal health

- Preserve nutritional value of silage
- Increased feed uptake and reduce mortality in livestock
- Customers: Agricultural industry, primarily within pigs, poultry and cattle



# Natural Colors Division (25% of revenue)

## What are Natural Colors?

- A complete color range extracted from seeds, roots, and berries
- Natural alternative to synthetic colors
- Customers: Food & Beverage companies

## Challenges Working with Natural Colors

- Stability
- Access to raw materials and price volatility
- Higher cost in use than synthetic colors



# Natural Colors Division (25% of revenue)

## Growth drivers

### Increased Regulation

- Warning label on Southampton six colors in EU from July 2010 – latest adopted by Russia

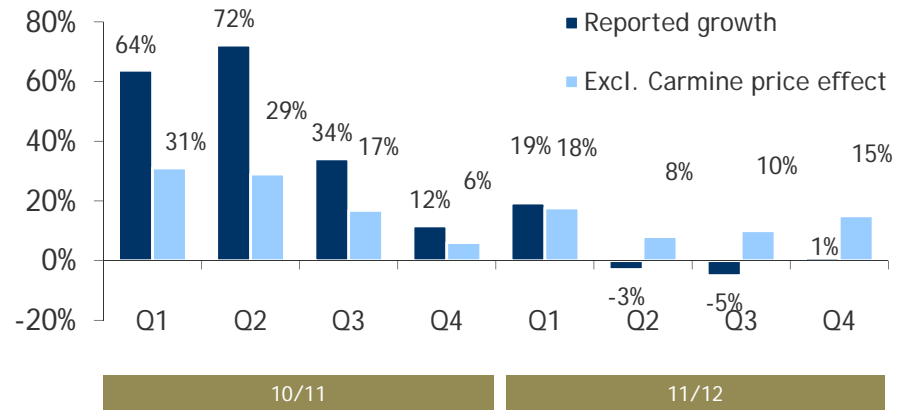
### Consumer Health Concerns

- Increased consumer demand for natural ingredients

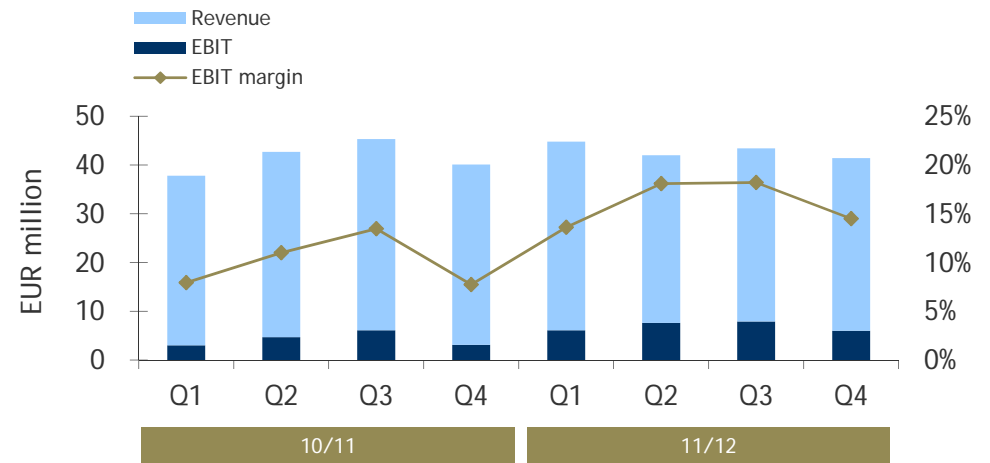
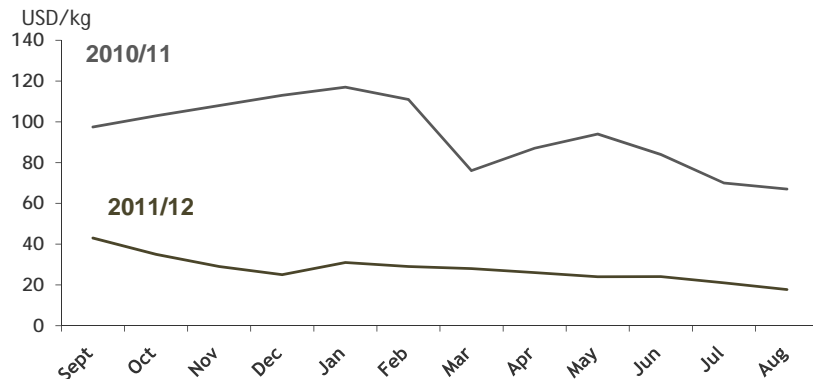
### Future Conversion opportunity

- Natural colors account for approx. 25-30% of volume in the total color market in food and beverages

## Organic Growth

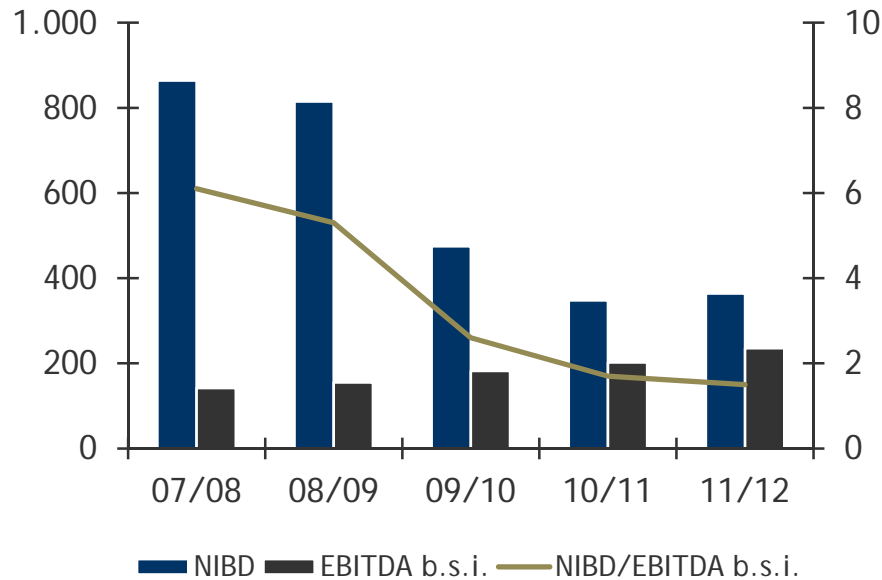


## Raw Material Costs for Carmine (Purchase Prices)



# Gearing level and Dividend policy

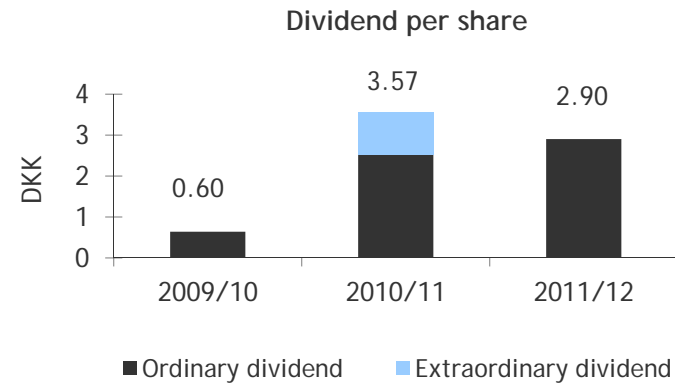
## Gearing level



The Board of Directors is committed to maintaining leverage consistent with a solid investment grade credit profile while returning excess cash to shareholders either through normal and extraordinary dividends or share buy-back programs

## Dividend policy

- Pay out ratio: 30%-50% of net profit



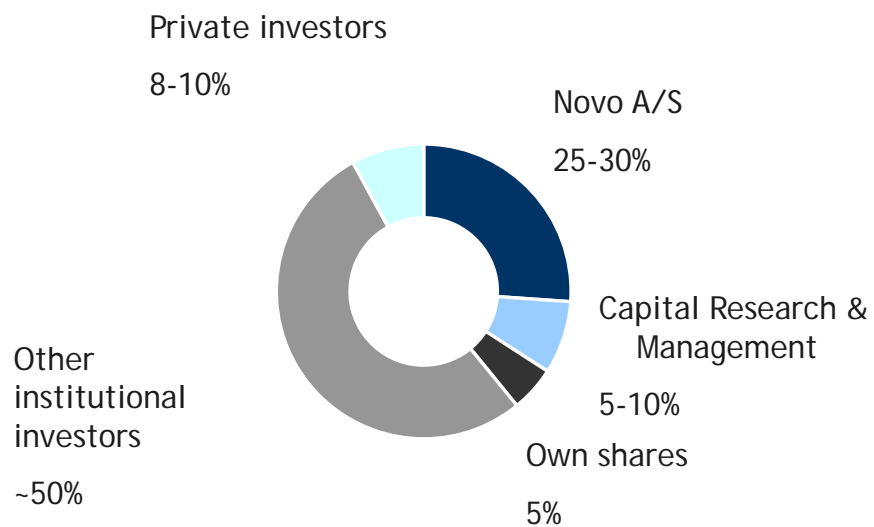
## Share buy-back program (19/4 - 19/10 2012)

- Total number of shares acquired: 3,534,244
- Total transaction value: EUR 80 million
- Proposal at the next AGM to reduce the share capital by the number of shares acquired, nominal EUR 35.3 million
- Reduction of the share capital expected to be concluded in January 2013

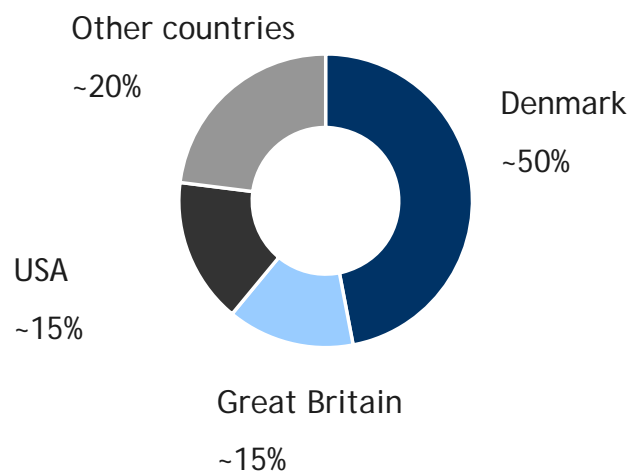
# Shareholder Structure



## Shareholder type



## Countries





# Chr. Hansen

## Annual General Meeting

The Annual General Meeting will be held on Tuesday, 27 November 2012 at Chr. Hansen's headquarter, Boege Allé 10-12, 2970 Hoersholm at 4pm CET

Deadline for proxy votes 23 November 2012

## Financial Calendar 2012/13

16 January 2013	Interim Report Q1
11 April 2013	Interim Report Q2
3 July 2013	Interim Report Q3
23 October 2013	Annual Report 2012/2013

## Interactive Annual Report

<http://annualreport1112.chr-hansen.com>

## Dividend

Proposed dividend of EUR 0.39 (DKK 2.90) per share for 2011/12

Total dividend payment EUR 52 million, equal to 40% of profit for the year.

28 November 2012	Ex-date (ex-dividend)
30 November 2012	Record date
3 December 2012	Dividend payment date

## Contact Chr. Hansen

Head of Investor Relations  
Senior Director

Anders Mohr Christensen

Tel: +45 4574 7618

Email: [dkamc@chr-hansen.com](mailto:dkamc@chr-hansen.com)