



**Chr. Hansen Holding A/S**

**Q3 2011/12**

**4 July 2012**

*Natural red*

**CHR HANSEN**

*Improving food & health*

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# Highlights Q3 2011/12

- Revenue EUR 181 million, up 7%
- Organic revenue growth of 5%
  - 9% adjusted for change in sales prices to reflect changes in raw material prices for carmine
- EBIT EUR 52 million, up 19%
  - EBIT margin 28.5%, up from 25.6%
- Net profit EUR 35 million, up 14%
- R&D spend EUR 13 million, 7.2% of revenue (EUR 12 million or 7.0% of revenue Q3 last year)
- Free cash flow EUR 36 million, down 16%

	Q3 11/12	Q3 10/11
Organic growth	5%	12%
Organic growth excl. carmine price	9%	9%
EBIT margin	28.5%	25.6%

# Highlights YTD 2011/12

- Revenue EUR 514 million, up 8%
- Organic revenue growth of 8%
  - 10% adjusted for change in sales prices to reflect changes in raw material prices for carmine
- EBIT EUR 135 million, up 19%
  - EBIT margin 26.2%, up from 23.9%
- Net profit EUR 92 million, up 17%
- R&D spend EUR 37 million, 7.2% of revenue
- Free cash flow EUR 47 million, up 28%
- NIBD EUR 396 million or 1.8x EBITDA
- Share buy-back program progressing as planned

	YTD 11/12	YTD 10/11
Organic growth	8%	16%
Organic growth excl. carmine price	10%	10%
EBIT margin	26.2%	23.9%

# Revenue Growth per Division YTD 2011/12

CULTURES & ENZYMES (60%)



HEALTH & NUTRITION (15%)



NATURAL COLORS (25%)



## Growth

**9%** organic growth

**9%** EUR growth

**12%** organic growth

**15%** EUR growth

**3%** organic growth\*

**3%** EUR growth

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

# Revenue Growth per Region YTD 2011/12

EUROPE (47%)



1% organic growth

-1% EUR growth

Excluding carmine price effect

4% organic growth

- Decline in carmine volume
- Probiotics for dairy slightly down
- Cultures & Enzymes growing

NORTH AMERICA (23%)



16% organic growth

20% EUR growth

- Strong performance across all categories

SOUTH AMERICA (13%)



25% organic growth

22% EUR growth

- Growth primarily driven by conversion in natural colors and cultures

APMEA (17%)



8% organic growth

12% EUR growth

- Good performance in cultures and enzymes
- Sales affected by difficult trading conditions in certain countries in the Middle East

# Cultures & Enzymes Division

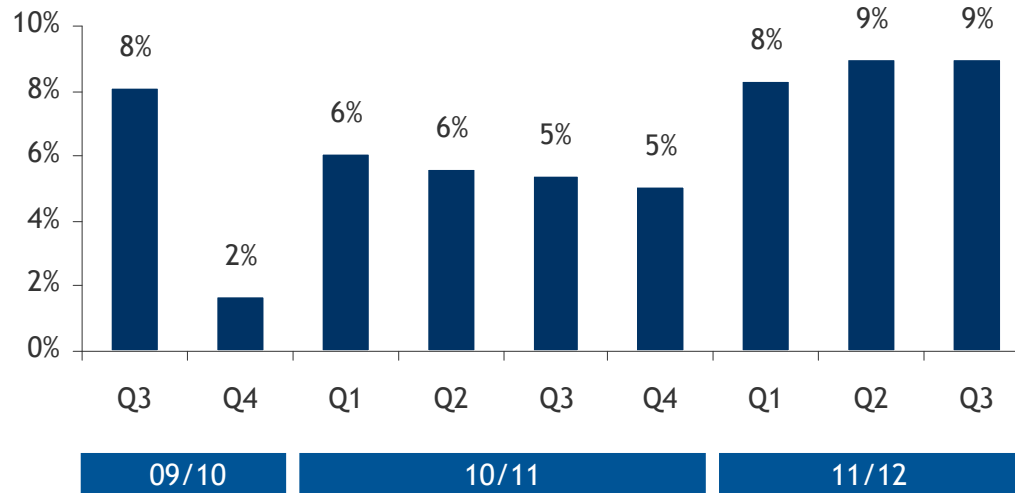


EUR million	Q3 11/12	Q3 10/11	YTD 11/12	YTD 10/11
Revenue	108.4	97.9	306.7	281.4
Organic growth	9%	5%	9%	6%
EBITDA	40.6	35.5	110.4	102.1
EBITDA margin	37.5%	36.3%	36.0%	36.3%
EBIT	32.5	27.5	86.3	78.4
EBIT margin	30.0%	28.1%	28.1%	27.9%
ROIC excl. goodwill			29.7%	27.5%

## Organic growth

- Driven by continued strong growth in sales of cultures for cheese and fermented milk as well as enzymes
- Probiotic cultures slightly positive YTD and in Q3
  - In Q3 decline in Europe more than offset by growth in the other regions

## Organic growth



## EBIT margin

- Q3 EBIT margin increased primarily due to higher inventory compared to last year and scale benefits partly offset by increased transportation costs

# Health & Nutrition Division

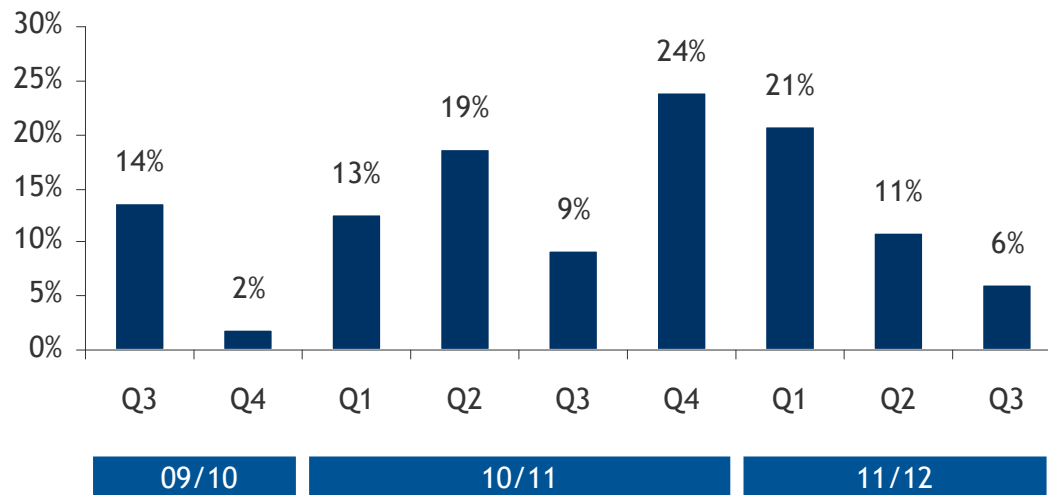


EUR million	Q3 11/12	Q3 10/11	YTD 11/12	YTD 10/11
Revenue	29.4	26.6	76.8	66.9
Organic growth	6%	9%	12%	13%
EBITDA	13.1	11.5	32.2	25.8
EBITDA margin	44.7%	43.2%	41.9%	38.6%
EBIT	11.3	9.9	26.7	21.1
EBIT margin	38.3%	37.2%	34.8%	31.5%
ROIC excl. goodwill			36.2%	30.5%

## Organic growth

- Driven by good growth in both human and animal health businesses
  - In Q3 sales of human health products declined slightly due to timing of major campaigns by customers compared to Q3 last year
  - Cultures for animal feed and silage delivered strong growth

## Organic growth



## EBIT margin

- Improvement primarily driven by scalability effects from the increased sales volume





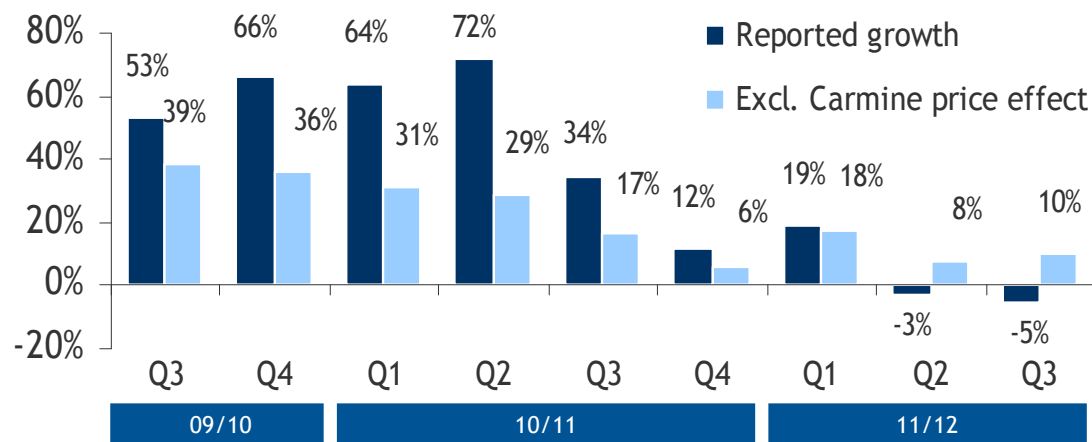
# Natural Colors Division

EUR million	Q3 11/12	Q3 10/11	YTD 11/12	YTD 10/11
Revenue	43.4	45.3	130.2	125.8
Organic growth	(5)%	34%	3%	54%
Organic growth excl. carmine price effect	10%	17%	12%	25%
EBITDA	9.0	6.9	25.1	16.6
EBITDA margin	20.8%	15.2%	19.3%	13.2%
EBIT	7.9	6.1	21.7	13.8
EBIT margin	18.1%	13.5%	16.7%	11.0%
ROIC excl. goodwill, adj. for divestment			40.1%	26.1%

## Organic growth

- Solid growth across all applications and color types except carmine which was down on price and volume
- Continued conversion from synthetic colors in Q3
  - **North & South America:** Strong growth across most color types
  - **Europe & APMEA:** Declined due to lower carmine prices and volume

## Organic Growth



## EBIT margin

- Improvement driven by
  - Scalability from the increased sales volume
  - Margin improvement in carmine from lower raw material prices and tight price management

# Strong Revenue and EBIT Growth

EUR million	Q3 11/12	Q3 10/11	Index	YTD 11/12	YTD 10/11	Index
Revenue	181.2	169.8	107	513.7	474.1	108
Organic growth	5%	12%		8%	16%	
Organic growth excl. carmine effect	9%	9%		10%	10%	
Gross margin	52%	48%		51%	48%	
EBIT	51.7	43.5	119	134.7	113.3	119
EBIT margin	28.5%	25.6%		26.2%	23.9%	
Net financials	(4.2)	(2.1)	200	(10.4)	(9.0)	116
Tax	(12.3)	(10.5)	117	(32.3)	(26.8)	121
<b>Net profit continuing operations</b>	<b>35.2</b>	<b>30.9</b>	<b>114</b>	<b>92.0</b>	<b>77.5</b>	<b>119</b>
<b>EPS continuing operations, diluted</b>	<b>0.26</b>	<b>0.22</b>		<b>0.67</b>	<b>0.56</b>	

- Gross margin improvement primarily driven by
  - lower raw material prices for carmine,
  - relative higher inventory
  - scale benefits
  
- Net financials in Q3 affected by negative exchange rate adjustments (EUR 2 million)



# Research & Development Activity at a high level

EUR million	Q3 11/12	Q3 10/11	YTD 11/12	YTD 10/11
R&D expenses incl. amortization	8.6	7.8	23.9	21.7
- Amortization	0.6	0.6	1.9	1.4
+ Capitalization	5.0	4.7	14.9	10.3
<b>R&amp;D spend</b>	<b>13.0</b>	<b>11.9</b>	<b>36.9</b>	<b>30.6</b>
<b>% of revenue</b>	<b>7.2%</b>	<b>7.0%</b>	<b>7.2%</b>	<b>6.4%</b>

## Clinical studies

- The clinical study program is continuing as planned
- The program was initiated to generate additional clinical data for business and health claim support of our core probiotics for gastrointestinal health and immunity

## Selected Product Launches in Q3

- New YoFlex® series for Greek yogurt with probiotics (Cultures & Enzymes Division)
- New probiotic chewable tablet combining Lactobacillus L. casei 431® and vitamin C (Health & Nutrition Division)

## 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

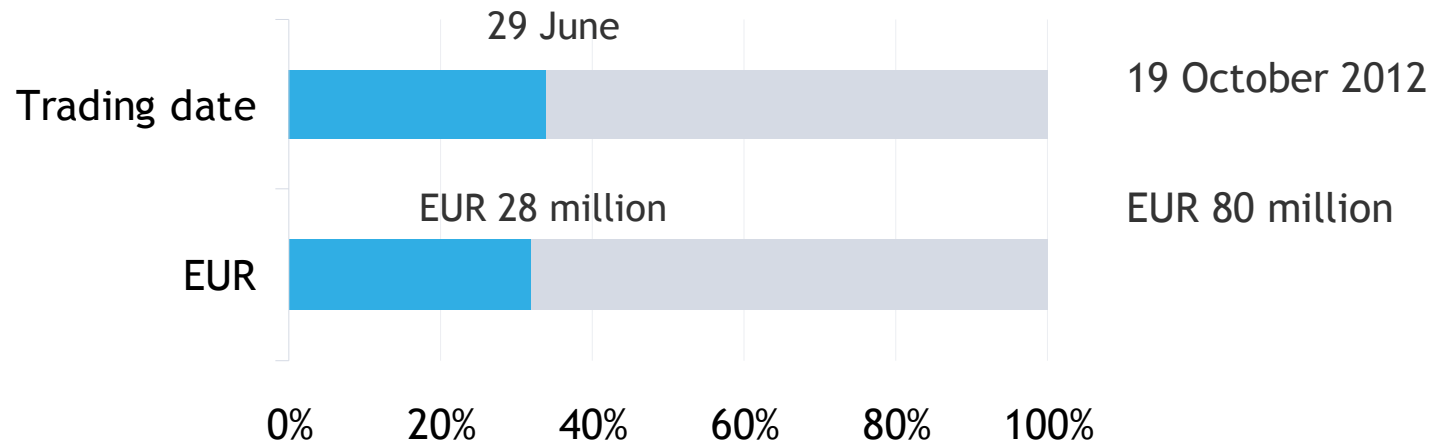


EUR million	Q3 11/12	Q3 10/11	YTD 11/12	YTD 10/11
<b>Cash flow</b>				
Cash flow - operating activities	52.5	53.2	89.8	64.0
Cash flow - investing activities	(16.5)	(10.6)	(43.1)	(27.4)
Free cash flow	36.0	42.6	46.7	36.6
<b>Balance sheet</b>				
Total assets			1,349	1,304
Equity, excl. minorities			654	609
Net interest-bearing debt (NIBD)			396	436
<b>Key Figures</b>				
ROIC excluding goodwill %	35.6%	30.9%	32.2%	27.3%
Net working capital %	20.0%	20.5%	20.0%	20.5%
Capital expenditure %	9.1%	6.2%	8.4%	5.8%
Research & Development %	7.2%	7.0%	7.2%	6.4%
NIBD/EBITDA			1.8x	2.2x

- Cash flow from operating activities improved by EUR 26 million
  - Higher operating profit (EUR +23 million)
  - Working capital (EUR +20 million)
  - Higher taxes paid (EUR -18 million)
  
- In Q3 cash flow from operating activities unchanged from last year due to higher working capital
  
- Increased CAPEX driven by clinical studies as well as additional packaging and freeze-drying capacity
  
- ROIC excluding goodwill improved by 5 percentage points to 32.2%
  - Improved returns in all three divisions

# Status on Share Buy-Back

## Progression



- Share buy-back program of up to EUR 80 million
- Exercised during the period 19 April - 19 October 2012
- Purpose of the share buy-back is to adjust the capital structure by distributing excess capital to the shareholders
- The share buy-back is conducted under the Safe Harbor regulation
- The Board of Directors intends to recommend to the shareholders at the next AGM on 27 November 2012 to decrease the share capital with the number of shares acquired under the program

# Outlook 2011/12 increased based on better than expected performance in Q3



Org. Growth (Excl. carmine price effect)	Org. Growth	EBIT margin b.s.i.	R/D Exp.* (% of revenue)	Free cash flow (before acquisitions and divestments)
9-11% (prev. 8-10%)	6-8% (prev. 5-7%)	26.5-27.0% (prev. >26%)	~7%	Above last year

The 2011/12 outlook is sensitive to major changes in the global economy including fluctuations in currencies and raw material prices for carmine which could impact the financial performance of the company

\* Including capitalized development costs



# Q & A

# Chr. Hansen - A Bioscience based Company

Founded in 1874

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



▼ Cheese



**Cultures**  
(36% of revenue\*)



▼ Yogurt

▼ Meat

▼ Cheese

▼ Wine



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



▼ Yogurt



▼ Food supplements

▼ Infant formula



▼ Animal health

**Natural colors**  
(26% of revenue\*)



▼ Beverage

▼ Confectionary

▼ Dairy & fruit preparation

▼ Prepared food





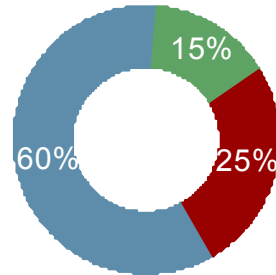


# Chr. Hansen at a glance (Nine months 2011/12)

## Chr. Hansen

Revenue	EUR 514m
Organic growth	8%/10%
EBIT	EUR 135m
EBIT margin	26%
Invested capital*	EUR 587m
ROIC*	32%

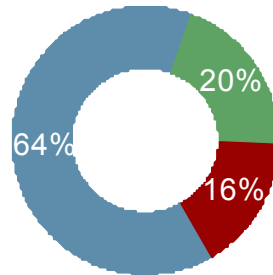
## Revenue



## Health & Nutrition

Revenue	EUR 77m
Organic growth	12%
EBIT	EUR 27m
EBIT margin	35%
ROIC*	36%
Market share	~15%

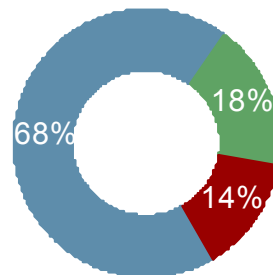
## EBIT



## Cultures & Enzymes

Revenue	EUR 307m
Organic growth	9%
EBIT	EUR 86m
EBIT margin	28%
ROIC*	30%
Market share	~45%

## Invested Capital\*



## Natural Colors

Revenue	EUR 130m
Organic growth	3%/12%
EBIT	EUR 22m
EBIT margin	17%
ROIC*	40%
Market share	~25%

# Cultures & Enzymes Division (60% of revenue)

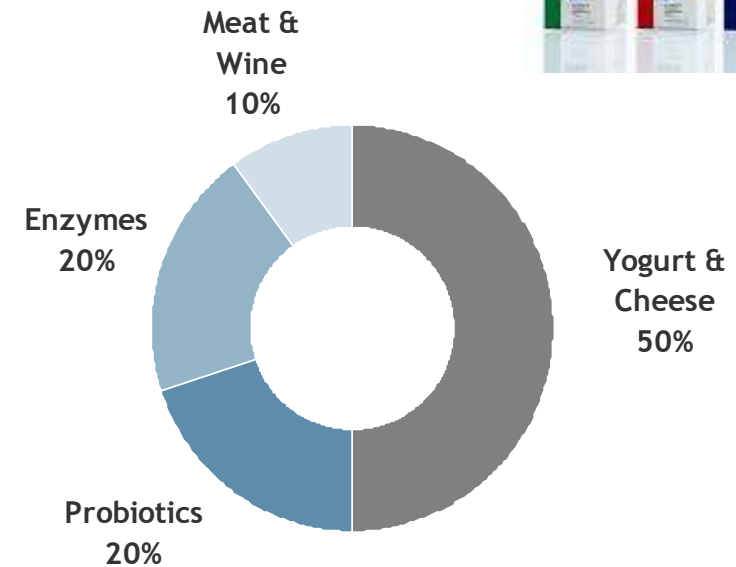


## What are Cultures & Enzymes:

- 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

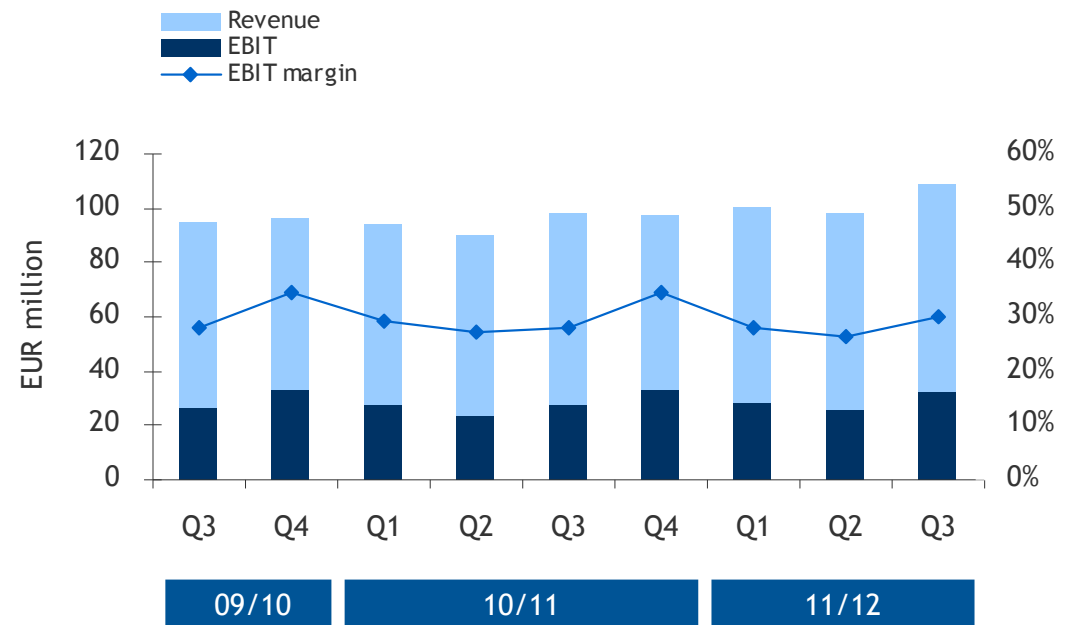
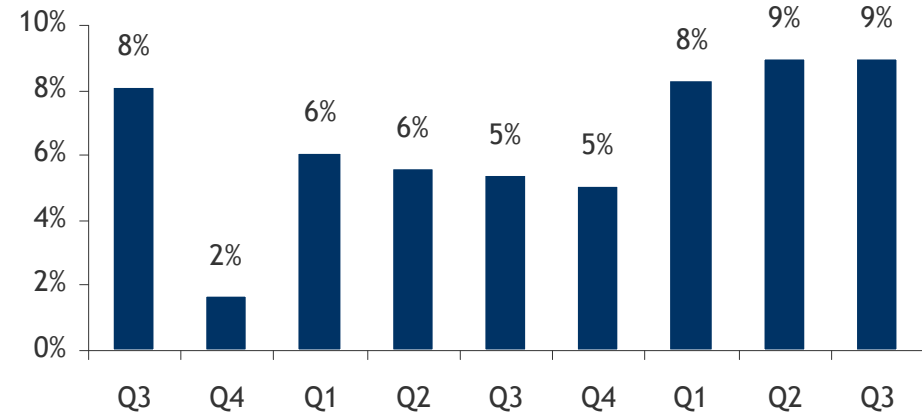
### Conversion of Culture Production

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

### Increased functionality

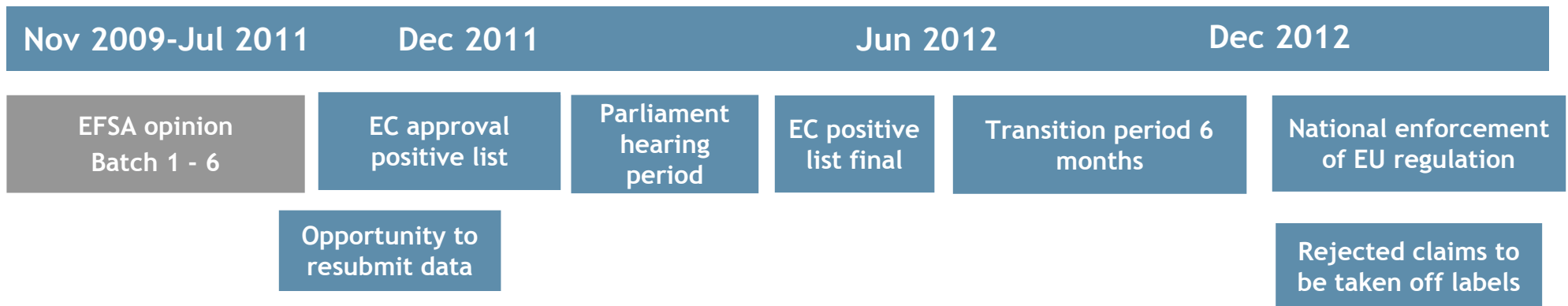
- Probiotics
- Low fat

### Organic growth



# EU Health Claim Regulation

Transition period for Art. 13.1 claims is set to end on 14 December 2012



## Impact on Chr. Hansen

- **Short term:** Negative effect from uncertainty
- **Long term:** Well positioned with documented strains and competencies to carry out necessary clinical studies
  - Three studies in the process
  - Filing of 13.5 claims when sufficient data available and solid understanding of requirements

# Health & Nutrition Division (15% of revenue)

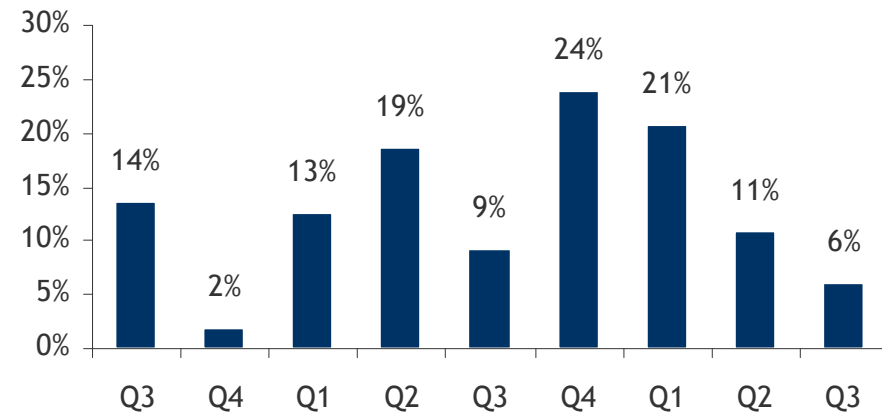


## Human health

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

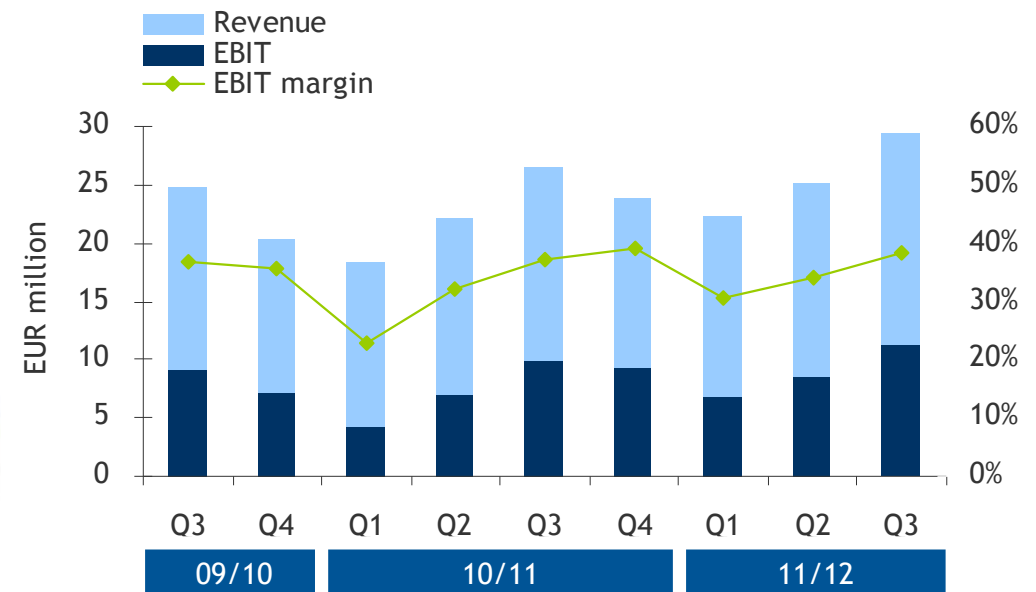


## Organic growth



## ➤ 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 (26% of revenue)



## Growth drivers

### Increased Regulation

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

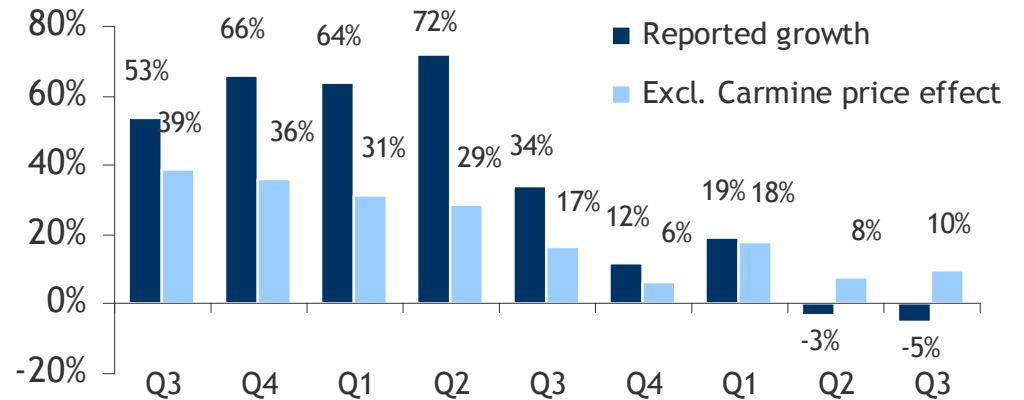
### Consumer Health Concerns

- Increased consumer demand for natural ingredients

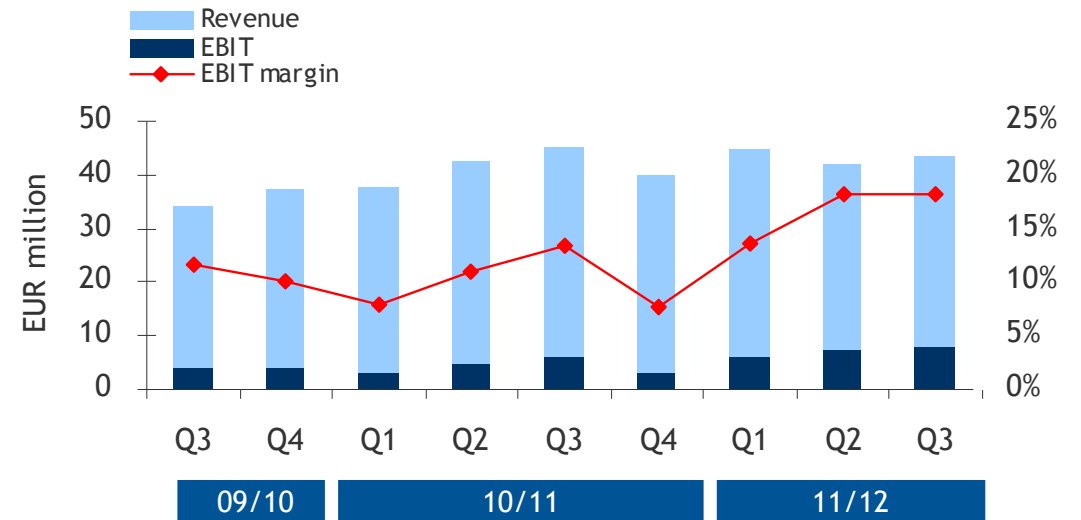
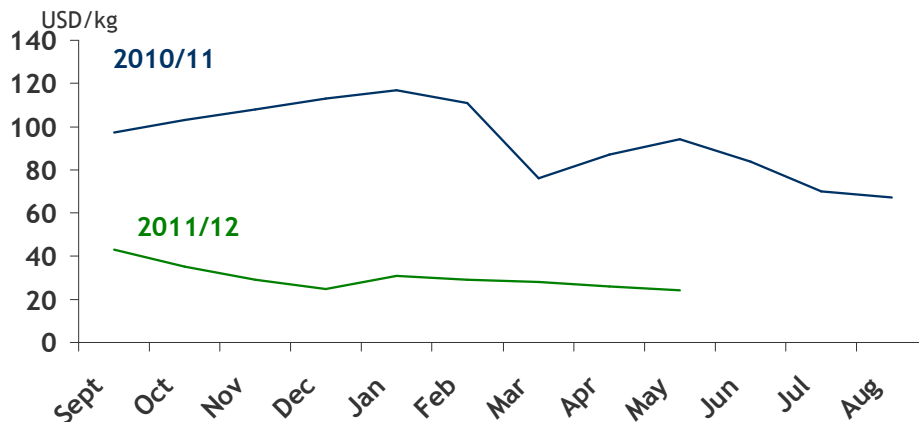
### Future Conversion opportunity

- Natural colors account for approx. 20-25% of volume in the total color market in food and beverages

## Organic Growth

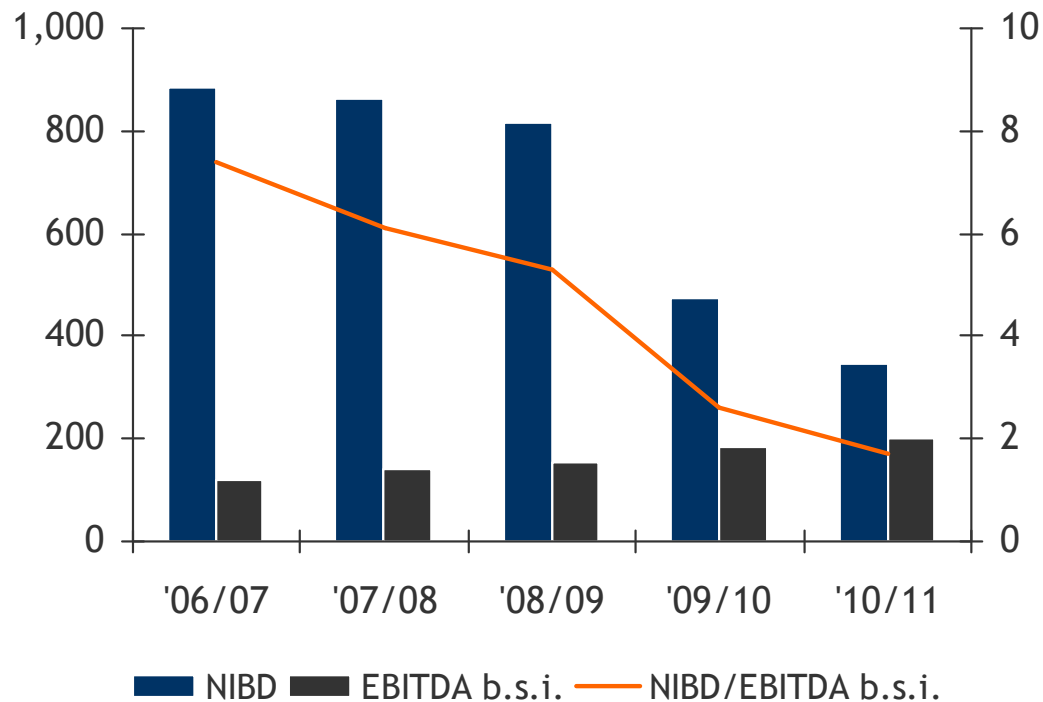


## Raw Material Costs for Carmine (Purchase Prices)



# Gearing level and Dividend policy

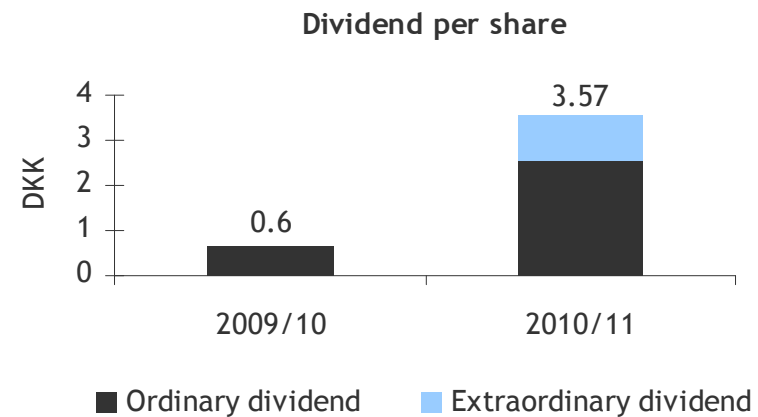
## Gearing level



**NIBD/EBITDA target: 2-2.5x**

## Dividend policy

- Pay out ratio of 30%-50% of net profit
- Proposal of dividends depends on the Board's assessment of factors such as business development, growth strategy and financing needs, and there can be no assurance that in any given year a dividend will be proposed or declared

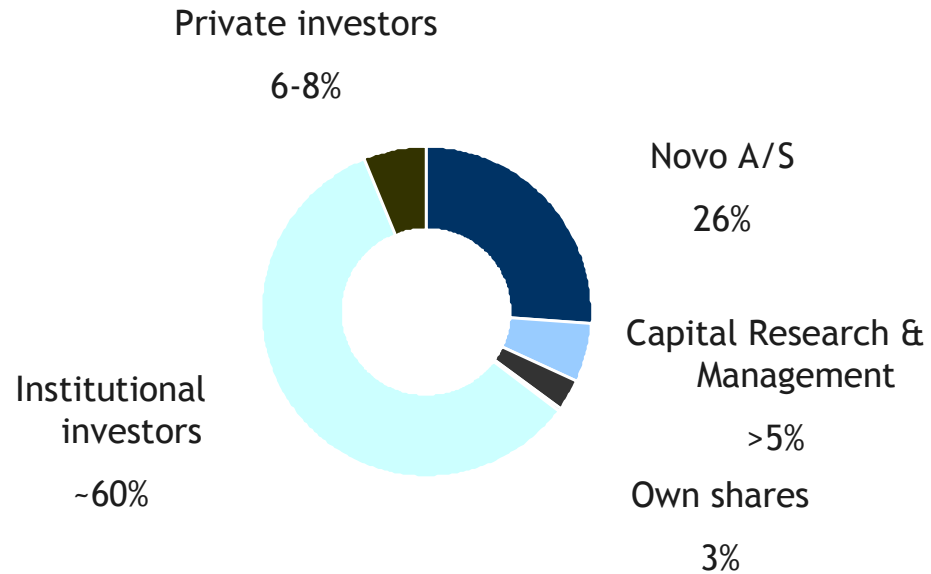


- The Board of Directors will, on an ongoing basis, determine whether any surplus capital may be distributed as an extraordinary dividend or through share buy-back programs in order to optimize our capital structure



# Shareholder Structure

## Shareholder type



## Countries

