

Chr. Hansen Holding A/S

1H 2014/15

9 April 2015

Microbial  
Solutions

# Safe harbor statement

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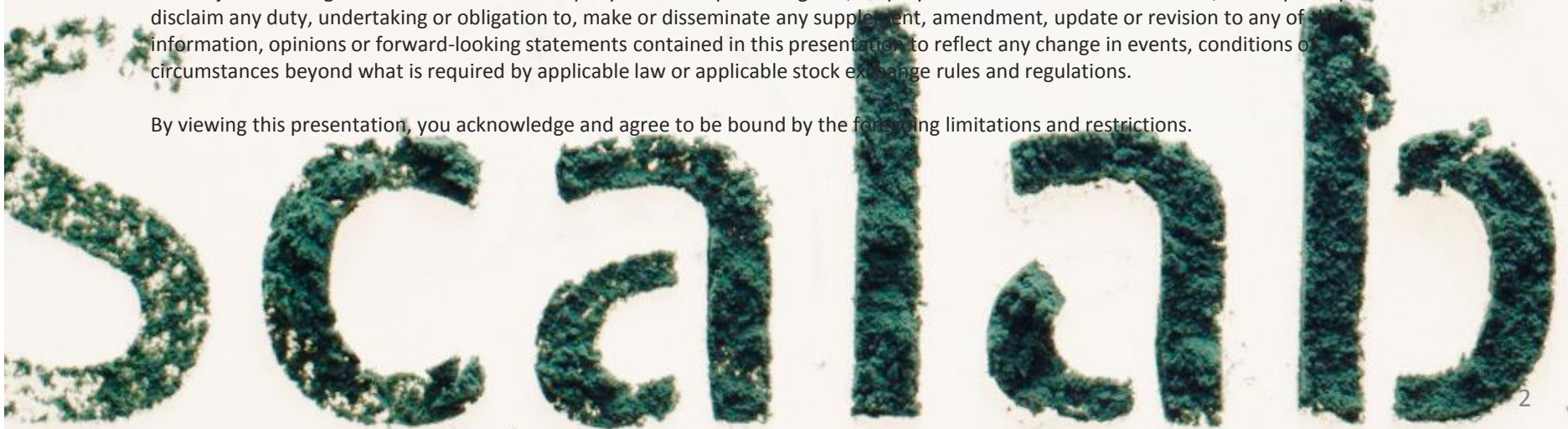
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# Highlights 1H 2014/15

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## Revenue

EUR **397** million  
(up 13% on 1H 2013/14)

**Operating profit (EBIT) margin**  
before special items

**24.2%**  
(25.0% in 1H 2013/14)

## R&D expenditures incurred

EUR **25** million  
(6.8% of sales, compared to 6.9% in 1H 2013/14)

## Organic growth

**11%**  
(6% in 1H 2013/14)

## Profit for the period

EUR **65** million  
(up 16% from 1H 2013/14)

## Free cash flow

EUR **11** million  
(EUR 1 million in 1H 2013/14)



# Strategic and operational highlights Q2 2014/15

No.1

Nature's No. 1 strategy launched in September 2013 with the ambition to pursue growth opportunities in the current core businesses and within new microbial solutions



Ramp-up of the new fermentation capacity in Copenhagen continued, with focus on upscaling the production of specific bacterial strains



Plant protection delivered strong growth from the sale of biostimulants ahead of the coming sugar cane season in Brazil, although from a low base.



Sales and application activities, which were previously part of the global sales organization, was fully integrated into the Natural Colors Division in Q2. This included the establishment of a separate legal entity for the main activities within natural colors.



New research and development consortium led by Chr. Hansen established. Partnering with universities in Aberdeen (UK), Groningen (NL) and Wageningen (NL) to secure access to and commercialization rights of new anaerobic bacteria strains for the human microbiome.



China go-to-market strategy focusing on serving key customers directly rather than through distributors implemented.

# All regions contributing to the strong growth in 1H 2014/15

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## **EMEA** (47%\*)



**9% organic growth**

- Strong growth in fermented milk, cheese, meat, enzymes and human health products
- Probiotics lower than in 1H 2013/14
- Natural colors delivered solid growth
- Positive impact from EUR-based pricing

## **Americas** (40%\*)



**14% organic growth**

- Strong growth in human and animal health, plant protection, cheese and enzymes. Good growth in cultures for fermented milk
- Probiotics lower than in 1H 2013/14
- Natural colors delivered solid growth

## **APAC** (13%\*)

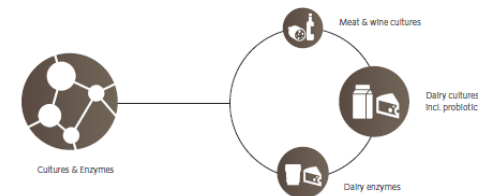


**8% organic growth**

- Strong growth in fermented milk, cheese, enzymes, human health and animal health products
- Probiotics saw modest decline – despite increased sales in Q2

\*Share of revenue

# Cultures & Enzymes

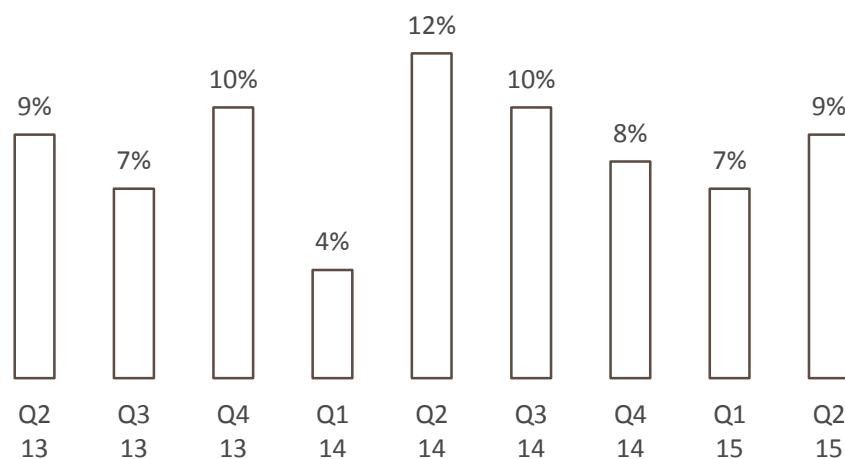


EUR million	Q2 14/15	Q2 13/14	1H 14/15	1H 13/14
Revenue	122.9	110.9	240.7	221.4
Organic growth	9%	12%	8%	7%
EBIT	33.7	29.9	65.9	63.5
EBIT margin	27.4%	27.0%	27.4%	28.7%
ROIC ex. goodwill			32.1%	31.7%

## Organic growth

- Strong growth in cheese cultures and enzymes across all regions
- Fermented milk and meat cultures showed strong growth, driven by EMEA and APAC
- Probiotics lower than in 1H 2013/14 in all regions
- **Q2:** Strong growth across categories except in wine and probiotic cultures. Despite growth in APAC probiotic cultures experienced negative organic growth. Fermented milk is back to strong growth

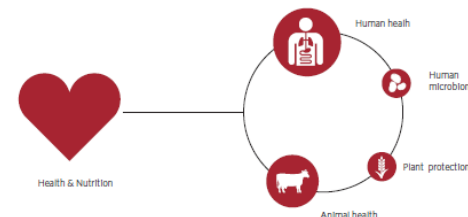
## Quarterly organic growth



## EBIT margin

- Margin down 1.3%-points on H1 2013/14, primarily due to
  - Unfavorable product mix
  - Start-up costs related to the new fermentation capacity in Copenhagen
- **Q2:** Margin up 0.4%-point from Q2 2013/14 due to improved operating efficiency partly offset by Non-recurring costs related to the changed go-to-market strategy in China

# Health & Nutrition

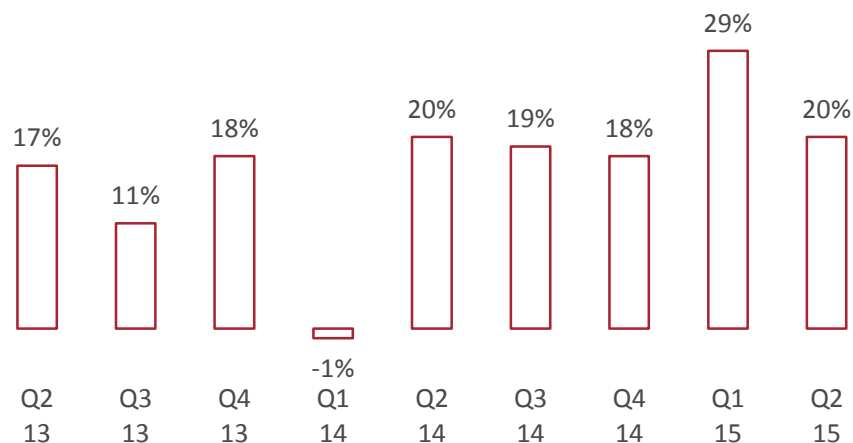


EUR million	Q2 14/15	Q2 13/14	1H 14/15	1H 13/14
Revenue	43.9	33.5	76.3	57.5
Organic growth	20%	20%	24%	10%
EBIT	15.8	11.1	24.3	15.3
EBIT margin	35.9%	33.0%	31.8%	26.5%
ROIC ex. goodwill			37.6%	28.3%

## Organic growth

- Human health, animal health and plant protection products realized strong growth
- Animal health primarily driven by strong growth in Americas, due to inventory buildup by a major customer, ahead of their insourcing of production of silage inoculants effective from Q3 2014/15
- **Q2:** Strong growth across all product categories

## Quarterly organic growth



## EBIT margin

- Margin up 5.3 %-points on 1H 2013/14
  - Positive impact from higher sales volume and the USD appreciation
  - Some negative impact from product mix in human health products
  - Easy comparable in Q1
- **Q2:** margin up 2.9%-points from Q2 2013/14 due to higher sales volume and positive impact from the development in the USD exchange rate partly offset by unfavorable product mix

# Natural Colors

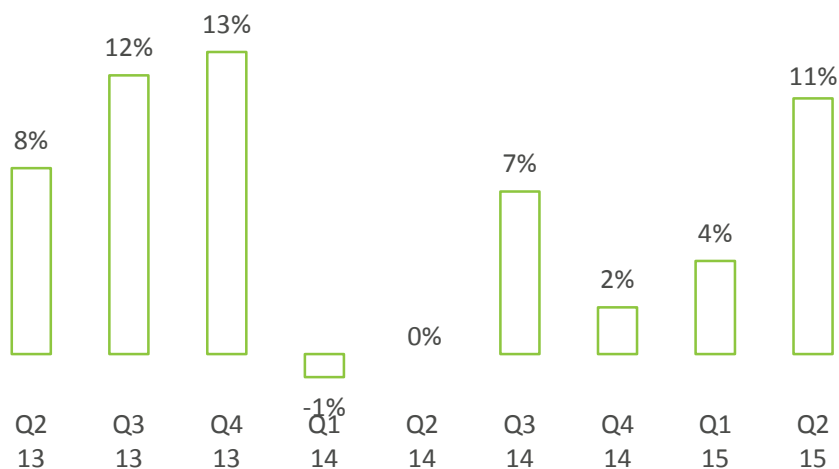


EUR million	Q2 14/15	Q2 13/14	H1 14/15	H1 13/14
Revenue	42.0	37.1	79.9	73.9
Organic growth	11%	(2)%	8%	(3)%
EBIT	3.1	4.0	5.8	9.4
EBIT margin	7.3%	10.8%	7.3%	12.7%
ROIC ex. goodwill			13.3%	22.8%

## Organic growth

- Strong growth in the prepared food, meat and confectionery categories. Revenue from the beverage category lower than 1H 2013/14
- The conversion to natural colors in the US market remained slow during 1H 2014/15.
- EMEA and Americas showed solid growth while APAC was flat in 1H
- **Q2:** strong growth in prepared food, meat and confectionery categories. In APAC, growth was primarily due to strong growth in China.

## Organic growth excl. carmine price effect (Q1 13 - Q4 14)



## EBIT margin

- Margin down 5.4%-points on 1H 2013/14 primarily due to
  - Increased raw material prices, partly due to USD appreciation
  - Unfavorable product mix
  - Costs related to integration of the sales organization
- **Q2:** Margin down 3.5%-points, mainly due to raw material costs, product mix and new go-to-market strategy in China



# Income statement

EUR million	Q2 14/15	Q2 13/14	1H 14/15	1H 13/14
Revenue	208.8	181.5	396.9	352.8
<i>EUR growth</i>	15%	4%	13%	0%
<i>Organic growth</i>	12%	10%	11%	6%
<i>Gross margin</i>	50.4%	52.4%	50.8%	52.4%
R&D expenses	(13.2)	(12.1)	(25.4)	(22.5)
Sales & marketing expenses	(25.3)	(23.7)	(50.9)	(47.0)
Administrative expenses & Other income/expenses	(15.1)	(14.7)	(29.5)	(27.8)
EBIT before special items	52.5	45.0	96.0	88.1
<i>EBIT margin b.s.i.</i>	25.2%	24.8%	24.2%	25.0%
Special items	-	(3.4)	-	(4.0)
Net financials	(4.6)	(4.5)	(7.8)	(7.1)
Income tax	(12.4)	(10.1)	(22.9)	(20.9)
Profit for the period	35.5	27.1	65.3	56.2

## Highlights

- Positive exchange rate effect on revenue
- Gross margin down 1.6%-point on 1H 13/14 primarily due to
  - Unfavorable product mix in Cultures & Enzymes
  - Startup costs related to new fermentation capacity
  - Higher raw material prices in Natural Colors
- EBIT margin b.s.i. down 0.8% on 1H 13/14 primarily due to
  - Gross margin development
  - Positive impact from strong cost focus on operating expenses
  - Strong Q2 with 12% organic growth and 0.4%-point increase in EBIT-margin

# Cash flow and balance sheet

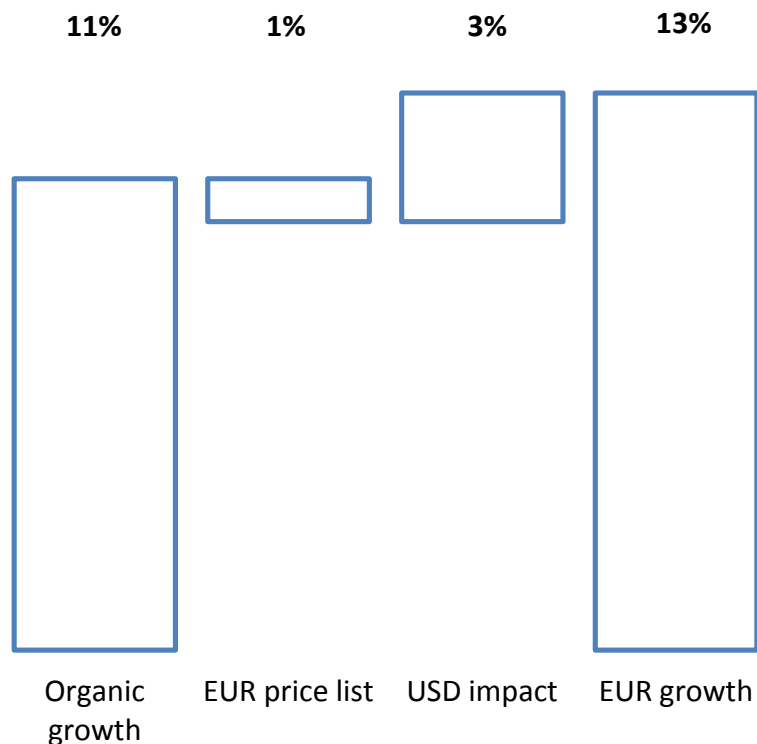
EUR million	1H 14/15	1H 13/14
<b>Cash flow</b>		
Operating activities	39.0	27.5
Investing activities	(27.8)	(26.3)
Free cash flow	11.2	1.2
<b>Balance sheet</b>		
Total assets	1,408	1,358
Equity	656	630
Net interest-bearing debt	477	446
<b>Key Figures</b>		
<i>Net working capital</i>	21.4%	20.3%
<i>Capital expenditure</i>	7.0%	7.5%
<i>ROIC excluding goodwill</i>	30.6%	29.8%
<i>NIBD/EBITDA</i>	1.8x	1.8x

## Highlights

- Cash flow from operating activities improved EUR 11.5 million, mainly due to the improved operating profit
- Cash flow used for investing activities increased EUR 1.5 million . Investments mainly in freeze-drying, warehousing, packaging and fermentation capacity and laboratory facilities for plant protection
- Capital expenditures corresponded to 7.0% of revenue, compared to 7.5% in 1H 2013/14
  - Capitalized development expenditures 1.2% of revenue, compared to 1.4% in 1H 2013/14
- Free cash flow increased EUR 10 million due to the improved cash flow from operating activities
- ROIC excluding goodwill up 0.8%-point

# Currency impact in 1H

## Growth



## Revenue

### USD Impact (Impacting EUR growth)

- USD and related currencies approx. 30% of revenue
- Realized USD exchange rate approx. +10% vs. 1H last year translating to a positive revenue impact of approx. 3%.

### EUR based pricing (Impacting organic growth)

- EUR revenue protected through use of EUR based pricing in certain countries outside EUR zone covering approx. 20% of revenue
- Impact from exchange rate movements in Ukraine (UAH - 65% vs. 1H last year) and Russia (RUB - 40%) partly offset by exchange rate movements in UK (GBP)

### EBIT and cash flow

- Positive impact on EBIT from USD while EUR based pricing offsets potential negative impact from RUB etc.
- EBIT margin positively impacted by less than 1% -point.
  - HND positively impacted by high proportion of USD revenue, while production mainly in EUR/DKK
  - NCD negatively impacted as many raw materials are sourced in USD

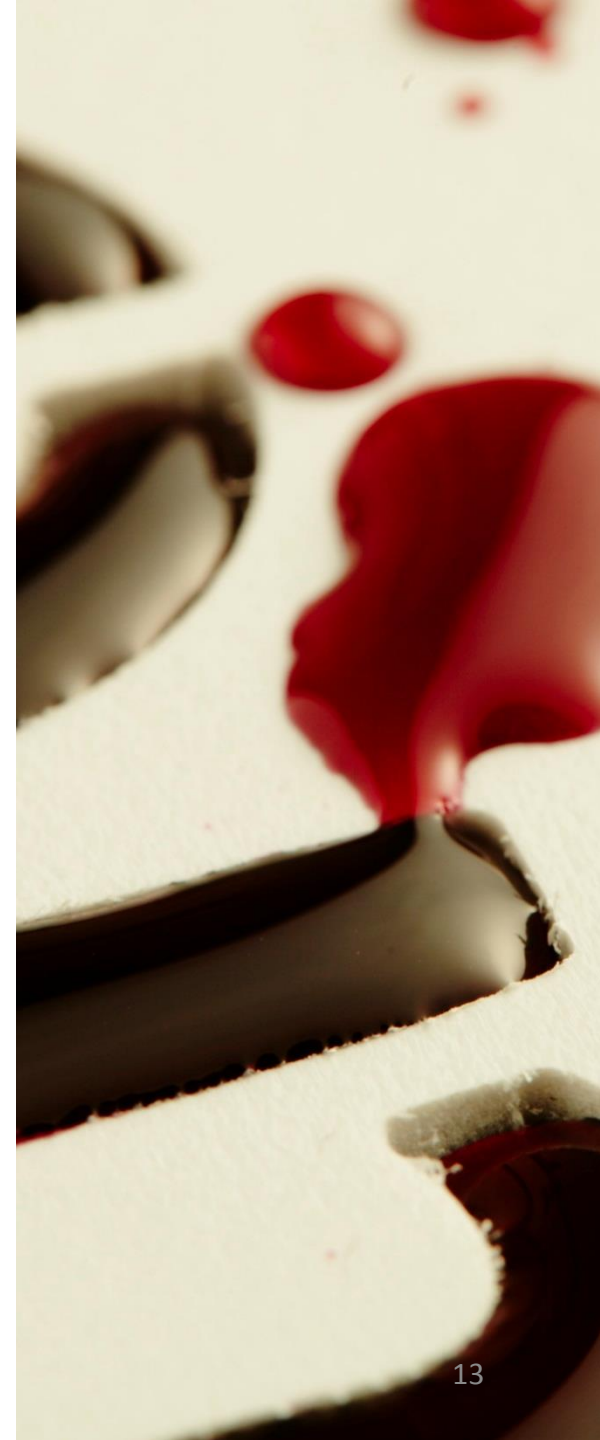
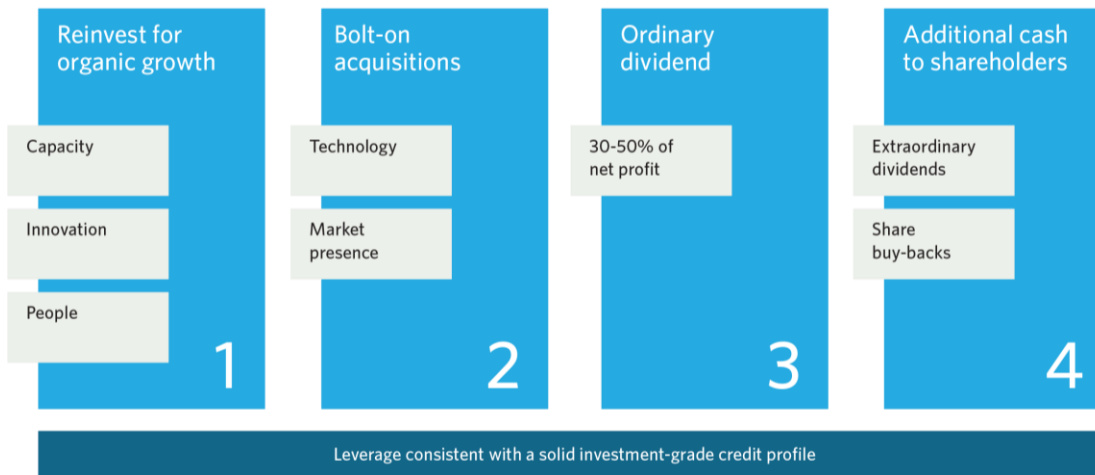
# Long-term ambitions and outlook for 2014/15

<i>Unchanged from 22 October 2014</i>	<i>Long-term financial ambitions</i>	<i>Outlook 2014/15</i>
Organic revenue growth	7-10%	7-9%
<ul style="list-style-type: none"> <li>✓ <i>Cultures &amp; Enzymes Division</i></li> <li>✓ <i>Health &amp; Nutrition Division</i></li> <li>✓ <i>Natural Colors Division</i></li> </ul>	<ul style="list-style-type: none"> <li>7-8%</li> <li>+10%</li> <li>Targeting around 10%</li> </ul>	<ul style="list-style-type: none"> <li><i>In line with long-term ambitions</i></li> <li><i>In line with long-term ambitions</i></li> <li>5-10%</li> </ul>
R&D expenditures (as percentage of revenue)	Around 7%	7-8%
EBIT margin before special items	Increasing	Above 26.5%
<ul style="list-style-type: none"> <li>✓ <i>Cultures &amp; Enzymes Division</i></li> <li>✓ <i>Health &amp; Nutrition Division</i></li> <li>✓ <i>Natural Colors Division</i></li> </ul>	<ul style="list-style-type: none"> <li><i>Increasing</i></li> <li><i>Around 30%</i></li> <li><i>Increasing</i></li> </ul>	<ul style="list-style-type: none"> <li><i>At same level as 2013/14</i></li> <li><i>Below 2013/14</i></li> <li><i>Below that of 2013/14*</i></li> </ul>
Free cash flow before acquisition and divestments	Increasing	Above EUR 130 million

\*previously at or below that of 2013/14

# Intention to pay interim dividend of EUR 115 million in connection with Q3

EUR million	10/11	11/12	12/13	13/14	14/15
Net Profit	119	131	140	132	
Free Cash flow	124	113	120	115	>130
<i>Ordinary dividend</i>	48	52	55	66	
<i>Extraordinary dividend</i>	17	-	55		<b>115</b>
<i>Share buy-back</i>	-	52	28	80	
<b>Total cash returned</b>	<b>65</b>	<b>104</b>	<b>138</b>	<b>146</b>	



Q&A