CHR. HANSEN
Annual report 2014/15
October 21, 2015
10:00 a.m. CET

Operator: Thank you for standing by and welcome to the presentation of Chr. Hansen's annual report for 2014/2015. (Operator Instructions).

I must advise you that the conference is being recorded and I would now like to hand the conference over to your speaker today, CEO, Cees de Jong.

Cees de Jong: Thank you, operator. Good morning. Welcome, everybody, to the presentation of the full-year results for 2014/2015. I am Cees de Jong, CEO of Christian Hansen and with me today is our CFO, Soeren Lonning.

2014/2015 was a good year and I'm very satisfied with our results. I was also very pleased when I looked back at what we have achieved since we launched the Nature's No.1 strategy back in September 2013. Since then we have delivered an average organic growth of 9% and that is in the upper end of our long-term guidance.

The EBIT margin, before special items and impairments, has stayed at the same level over the last two years and that does reflect, however, that we have absorbed not only the headwind from a lower level of capitalization of development cost but also our increased investments in the long-term growth opportunities with plant protection and the human microbiome.

And last but not least, also the start-up costs related to new capacity.

Our free cash flow has increased from EUR120 million in 2012/2013 to just over EUR150 million in 2014/2015. And, at the same time we've made significant investments in capacity expansions.

The good results will not make us complacent and we do acknowledge the tailwind that we've had from exchange rates this year. We're well prepared to drive further growth, both on top line and margins and will do so in the coming years.

But before we go into more details, I'll ask you to turn to the next slide for a short look at the Safe Harbor Statement. Let's turn to slide number 2, please.

I hope you've all had a chance to read the statement, so let's move quickly to slide number 3, please.

Looking at the highlights for the fiscal year that we've just closed, then revenue reached EUR859 million or 14% above last year.

We have, as I mentioned, seen a positive impact from exchange rates, especially the strong US dollar. For the full year the impact was around 5%; while in the fourth quarter the impact was a bit lower.

Organic growth was 10% for the year. The cultures and enzymes and the natural colors division, both delivered 9% organic growth; while the health and nutrition division delivered 13%.

In Q4 the organic growth reached 11%; both the cultures and enzymes and natural colors division delivered double-digit growth and health and nutrition did 6%.

The operating profit or EBIT increased by 19% to EUR233 million and that was driven by the solid organic growth; the stronger US dollar and, of course, also by operating efficiencies.

The EBIT margin was 27.1% and at the same level as last year, mainly due to increased investments in R&D.

As a Group we increased our R&D spend by almost 20%. The majority of the increase relates to the health and nutrition division and in this division the R&D expenditures increased with more than 40%. And that number even goes to around 60% if you include the investments in tangible assets such as the laboratories and order facilities for our biological plant protection and the human microbiome initiatives.

Now due to the positive impact on revenue from the stronger US dollar, the overall R&D percentage was only just slightly above last year.

Profit for the year was EUR163 million and that is up 23% from last year.

Finally, free cash flow increased by 31% compared to last year and that is mostly due to the stronger operational performance including the positive impact from the stronger US dollar.

Let's move to the next slide for an update of the strategic and operational highlights during the year. Let's move to slide number 4, please.

Many of you will recognize the initiatives from this list as the majority of these have been ongoing during the most of the year and I've mentioned them before. But that, of course, is reflecting the long-term nature of Christian Hansen businesses.

Implementing the new fermentation capacity for dairy culture production here in Copenhagen has been ongoing since August of last year.

Utilization has improved, but also during 2015/2016 we will continue to work on the upscaling of certain strains to reap the full benefit of the facility.

We've also added capacity for animal health and plant protection products in one of our German facilities. And we've seen positive impacts from this as well.

Worth also mentioning, is that we have seen a positive impact from simplifying our enzyme production footprint and we have consolidated production and blending at a fewer number of locations and concentrated a lot of that here in Denmark.

In China we've already seen good results from the new go-to-market model and the direct access to the most important customers for dairy products provides us a stronger platform to capture the attractive growth opportunities in this key market.

Hansen's strong growth in cultures for fermented milk in the APAC region in 2014/2015 was to a large extent driven by China.

We have ongoing efforts to further strengthen our market leadership position in human and animal health and that includes improving the product portfolio and collaborating with key customers.

We do this to support the attractive growth opportunities in both areas by meeting the increased demands from our customers when it comes to new applications and full service products in human health or the hunt for alternatives to antibiotic growth promoters in animal health.

During 2014/2015 the overall market for chemical and biological plant protection was challenging and that was partly due to weather conditions, but nevertheless together with our partner FMC we continued the introduction of new Nemix C into the Brazilian sugar cane market and we received quite positive feedback from the customer field trials.

In addition to this we've conducted a significant number of field trials to develop new solutions especially within biostimulants. Now work will continue with the expectation to launch more products in the coming years.

The global focus on the field of human microbiome continues to accelerate. It is a future that is nearing us faster than expected. It has been very positive to see how many companies, both large pharmaceutical companies and small start-ups, are taking a strong interest in this field.

Many of these companies have an interest in working with Christian Hansen and wish to get access to our unique capabilities within upscaling and production of different bacteria. We continue to evaluate how we position ourselves as the go-to-player within the field and we also continue to evaluate how our investments will be at the right level.

In 2014/2015 we established a research and development consortium partnering with the leading universities within the microbiome. And we do that to secure access to and commercialize new anaerobic bacterial strengths.

In addition to that we do expect to inaugurate the new pilot plant pharma-grade facility for development and production of these next generation human health bacteria throughout the new year.

We have to improve our performance with a natural colors and as part of this we reorganized the division at the beginning of the financial year and that included the integration of the sales and application functions into that division.

We've seen an improvement in organic growth and 9% in 2014/2015 was reasonably satisfactory but we need to continue to improve both on top line and not least on margins. The latter is high on our agenda for the next year.

Now let's move to the next slide, slide number 5, to look at the current development across the regions.

Most of our end markets continue to develop positively during 2014/2015, however with some headwind. In the EMEA region which accounts for about 47% of our revenue, the dairy markets were in turmoil, not least due to the Russian embargo and lower Chinese demand for milk powder which combined with the ramp-up of production in Europe during 2014, did put pressure on milk prices.

The market for natural colors in EMEA continued to grow through conversion from synthetic colors and increased demand for coloring food stuff products. The EMEA region delivered strong organic growth of 9% for the full year and 8% in the fourth quarter.

Specially the cheese market has been a strong contributor to the growth and that, of course, helps us both in cultures and enzymes and that's driven, amongst other, by higher milk availability for cheese production.

Strong growth was also seen in human health and natural colors while probiotics for fermented milk continued to decline.

Animal health realized modest growth as especially the fourth quarter was negatively impacted by the impact from low milk prices on pharma's financial position in several countries. They simply could not afford our products.

In the Americas region, which accounts for almost 40% of our revenue, the dairy markets developed positively during 2014/2015. Cheese market growth was above historical levels stimulated by inventory levels, consumer demand and increased expert while growth in the fermented milk market, especially in the US, slowed down partly due to a stagnating market for Greek yogurt products.

The US markets for probiotic dietary supplements and bacterial solutions for animal health continue to grow.

Conversion in the US remains slow, however a number of food and beverage manufacturers have recently announced their intention to convert to natural ingredients including natural colors.

The Americas region delivered 12% organic growth for the full year and 14% in the fourth quarter. We have seen strong growth, again, in cheese cultures and enzymes. Strong growth was also realized in human health and natural colors. And in human health, growth was primarily driven by penetration in the US market while natural colors came more from Latin America, although growth in the US was stronger as well in the fourth quarter.

The organic growth in the fourth quarter for the Americas was, as in Q3, negatively impacted by the insourcing of silage inoculants by a customer in the US. In animal health, Hansen delivered modest growth only.

Now turning to the Asia Pacific region, which accounts for about 14% of our revenue, the dairy markets also developed positively. In China we see a consolidation of the dairy industry and local dairies are increasingly diversifying from standard to premium products and expanding into new product categories.

The market for natural colors was to some extent impacted by lower economic growth in some of the countries. Growth in Asia Pacific was 7% with 13% in the fourth quarter. We achieved strong growth in cheese, fermented milk and human health while probiotics for fermented milk showed good growth.

Growth in fermented milk, including probiotics and human health, was to a large extent driven by China. Natural colors was below last year across the region except for Australia and New Zealand which showed good growth.

And with this I hand over to Soeren who will take you through the rest of the presentation. Soeren, go ahead.

Soeren Lonning: Thank you very much, Cees.

Page 6, cultures and enzymes division. We are pleased with 9% organic growth for the full year to deliver above our financial ambition in the Nature's No. 1 strategy plan after a strong Q4 with 12% organic growth.

Now growth was partly helped by a strong cheese growth, both within cultures and enzymes and also a positive effect from euro price lists.

If we move to the EBIT margin then we also are pleased to see an expansion of the EBIT margin of 1.3% (sic - see slide 6, "1.3 percentage points") for the year to 31.5%.

The increase is driven by increased and improved operation efficiency from the new fermentation capacity in Copenhagen, as well as optimization of the enzymes' production footprint. Further it's helped by the favorable exchange rates, most notably the US dollars. And these two positive effects are partly offset by unfavorable product mix development through the year.

Specifically regarding Q4, we improved margins by 3.1 percentage points and this was primarily again driven by operation efficiency from cultures and enzymes, both to the same factors as discussed before, as well as favorable exchange rates.

Further, specifically for Q4, we did see a high level of capitalized development cost, this was entirely due to timing as the effect for the full year is zero on this line. Again, these positive effects was partly offset by an unfavorable product mix.

We're also very pleased to see our return on investor capital reaching 40% for the year. It's helped slightly from transfer of assets from cultures and enzymes division to health and nutrition division.

Moving to page 7, the health and nutrition. Again we are pleased to deliver growth, organic growth, of 13% for the year. It's driven by strong growth in human health, as well as plant. And it's especially driven by dietary supplements in the Americas and in the EMEA regions, as well as infant formula in APAC.

For Q4, the numbers for Q4, well we grew 6% organically. That number is impacted negatively by roughly minus 5% from one of our customers, major customer's decision to insource silage production. This effect [that had lasted] in both Q3 and Q4 will continue also for next year in the first half and we expect to have a negative impact of roughly minus 5% from this for the next year.

If we look to the EBIT margin then, we improved the margins slightly for the full year, 0.3% (sic - see slide 7, "0.3 percentage points") margin, which was actually better than what we expected starting the year.

We did increase -- we did have positive effects from the higher sales volume. And then the stronger US dollar had a positive impact in this division, around 2 percentage points. That has been offset by the increased investments in R&D, as well as unfavorable product mix in human health.

If we look to the Q4 margin specifically, then we are down by 1.1% (sic - see slide 7, "1.1 percentage points"). Again here we are helped by sales volume and stronger US dollars, but this is more than offset by the increased investment in R&D expenses into both our biological plant protection and the human microbiome.

Return on invested capital remained more or less flat on the year at 42%. Here we are affected negatively from the transfer of assets that I mentioned just before. And since human health is a much smaller division than CED, then there's a larger negative effect here than the positive effect from CED.

Moving to page number 8, natural color. Then we ended the year at 9% organic growth, which is more or less in line with our long-term financial ambition for this division. What is positive to see is the increased momentum during the year in the natural colors, ending with the strongest quarter of the year in Q4, 13% organic growth.

The key change that we see in Q4 is that we have started to see more growth in our North American business. So here that is the key change in the growth momentum that we see in Q4. Rest of Latin -- or Latin America and EMEA continues to do very well.

If we look to the full-year EBIT margin then we are down by 4.7% (sic - see slide 8, "4.7 percentage points"). Here, contrary to the other divisions, we do have a negative impact of the stronger US dollars and this impacts the margin by roughly minus 2% for the year.

We also had a negative impact from the reorganization done in color. This is also-- amounts to roughly minus 2%. And here we have an impact of both one-off costs related to the change, and the management change following this. And then secondly also a higher cap cost due to the need to strengthen the sales management team around the world when running an independent organization.

In Q4 specifically, the EBIT margin was down [3%] and this was driven by, again, the US dollar, negatively around minus [3%], as well as the negative effect from the reorganization mentioned above.

If we look to the return on invested capital, this one decreased to 17% in this financial year. And it's [a cost] reflecting the lower EBIT margin and absolute EBIT.

Moving to the income statement for the Group. As you will see 10% organic growth for the full year. We are improving slightly on our gross margin, 0.3

margin points. Here we are helped by the operating efficiencies as well as the US dollar, which net for the Group is positive.

Mix in both CED and HND is offsetting this, as is the start-up costs related to the fermentation expansion in Copenhagen. And then finally the increasing raw materials in natural colors. And the dollar impact here is also offsetting the positive effects.

EBIT margin, 27.1%, that is flat to last year. And if you move further down the P&L you will see that we didn't have any special items this year compared to EUR10 million last year.

Our net financial items amounted to a cost of EUR13 million, which is slightly below last year and driven by the lower interest rates.

And our income tax amounted to EUR57 million. And this is equivalent to an effective tax rate of 27%, which is 1 percentage point down compared to last year. This reduction is primarily driven by the reduction in corporate tax rate in Denmark.

So overall profit for the year is up 23% for the year.

Moving to page number 10 and the cash flow and balance sheet. Here we improved overall by -- to a free cash flow of EUR151 million. This is primarily driven by higher operating activities following the increase in EBIT, as well as an improvement in the net working capital.

Our investment level, or CapEx, as a percent of net sales. were more or less constant to last year. And with the higher top line it means that the CapEx in euro terms increased slightly. Overall this increased our free cash flow to the EUR151 million.

Also it's good to see that we, as a Group, increased our return on the invested capital by 2.7% (sic - see slide 10, "2.7 percentage points") to 37.6% in total.

Moving to page number 11 and the exchange rate impact on this year. You will see, to the left-hand side of the slide, that for the full year we grew 14%

in euro terms. We had a positive effect of 5% from a stronger US dollar. And then we had a positive effect on the euro price list effect of roughly 1 percentage point. This leads to the organic growth of 10% for the year.

Looking to the quarter on the right-hand side, then effects are fairly similar with the exceptions that the currency effect from the US dollar was slightly lower than the full year. So instead of 5% it's 4% that we have been helped by the stronger US dollar. Euro price list for the Group more or less on par with the full year. So this results in an organic growth for the year of 11%.

Moving to the outlooks on page number 12. When we look for the next year we see organic growth in the range of 8% to 10%, which is well in line with our Nature's No. 1 strategy plan. This across the division is -- we believe that the cultures and enzymes division will grow in line with our long-term ambitions, which is 7% to 8% organic growth.

For health and nutrition division we do see a growth below what we realized this year. And this is, to some extent, driven by the customer insourcing the production. And then we, for natural colors, we do see a higher organic growth for the coming year compared to what we realized this year, so above the 9%. And this growth in the natural colors division will be helped by some increases in our prices following increases in raw material prices.

When we look to the R&D expenditures, we believe we will end next year with costs, R&D costs, between 6.5% to 7% of net sales. And it will be an increase compared to the year we have just ended.

On the EBIT margin, we are guiding an increase compared to the 27.1% we realized last year. We do see improvement in the cultures and enzymes division following the scale of our production facilities in Copenhagen most notably, and also an improvement in our natural colors division.

The health and nutrition on the other hand, we do see a reduction compared to what we realized this year, and also in line with our financial ambition. It is important to highlight here that the outlook for the year is sensitive to changes in the exchange rate, most notably the US dollar.

Finally moving to page number 13 and the cash returned to shareholders. We are proposing an ordinary dividend of 50% of profits for the year, equal to EUR82 million. So we remain in the upper end of our range of 30% to 50% payout in ordinary dividend.

In addition to this, we as you know, paid out an interim dividend of EUR115 million earlier this year. So, in total, we have a distribution of dividends this year of EUR197 million for the full year.

And this, if we look to our capital allocation priorities, we maintain the ones that we have in place, so we will first of all invest in organic growth opportunities. Secondly, if attractive bolt-on acquisitions materializes, then we will spend money here. And then finally, we will distribute any excess cash, via ordinary dividend, or through interim dividends or share buybacks, if the cash is available for this.

And with this, we are done with the presentation and then I'm handing over for the moderator to take questions.

Operator: (Operator Instructions). Soren Samsoe, SEB Enskilda.

Soren Samsoe: Firstly, a question on the margin. I was just wondering if you can say what your -- if you adjust the margin for currency effects, what would it actually be for Q4 and for the full year?

Also, if you could say in natural colors if there's any impact from changes in carmine prices or other important raw material prices, because you don't disclose that any more, so that would be nice to have as well.

And then this euro price effect. If you can see any effect already now going into 2015/2016, if you could just tell us what we can put into our models for that, that would be nice. Thank you.

Soeren Lonning: OK, when we look to the -- to take your first question, Soren, if we look to the margin, what the impact for this year has been from currencies, then we have a positive impact for the overall of below 1%.

Then, if we move to your questions regarding impact of carmine prices in the natural colors, then the impact in FY15 has been immaterial. However, we have seen a slight increase in the cochineal prices towards the end of the year. So we are expecting to price that through to customers over the coming months, so there we expect some positive effect from this.

But bear in mind here that what we are seeing right now is an increase in cochineal prices, slightly above $30 per kilo, coming up from [start $20s] and when we did see the spike some years ago, we saw cochineal prices coming all the way up to $120. So just to put the price development that we are seeing right now in perspective.

And then your last question, sorry, could you repeat that?

Soren Samsoe: Not to interrupt you, so there was not really any effect in Q4, but you may see a small effect in the coming quarters, is what you're saying.

Soeren Lonning: We could see a smaller effect in the coming quarter and it's immaterial on Group level for sure.

And could you repeat your third question, Soren?

Soren Samsoe: Yes. That was just, you mentioned the impact to organic growth from the euro price list effect in this year, but is there an effect already now you can see going into next year that you have taken into your guidance already maybe?

Soeren Lonning: Yes. We do see an effect of next year of around 1%, which we have taken into the guidance for next year.

Soren Samsoe: And will that primarily hit in the first half of the year, or is that for the full year or how is the timing?

Soeren Lonning: It will change a little bit quarter by quarter. If you look to the key currency rates that we are seeing, then they have been very volatile last year; meaning that the various currencies moved quite differently across the quarters.

To sum it up, we will see slightly more effect in the second half of the year, but with variations quarter by quarter.

Soren Samsoe: OK. And then just the last question. I think you mentioned earlier that you had a little bit of startup problems with some of the strains in the new fermenter because it's so big or that there are some negative [bio] effects. Is that solved now or will that impact in any negative way in the coming quarters?

Cees de Jong: Yes, that's a good question, Soren. This is Cees. Nowadays, about 90% of all strains that we want to have in the big fermenters are performing according to expectations. So we've brought up that number during the third and fourth quarter and hence, it's also given us the positive impact on margins for CED.

In order to reap the full benefits of the new fermenter, it will require us to work throughout our next fiscal year, but we've made very good progress.

Soren Samsoe: OK. Thank you.

Operator: Michael Rasmussen, ABG Sundal Collier.

Michael Rasmussen: I'd like to start to talk -- if you could talk a little bit about your recent launch of YoFlex Acidifix. Can you talk a little bit about the growth opportunities for this product? It certainly sounds like a very interesting product.

And also, I'm interesting in hearing what is the initial feedback you've been getting from dairy producers, potentially them saving 5% of input costs? And when do you expect to see the first commercial sales in this product?

On -- my second question is a follow-up on Soren's questions to the euro price list. How is competition responding to this? Are they basically doing the same, or aren't you seeing a lot of competition in some of these countries as you've mentioned before?

And my final question is a household question. Should we see a further reduction in the tax rate again in FY15/FY16 due to the lower Danish corporate tax rate? Thank you.

Cees de Jong: It's a lot of questions, Michael. I'll leave the last one for Soeren to answer. On Acidifix, let us first remind what product is bringing for customers. It's basically bringing three benefits. It eliminates post-acidification and hence, it provides a very mild yogurt base which is well suited for a much larger flavor palate than with the current acidic yogurts.

Secondly, given that it enables our customers to do what we call warm filling or even hot fill, they can take our cooling steps out of their production process.

And thirdly, when they do so, there is also less stress on the product, so they could even possibly reduce the number of texturizing agents in the product.

So it's quite a big benefit that we bring and hence we're [energetic] about the product. But then you will also remember that the dairy industry by nature is conservative and for all the good reasons. So whilst initial feedback from customers is very positive, the introduction of the product, like any new product of Christian Hansen, is introducing in the dairy space will take time.

And again, you have to remember that this is part of our growth model. We continuously introduce innovations like this and very often, indeed with big benefits, but they are factored into our growth models.

So when we outgrow the underlying dairy market, which probably grows around 3%, we're not at the 4% level, I would say, in the underlying dairy market. And we do 7% to 8% in CED. It's these sort of innovations that we need to drive.

So in your models, don't put any additional in. The 7% to 8% that we guide for CED is really it. That said, Acidifix is a great invention by Christian Hansen.

Next question on your euro price list and what competition is doing. I think in the market we are the price leader. Our products are more advanced than other offerings and hence we probably stick a bit better to euro pricing. We are a bit more universal in the application of that than some of our -- a lot of competitors. And I'm pretty sure Soeren will add, based on his previous experience, being the CFO of EMEA.

That said, it is also something that we apply within reason, right? This is always something where we contemplate as to what customers can bear when it comes to euro pricing.

Soeren, do you want to add something there too?

Soeren Lonning: Yes, I can just add that generally competitors are following the same pricing logic as we are.

However, when there are big shocks to currency and you have overnight reductions of 20%, 30% even 40% sometimes, then I think my general experience is that we are a little bit more firm in our adherence to this policy. But, of course, as Cees says, we do it in a way so it's been official for Christian Hansen.

Looking back in time I think it's important to highlight, with the quite big changes that have been in currencies over the last five to six years, we have had a lot of benefit from this principle. So it is something that is beneficial to Christian Hansen to have this system in place.

Then to your third question regarding the tax rate. You are right that we do expect a lower tax rate. We do expect the tax rate to reduce from around 26% to around 25% in the coming year. This is as a result of the full implementation of the new tax rate of 22% in Denmark.

Michael Rasmussen: : Great, thank you very much. That's [value added], thanks.

Operator: Lars Topholm, Carnegie Investment.

Lars Topholm: Congrats with the good result. A follow up on Michael's question on YoFlex Acidifix. So, basically saying, we should more see this as once DVS conversion and yogurt can no longer be a driver, then this product takes over as a long-term driver?

And then you mentioned a case, the growth impact, but [not] on margins. Because if you provide that kind of value proposition to your customers, presumably this product will also be able to carry a price premium. Is that fair to assume? And is it fair to assume that once it gains volume, it's not more costly to produce than what you otherwise do, so this should be margin enhancing?

And then a second question, if I may. Cees, you also mentioned the human biome developing faster than you had foreseen, and with a new facility up and running around new year, can you comment a little bit more on when we might begin to see some revenue from this? Thank you.

Cees de Jong: Thanks, Lars. I always appreciate your optimism. On Acidifix and DVS, let's remind ourselves that in the fermented milk market, about 80% of the market has converted. Now, of course, that's not a static number, sometimes we see new players come in that start in-house and subsequently are then converted.

That said, Acidifix is probably going to be replacing other DVS-type solutions. And that's also why we've not upped our guidance for the cultures and enzymes division.

All margins. When you look at the price points on margins where we operate with the CED division, we more often get the question, well given that you're only 1% to 2% cost of goods of your customers, why don't you price up further? In our growth model we assume that prices gives us about 1% per annum in the growth, as you know.

And whilst Acidifix definitely is a premium product, it helps us to maintain our margin, as sometimes certain older products are adjusted somewhat in pricing, particularly when it comes to the very, very large, big earners.

So whilst the product's not more costly and whilst it's price premium, again it will help us to sustain and, maybe bring up margins a bit. But that's reflected in our guidance.

With regards to the human biome. When we launched our strategy two years ago, we thought that this field was going to be probably closer to 10 years out than five years out.

What we now see is, indeed, that there's specific customers that are willing to pay for their unique bacteria to be [upscaled]. And indeed, our small facility is going to generate some revenue streams.

That said, it's not going to move the needle in the next few years. But it is for me more confirmation that this field is for real and closer by, that it is something that you should, for the next few years, factor in, in terms of top line.

And remember how we organize these units, right? We said we don't want to create a university in Christian Hansen where we have the big R&D department, where people believe money is for free. What we said to these folks, I literally said it to them, I said, guys, you're going to be in a start-up environment. You're going to get the lab built for you. We're going to be paying your running costs for two years. You will have access to all the Christian Hansen capabilities in competencies, but you're going to be on your own after two years. You will need to generate your own revenue streams.

And when we said that first time, and that's about nine months ago now, maybe even a year, some people were in shock, they were nervous. Now they're very, very enthusiastic, because they are capable of generating some first revenue streams already, close by.

But that said, don't factor it into your models, because it's relatively small.

Lars Topholm: Thank you very much, very clear.

Operator: Hans Gregersen, Nordea Markets.

Hans Gregersen: If we start on NCD, can you first of all indicate what your various one-off type costs was in overall, 2014/2015?

And secondly, if you look on the increasing carmine prices, how much is that going to impact your growth guidance as it looks right now, for next year. That's the first question.

Secondly, you mentioned at CED that was negative margin impact for mix and startup costs, last year. Are you willing to quantify how much that is, in order to actually see what is the implications, going into next year? Thank you.

Soeren Lonning: Yes, to your first question, Hans, regarding the one-off costs in natural color, then it's around 0.5 percentage point, of top line, in FY15.

Secondly, to your question regarding the increase in carmine prices, for next year. We have seen some increases in raw materials, most notably carmine, also a few other pigments. And we believe that the impact of this, given the current prices that we see, could be in the tune of 2% to 3% next year, based on the raw materials prices that we see now.

It's important to note that these extra percentage points will not bring extra EBIT. It is purely passing on these increases that we see in the raw material base.

Hans Gregersen: [Sorry to interrupt here]. So if I understand your guidance correct here, what you are saying is that you're guiding a growth of let's say, around 10% or 9%. Of that 2% to 3%, comes from carmine prices, which we can subtract and say we're back to around 6% to 7% growth.

If we look on all this -- the companies in the US stated that their targets in conversion, in 2016, it does not appear that you're factoring a whole lot of contribution from that. Or am I misreading something here?

Cees de Jong: No, Hans, you're exactly right, and I think I also mentioned it earlier this morning. I'm not sure whether I did it on this call, but what we see in the US is that the smaller and small mid-sized companies are actually faster in introducing their natural color solutions, than the big companies.

And of course it's the big companies that really drive our growth. Those bigger companies, whilst we're confident that they make the changes, and we're confident also, based on the work that we do with them. But also on the public announcements that they have made, the effect thereof is going to be visible, at the end of the calendar year. And hence it's beyond our next fiscal year.

So that is why your assumptions that you just named are probably correct. And then in addition to, when we look at natural colors, in China, we still need to turn the corner. Remember that China last year, for us, in natural colors, has been disappointing.

Soeren Lonning: And just one point of clarification, Hans, regarding to the outlook for natural colors for next year, we said above what we did last year, not above or at par, we do expect above the 9% that we did this year. But there are big uncertainties regarding how will raw materials prices develop further, and how will the euro price, or the currency development impacting our euro price, that's an impact also.

So there are some urgencies, but we are guiding just to be very clear, above last year.

Hans Gregersen: Would that suggest that, again, coming back to all these statements, without you talking Company-specific comments, that there may also be some marketing there in the timeline that has been presented by a lot of the industry players.

Cees de Jong: No, there is not, Hans. When you are a big player, there's one big player that we know has to change over 400 SKUs, 400 individual different products. And what these large companies don't want to do is only have part of their portfolio introduced with natural ingredients, because it's not just natural colors, it's also natural flavors, they want to go with their whole portfolio. So it requires of them a massive effort to get there.

What we can see from all the work that we're doing, is that they're extremely serious. And in addition, I would say some of these companies, and I'm not going to mention individual names, but you know who I mean, have made the announcements in Wall Street Journal. You're not going to be announcing in Wall Street Journal that you're going to be changing and then pretending that this is just a marketing story.

It is happening, it will happen, but for us the impact is probably to be seen in the next fiscal year.

Hans Gregersen: And do you have your raw material supply chains ready for this, in calendar 2017?

Soeren Lonning: Yes sir.

Hans Gregersen: Thank you.

Cees de Jong: Hans, I don't know, did you have a third question related to something regarding start-up costs to the fermenter, or could you repeat, please?

Hans Gregersen: I'll [skip that], I've taken too much time, thank you.

Cees de Jong: OK. Good. Unless there are more questions, then we'll end the call here. Are there any more questions?

Operator: (Operator Instructions).

Cees de Jong: OK, good. It seems like we've covered all questions. So -- sorry? OK, there might be just one more question.

Operator: Michael Rasmussen, ABG Sundal Collier.

Michael Rasmussen: : Soeren, could you talk a little bit about the FX impact in 2015/2016, both in terms of revenues and margins? Thank you.

Soeren Lonning: Yes. We do see an impact of -- a negative impact on -- of currency next year, of around 1%.

The impact on margin will be due to our cost base absorbing part of this in the locations where currency are changing, then they will be clearly smaller than the 1%.

Michael Rasmussen: : Thank you.

Cees de Jong: And there was one more question I think, yes.

Operator: Heidi Vesterinen.

Heidi Vesterinen: I have two questions, actually, if we have time. You talked a bit about the Nature's 1 strategy, we saw on page 27, that you're talking about a review, a potential review of this strategy. Is there more you can say on that, as we didn't go through this slide in your presentation.

And secondly, I wondered if you have any updates on probiotics in Europe, in CED, do you feel any more optimism in Europe? I know we had the issues with [ESR], and you've been quite negative on the outlook since. But we are seeing more approvals in Switzerland, I do think consumer awareness is improving? Do you have any update on Europe, please? Thank you.

Cees de Jong: Thanks Heidi, I'll take both questions. The Nature's No. 1 strategy update or review is more a check in. The strategy is now two years old, and then it is just good practice to see whether that strategy is still serving its purpose.

As a management team, we've started to review last month, and I do not expect major change.

I think when you look at the performance of the Company, when you look at the opportunities that Christian Hansen has, in fields that are adjacent and where we can build businesses on the existing capabilities and competencies of the Company, I would expect Nature's No. 1 to continue to be our guidance for the immediate future.

That said, what we're also doing this time around, is to significantly improve our consumer understanding and to understand where markets may develop towards 2025. So even longer term. So that might be in addition.

But we're probably going to be informing the markets before the summer of next year, but then you should not expect surprises. It might even be that again, the newspapers are going to write that our strategy is boring. By the way I don't think it is. But I take it as a compliment, because then it's predictable.

With regards to probiotics in Europe, we're not really much more optimistic, you're right, we've seen some approvals in Switzerland, but Switzerland's only a small part in the European market.

I really fundamentally and firmly believe that for the probiotic category to take off, better science is required. Now we're working very hard on getting that better science, and the initiatives in the microbiome are definitely also stimulating that better scientific insight.

But up until then, we would expect the probiotic category in Europe to continue to be somewhat under pressure, as it is in the US.

But, of course, we continue to see very good traction on probiotics in Asia Pacific, not least in China. I think that answers your questions, Heidi.

Heidi Vesterinen: Thank you.

Soeren Lonning: Good, it seems like we have covered all the questions now. So thank you all for listening, and we will look forward to presenting the Q1 results on January 14. Goodbye.

Cees de Jong: Thank you, operator.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.

END