Chr. Hansen

Q1 2015/16
January 14, 2016
10:00 a.m. GMT

Operator: Thank you for standing by and welcome to the Presentation of CHR. Hansen's Results for the Third Quarter 2015/2016.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star and one on your telephone.

You are welcome to submit questions via the Web by clicking on the Q&A tab in the webcast at any time during the call. The questions submitted via the Web will be answered after the call.

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

Cees de Jong: Thank you operator, and good morning, and welcome everybody. I'm Cees de Jong, CEO of CHR. Hansen. And with me today is our CFO, Soren Lonning.

The purpose of this call is as always to give an update on the latest quarter. And let me say, we were quite pleased with the results of our first quarter. But today, we will also spend some time on elaborating on the announcements that was sent out yesterday regarding our agreement to acquire NPC, Nutrition Physiology Co.

And we have acquired them in order to expand our existing business in animal health. But before we go on, I would like you to take a look at the disclaimer on the next page.

Let's turn to the next slide, please. I hope you've all had a chance to read the statement. Or, we'll do it afterwards. So, let's move to slide number 3, please. Let's start with a look at the highlights of the first quarter in our financial year '15, '16.

Revenue reached E.U.R214 million or 14 percent above Q1 last year. Organic growth was also 14 percent; and cultures and enzymes delivered organic growth of 14 percent also. And that was supported by both volume and price.

The Health & Nutrition Division only delivered 5 percent, but there, we have to remember that we still have a significant negative impact from the customer who decided to insource production of silage inoculants last year.

That impact, we also have in the second quarter. And then, it will have lapsed. Natural Colors delivered 23 percent organic growth with a contribution from both volume and mix of around 19 percent; and price contributing the remaining four percent.

And the latter was driven by enforcing euro based pricing to protect (EBIT) from depreciating currencies, and to reflect the increases in the raw material prices. The operating profit or EBIT increased by 24 percent to E.U.R54 million driven by the higher sales volume and driven by operational efficiencies, and by the stronger U.S. dollar.

The EBIT margin was 25.2 percent. And that compares to 23.1 in the Q1 of last year. And that reflects a modest (and the) positive impacts from operational efficiencies.

R&D expenditures in the quarter increased by 30 percent driven by the acquisition of the bacterial (strain) collection from Dairy Innovation Australia. And if we were to exclude this, the spent as a percentage to revenue, it was at the same level as last year.

Profit for the period was E.U.R39 million, and that is up 31 percent from last year. Finally, free cash flow improved significantly, yet still negative by E.U.R17 million as we have significant tax payment in the first quarter.

The improvement was mainly due to the improved operating profit and improvement in working capital. Now let's move to the next slide, slide number four for an update on the regional highlights in the first quarter.

And whilst we're on slide 4, in the EMEA region, which accounts for 45 percent of our revenue, we delivered eight percent organic growth. And that is despite mixed end markets.

We experienced strong growth in natural colors, fermented milk, cheese and meat; while revenue from probiotic cultures for fermented milk at the same level as last year. Revenue from enzymes, human health, and animal health on the other hand was lower than last year.

And animal health and especially in the (silage) and swine business remains under pressure while the drop in human health was mainly due to strong comps we had in last year.

The organic growth was positively impacted from enforcing E.U.R based pricing especially in Russia and the Ukraine. And as you know we use E.U.R based pricing to protect EBIT from depreciating currencies.

In the Americas region, which accounts for 40 percent of revenue, we delivered 17 percent organic growth with strong growth across all segments except for probiotic cultures for fermented milk and animal health.

The growth was positively impacted by conversions in cheese, and in natural colors in the U.S.; and we also saw a strong performance in natural colors in Latin America. And were helped by positive timing of orders in human health in the U.S. Animal health was as expected, negatively impacted by our customers' decision to insource the production of silage inoculants from Q3 '14 to '15, onwards.

In the Asia-Pacific region, which accounts for 15 percent of revenue, organic growth reached 31 percent. The strong growth was driven by fermented milk, including probiotics, natural colors, and human health. And let me say that

China was the key market here, delivering a significant part of the regional growth.

In China, the Dairy segment, in China in the Dairy segment, we continue to build strong relationships with the major local dairies, not least based on our ability to provide the right solutions to those segments. And those segments are experiencing very strong growth at the moment.

And then, you should of course, think of fermented products that are to be kept and consumed at room temperatures. But also, probiotic solutions, and new taste profiles, and new eating occasions and not least new customer groups helped underpin our growth in China.

If we can continue these trends, then two Chinese dairies will enter our top five list of the largest cultures and enzymes customers by the end of this fiscal year. And that is a fantastic journey over the last decade; and not the least supported by our decision to go direct in the autumn of '14.

The human health segment is also growing rapidly in China, although still from a low base, while the strong performance in natural colors in China in Q1 was, of course, partly due to (recomparables) from last year.

Let's move to the next slide, slide number 5 for a look at the strategic and operational highlights. At our production facility for cultures in Copenhagen, we (are at) now reaping the benefits from our investments in new large scale fermentation.

Utilization continued to improve. And we've seen an increasing margin contribution from this in the last three quarters.

In the first quarter of this year, we also experienced a continued positive contribution to organic growth from both innovation and conversion. I should note that also product launches dating back to two to three years; so, including SoGreek, YoFlex Premium, and some bioprotective cultures for (bought meat), fermented milk and cheese still contribute a lot to current growth.

During the quarter, we also launched completely new technologies such as YoFlex Acidifix, which is just one example of what we expect will contribute to growth in the future.

In addition to this, we made a small acquisition in Australia given this access to an extractive strain collection for the cheddar cheese industry.

In natural colors, we've seen progress from both initiatives to support growth and profitability. At the same time, we've progressed on our collaboration with a number of food and beverage producers to prepare a potential future conversion to natural colors on the U.S. market. And whilst that is positive, it is still early to predict when and how this will fully materialize in the future.

An important step in this process is the development of new solutions with a more attractive cost in use. A good example would be the new (CapColors Orange) for the beverage category which we introduced in this quarter.

Our initiatives to improve profitability in the division also progressed, but margins improved only slightly in the first quarter as the division faced continued headwind from currency and increasing raw material costs.

In Health & Nutrition, we've just announced the first commercial partnership in the human microbiome. In this partnership with Caelus Health, we are to develop a production process and pilot material of a special bacterium that Caelus Health will use in their clinical trials to investigate prevention and treatment of metabolic disease.

Let me just say that this partnership will not have any impact on our outlook for the year given this modest financial scope. We are in dialogue however with other parties of potential (future) partnerships as well.

In plant protection, as you know we already have a product on the market. But we, and also our partner (FMC) are as anyone else in the plant protection industry, negatively impacted by the challenging market conditions, not least in Brazil. This we expect will primarily impact the second quarter of the year as we expect our partner to make inventory adjustments; which will postpone revenue to the second half of '15 and '16.

Turning to probably the most exciting thing today, we have agreed to acquire the U.S. based NPC company from Halifax (partners). We do this to expand our position in the market from microbial solutions to the livestock industry.

Before we move into details on this on the next slide, let me just mention that our strategy (review) process is running as planned. And that we will provide you with an update of the outcome of the process at the Capital Market Day, which will be held here in Copenhagen on April 12th.

Now, let's move to the next slide, slide number 6, please. Before we go into the details on NPC and the strategic rationale for the acquisition, I would like to just spend a minute to describe why we believe that the animal health market will continue to be an attractive opportunity for CHR. Hansen.

And why we want to expand our presence in this area despite the current headwinds that we face from that customer that is insourcing its production; and despite the low activity that we've seen in Europe.

First, we need – the needs to improve productivity in the agricultural sector is immense. If we want to feed the growing (prop) – growing population, the food and agricultural organization of the United Nations estimates that food production will have to increase 70, and that is seven zero percent to feed the world by 2015.

To meet this challenge, the industry needs significant and sustained productivity gains, and optimization of the nutritional value. Nutritional solutions to improved health and productivity in the livestock industry are going to be an integrated part of the solution, not least when taking into consideration the increasing awareness of the unwanted side effects of chemical and antibiotic solutions.

And those solutions are currently still widely used in the agricultural sector. Within the livestock industry, the pressure to reduce the use of antibiotic growth promoters is increasing. The impact to all humans caused by antibiotic resistant bacteria linked to livestock production has led to several legislatures taking tough measures to prevent this.

(Already and) back in 2006, the E.U. banned the use of antibiotic growth promoters. In 2014, the FDA announced legislation to reduce the usage in the U.S. Now following the (exchange) in legislation, and not least to an increasing demand from consumers for antibiotic free food, a number of major companies have demanded their suppliers to reduce the usage of antibiotic growth promoters.

And, of course, this drivers producers to look for natural alternatives such as probiotics. The market for probiotics or sometimes we call them microbial solutions to the animal health industry is today characterized by high growth. And we estimate the market to grow seven to nine percent with potential (upside) from further conversion.

Now, please turn to the next slide, slide number 7. Many of you will know our nation's number one strategy quite well. And the acquisition of NPC has a strong fit with the strategy as we expand our existing business in animal health by creating a stronger platform to reinforcing our position in the market for microbial solutions to the livestock industry.

CHR. Hansen has a long tradition of serving the animal health market and not least the dairy cattle segment through both (direct set) microbials and silage inoculants. NPC brings a strong position within the beef cattle segment that complements our current business very well and opens up for new opportunities for growth.

The acquisition is also aligned with our strategy to seek bolt-on acquisitions that support our market presence and technology platform. And NPC provides exactly this, the strong strategic fit between CHR.

Hansen animal health business and NPC provides attractive opportunities for synergies within sales, supply chain, and innovation. Those synergies, and we aim to achieve those in the coming two years. (But) Soren will go into more details later.

While as in every such deal, we will face some costs related to the transaction, we do expect the acquisition to be EPS accretive already by our next fiscal year '16 and '17. And that underlines the strong fit between NPC and our animal health business.

I would like you to turn to the next page, slide number 8, please. When we take a short look at our current animal health business, there is an integrated part of the Health & Nutrition Division accounting for approximately 40 percent of divisional revenue, or around E.U.R60, (six, zero) million in '14 and '15.

CHR. Hansen supplies well documented microbial solutions to the global animal health industry, including dairy, cattle, swine, and poultry. We also produce and sell microbial inoculants for silage production. Our animal health production is centralized with the majority of production taking place at our plant in Germany, and to a lesser extent, at a site in the Czech Republic.

Moving to NPC, (then their) revenue was $41.15 million. Meaning that NPC is approximately two-thirds the size of our existing animal health business. The 2015 estimated EBITDA of NPC is around $10 million. NPC employs 52 employees across the U.S., predominately within sales, R&D, and technical services.

And NPC has over the last 20 years, built an attractive position in the beef cattle segment through strong customer relationships. These customer relationships build on a strong and experienced sales team backed by an extremely good portfolio with strong scientific data and IP protection. The company has a very asset light operation with production fully outsourced.

Part of NPC's products are today already being produced by CHR. Hansen. And that set up makes a fast integration of the NPC business into CHR. Hansen, a rather straightforward scenario.

Now with this, I will leave it to Soren to go through the financials, and to give you a little bit more flavor on the expected synergies. So, please turn to page number 9 when I hand it over to Soren.

Soren Lonning: Thank you, Cees. In looking at the financials first, we have agreed to pay a cash consideration representing an enterprise value of approximately

U.S.$185 million, which corresponds to an EBITDA multiple of 15.9 times based on 2016 estimates. That is before synergies.

The acquisition has been approved by the Board of Directors in CHR. Hansen and by the owners of the NPC Halifax Partners. But the completion of the acquisition is still subject to stand up closing condition, and most notably approval from anti-trust authorities.

We expect closing during the first three months of 2016. The acquisition will be funded through our own cash holding and current credit facilities.

And although with short-term we'll see an increase in leverage, we expect the net interest bearing debt to be around 1.8 times EBITDA by the end of 2015 and '16, when including the impact from the acquisition. This is within our target level.

Let's move to the next slide to take a closer look on the synergies we expect to achieve in the coming years. Earlier Cees talked to the strong strategic fit between NPC and our animal health business. And this fit certainly brings attractive synergy and opportunities.

While I cannot go into too much detail, this point and time having only signed and not yet closed, the synergies (are) to be realized mainly through three levers. First, by utilizing the commercial opportunities from complementary businesses and by combining two strong sales teams.

We will have a broader platform to pursue future growth. That includes opportunities to market our current products such as silage inoculants to NPC customers within beef cattle; but also by expanding the use NPC products to new geographies.

Secondly, by optimizing the supply chain, and thus neutralizing scale opportunities in production and sourcing, that will also be a key synergy for us. As Cees mentioned, we have already a supplier to NPC. And we have a good knowledge of their product portfolio.

And what I can say is that on just the product or the part – the small part that we produce today of NPC products, we have a similar margin compared to the rest of the Health & Nutrition Division.

Thirdly, we will also see synergies by strengthening our innovation (enforce) in animal health and by the fact that we can bring the R&D people of the two organizations together. We can (use) and utilize the intellectual property rights of both companies together. That will be also a key synergy.

We have also identified synergies in other areas, which we also pursue. And all synergies are expected to be achieved in the coming two years. It is also worth mentioning that we will have full tax deductibility on acquired assets, including all intangibles. This alone has a confirmed positive (NPV) value of around U.S.$30 million, making the profitability of the acquisition even more robust.

We expect approximately E.U.R6 million in nonrecurring costs related to the transaction; which will be recognized as special items. However, as Cees mentioned, the acquisition is expected to be EPS accretive by 2016 and '17. And it is also expected to be margin accretive to the Health & Nutrition Division once synergies are fully realized.

The acquisition will not impact the outlook for the year. And I'll come back to that later. I would like to emphasize that all of the nonrecurring costs will occur in this financial year.

Finally, let me just mention that we will assess the strategic fit of NPC's current global distributor business with our existing animal health business, and then decide on the right way, path forward. This part of the business currently amount to approximately (10) – U.S.$10 million in revenue of NPC but with very limited contribution to profitability.

Let's move to the next slide. Turning back to the Q1 performance; then Cultures & Enzymes Division delivered 14 percent organic growth. Volume/mix contributed by ten percent whereas price, four percent. The Local price increases were mainly driven through enforcing E.U.R based pricing to protect against depreciating currencies in certain geographies.

We experienced strong growth in fermented milk, cheese, and meat while probiotic and enzymes showed solid growth. I would like to emphasize and highlight that China was a key growth driver for us in this quarter. All margin, (EBIT) margin was up four percent compared to Q1 last year.

The main drivers of this margin expansion being the operational efficiencies, including better utilization at the Copenhagen facility, lower depreciations; and easy comparables compared to last year where we did incur some startup costs related to the expansion in Copenhagen. Combined, the positive impact from these factors was around three percentage point.

We did also see a combined positive impact of around two percentage points from the stronger U.S. dollars and a positive product mix driven by the strong growth in fermented milk, and the – and the growth in probiotic. The positive impact was partly offset by an increase in administration expenses mainly related to nonrecurring costs from the strategy process and a management change.

The negative impact from the nonrecurring expenses was around minus one percentage point. It should be also noted that the administration expenses were also negatively impacted by the expansion of our premises here in Denmark.

Moving on to Health & Nutrition on the next slide, slide 12. Heath & Nutrition, this division delivered five percent organic growth, all driven by volume and mix while the revenue growth in euro was 11 percent driven by the stronger U.S. dollar.

We experienced strong growth in human health driven by Americas partly due to positive impact from timing of orders and good momentum in China and South Korea. EMEA delivered below last year primarily due to a strong Q1 last year.

If we turn to animal health, then revenue was below last year due to the insourcing of silage inoculants at a major customer from Q3 last year; as well as the current trading condition in EMEA which are difficult. If we adjust for the lost silage volume to the – to the customer who decided to insource, then the growth for the entire division would have been in the high teens.

The EBIT margin was down by 1.6 percent in the Health & Nutrition Division compared to last year. And this was primarily due to the high scrapping level in the human health area. But also, due to increased research and development activity as a dedicated focus area to expand in this area, as well as the higher administration expenses.

This was to some extent, offset by the stronger U.S. dollar, which had a positive impact of just below four percent in this quarter for this division. The higher scrapping level in human health is predominately due to cross contamination in the handling of the products after fermentation; especially in the freeze drying process.

New dedicated freeze dryers for human health will be in production during 2016. (Validation) is currently ongoing; and this is expected to help address the current issue as we (all have) initiated several short-term initiatives to also address this issue.

It's however, not a quick fit with the freeze dryers. And we will – we will expect the scrapping level to remain at a higher level in the coming quarters.

Let's move to natural colors on the next slide. The natural colors division delivered 23 percent organic growth. Nineteen percent of this was driven by volume and mix, while price accounted for around four percent.

The price increases were mainly driven by a high raw material prices, but also through enforcing E.U.R based pricing to protect EBIT from depreciation currencies. The raw material price for carmine increased more rapidly in the first quarter with an average purchase price roughly 50 percent above the same quarter last year.

Prices have continued to increase into the second quarter. And we will seek to ensure that price increases are implemented to cover the development in raw material prices. This will, however, likely impact the (EBIT) margin negatively in the coming quarters.

Growth was predominately seen in the confectionery & ice cream and prepared food categories while the beverage segment delivered modest growth. Growth in EMEA was partly driven by our FruitMax range of (current food stuff), while the Americas region experienced very strong growth in Latin American and to a lesser extent from increasing conversion in the U.S.

The growth in APAC was also strong. But this was helped by a weak comparable in China last year. The EBIT margin was up half a percentage point on last year driven by the increased volume and dedicated savings initiative such as business simplification, portfolio optimization, and logistic (efficiencies). This was however, partly offset by a negative effect from the stronger U.S. dollar of around minus four percentage point, and the increase in raw material prices.

Please turn to the next page, page 14. The cash flow from operating activities improved by E.U.R17 million. And this was mainly due to improved operating profit and improved net working capital ratio. Cash flow used for investing activity increased by E.U.R4 million. Investments in laboratory facility, for the human microbiome initiative, and packaging capacity for the – for cultures.

The capital expenditures corresponded to 8.3 percent of revenue compared to 7.6 percent in Q1 last year. Capitalized development expenditure increased to two percentage of revenue compared to 1.1 last year. And this is entirely driven by the acquisition of bacterial strain from Dairy Innovation Australia.

Free cash flow improved by E.U.R30 million. And the return on investor capital including Goodwill, it was up by more than five percentage points.

Please move to the next page, page 15, capital allocation priorities. The priorities are the same and – are the same, and listed in the same orders as always. But for the first time since we launched the nation's number one strategy, our second priority of bolt-on acquisition have now materialized in 2015, and '16.

In October, we made a very small acquisition with DIAL, or Dairy Innovation Australia. And today, we have presented the agreement to buy in NPC.

While the acquisition will be funded through our own cash holding and current credit facility, it has the consequence that the Board of Directors do not expect to pay out additional cash to shareholders through 2015, (and) '16, in addition to ordinary dividends. Based on this assumption and when including the impact from the acquisition, the net interest bearing debt is expected to be around 1.8 times EBITDA by the end of the financial year 2015, and '16.

And let's turn to the outlook on the next page. As mentioned, the acquisition of NPC will not have an impact on the outlook for the year; neither do we expect it to have an impact on the long-term financial ambition as they are stated here. Although, we will be in a better position to create value with this acquisition; however, based on the strong performance in Q1, and a higher than expected impact from E.U.R based pricing, we have increased the outlook for organic growth to 9 to 11 percent up from 8 to 10 percent.

This is primarily due to the Cultures & Enzymes Division, which we now expect to deliver organic growth above our long-term ambition of seven to eight percent. It's worth noting that the organic growth in the Health & Nutrition Division in Q2 is expected to be modest due to the impact due to the impact from insourcing of silage inoculants, timing of orders in human health. As well as inventory adjustment within plant protection; which will postpone revenue to the second half of 2015 and '16.

The EBIT margin is still expected to be above 27.1 percent. In this outlook, it is the assumption that we'll not see a strong support from the U.S. dollar in the remainder of the year. And the comparables in the Cultures & Enzymes Division will be tougher, and especially the second half.

Free cash flow before acquisition is still expected to be above the E.U.R15 (million) realized last year. So, that is confirmed. With these comments, it concludes the presentation.

And I will hand it over to the operator for the Q&A session. But before I do this, I must warn you that the acquisition is not yet finalized. And it's limited what we can disclose in addition to what we have already said. Thank you.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel the request, please press the hash key. So, star and one, if you do wish to ask a question. Your first question comes from Soeren Samsoe. Please ask your question.

Soeren Samsoe: Yes, hello gentlemen. It's Soeren from SEB. First, a question regarding your organic growth upgrade of 100 basis points. It's just – I mean, as I understand it, the three levels are better impact from E.U.R pricing than earlier expected, and raw material price increases in natural colors; and then and better – a better underlying development in Cultures & Enzymes.

If you could just sort of split up, what is the effect from E.U.R pricing and the raw material price increase? And what is the effect from the better underlying development in (CEP) under – (on the) hundred basis points just so we know is real underlying (upgrade)?

Soren Lonning: Yes Soeron, this is Soren here. Let me address your question. Of the upgrade on one percentage point in our – in our range, the two key factors is the E.U.R price list, the effect from E.U.R price list, which has increased and the increasing raw material that we work out to pass on to customers.

Then as a third, the third priority would be the upgrade in (CED). And that is primarily driven by higher volume expectations in our APAC region. But that would be the list in the order of priority to mention. And I will not give specific numbers.

Soeren Samsoe: OK, great. Then regarding the acquisition, I mean, I don't know if you should call it a sideways or a forward integration. But at least your buying company with a primary focus on sales to the end consumer. And this, of course, within animal and nutrition, you already have that yourselves.

So, there will be synergies. But I was just wondering if this is just a sort of first step from you guys that maybe we could see similar steps within human probiotics? If you could elaborate a little bit on that?

Cees de Jong: Yes, Soeren, this is Cees. Let me take your question. I wouldn't call it a forward integration. Today, CHR. Hansen is already active in the market for probiotics to – for animal health.

And you will remember that as part of the nation's number one strategy, we have intensified our efforts, and not least in the United States. And we do not really sell to the consumer. I need to correct you there. We sell to the – to the farmers, and then the producers who raise the cattle.

Now, the acquisition adds something to what CHR. Hansen does today. CHR. Hansen is active in the segments of dairy cattle, so cows that are being raised to produce milk, poultry, and swine. And we have silage inoculants.

NPC is mainly active in the feedlot segment. And the feedlot segment especially in the United States is the segment where the animals are being raised for consumption, for meat consumption. So there, you see a nice complementarity between our two businesses.

But in the end, the sales force of NPC is targeting let's say farmers, and so is our sales force today. Now where are the synergies? And why is this such a great fit? Because it's not only in the market that we see the synergies that Soren was alluding to, but also, when it comes to production.

NPC with its 52 people operate extremely asset light. They have outsourced their entire production. And that is where we see a significant opportunity for synergies. As today, we are already one of their producers. And it's our aim to take in-house more of those products in addition (to those tech) synergies.

And (there's) international synergies where we will be able to use in all probability, NPC's product in our international network, again targeting farmers. Now, to your second part of the question. Will you see something similar in human health?

In human health, our intention is not to turn CHR. Hansen into a (pharma) company, but to continue to supply both startups as well as large pharmaceutical companies that look to be supplied with unique and difficult bacteria.

So, I hope that answers your question, Soeren.

Soeren Samsoe: Yes, it did. And then, lastly if you could just elaborate, (the depreciation) that…? The lower depreciation you have from – stemming from – and back from the – when PAI bought CHR. Hansen.

I haven't heard you talk about that previously. I was just wondering, if we can expect in coming years is in a similar effect that we could put into our model already now? That would be nice to know.

Soren Lonning: Yes, I can tell you that we have not mentioned it expressly before. This lower depreciation from – well, where part of it derives from certain assets related to the PAI acquisition back in 2005, now being fully depreciated.

Now, we haven't mentioned this specifically. But it has been included in our guidance that we – that we have given to the market. The effect of this, the PAI, lower depreciation of the PAI assets, that is to the tune of 0.8 percentage point on the – on the (CED), so less than (CED) division, so less than one percentage point.

We will have no effects like that in the coming years. We are looking you know five and ten years ahead before we'll see something like this happening again. So, it is helping (here). But there will be nothing to put into the model short-term.

I would like to emphasize also that is part of the benefit of the depreciation. We are also generally growing and driving scalability in our asset base in addition to this.

So, that's also a part of the explanation to the depreciation. I just want to emphasize that part also.

Soeren Samsoe: OK, thank you. I'll get back in the queue.

Operator: Thank you. Your next question comes from Tobias Bjorklund. Please ask your questions.

Tobias Bjorklund: Yes, good morning, gentlemen. I have a couple of questions. So, you delivered a 14 percent growth, and very strong in Q1. And you guide (911) for the full year. Normally, we've seen some growth stronger in the second half of the year. Could you be a bit more explicit on what should – what should take growth down relative to Q1?

I know there are some (tougher) (comms) in certain industries. But if you could share some details on that? And the second question is the bullish (bullish ment or the near quote of the system) in Europe since April 2015.

If that's driving growth here, and then it's expected to pull growth down as of April 2016. And then, a last question; you had a very strong (margin) development in (C&E).

You mentioned that (100 bps), and that 200 bps was from (FX). Could you just (pick) that up in the price mix as well, if that's possible? Thank you.

Soren Lonning: OK, let me address your first question, Tobias. Why is growth coming down? You can say that when you – when you look to the performance in Q1, then we had the, a massive positive effect on the E.U.R price list.

A lot of it linked to development in currency rates last year. So, we had an effect of plus three percentage points in this quarter. For the full year, we expect something to the tune of a little bit more than one percentage point.

So this effect will not help us at all to the same extent in the coming quarters based on current currency outlooks. So, that's one thing. Then we also as we write in this document we send out, we did have some favorable time of human health orders in Q1 this year. And that is also helping.

And that also links into why we'll see a little bit slower growth in Q2 for the Health & Nutrition Division. And then, finally I would say that when we looked to the year last year, then our Q1 was probably the softest.

And, it means that we have a fairly soft comparables in some geographies, most importantly in the APAC region in Q1. And that also helps the high growth in Q1 for us. And this will not repeat in the – in the coming quarters.

So, that's the key drivers for guiding something lower than what we see in Q1. And then, could you repeat your second question – (it's a) third question, Tobias?

Tobias Bjorklund: Sure, and so, you saw a very strong margin development in Culture & Enzymes, 400 bps. And I think you mentioned earlier in the quarter that 200 bps was related to FX. But, I wondered if you could (speak to that) a bit more on how much was priced and how much was a mix of the margin development, if that's possible?

Soren Lonning: Yes, no, just one clarification first. Out of the four percentage point, then we – then it was one percent, around one percent that was currency. The two percent was including also product mix. (It was also) close to one percentage point also.

So, those accounted for two percentage points. And then, when we – then when we look at the operational efficiencies that we've driven in the lower depreciation base, and the fact that last year we had some one-off costs related to that.

That combined gave an effect of three percentage points. And then, we had one percentage point from the higher administrative costs working the other way. We did not see the pricing as such have an impact on margin.

Bear in mind that's it – the pricing is largely driven by E.U.R pricing. So, it's preventing a loss from (arising). And it's not adding compared to last year in that sense in (Europe) terms.

Tobias Bjorklund: How are your times…

Soren Lonning: And then…

Tobias Bjorklund: Sorry, yes?

Soren Lonning: (Yes).

Cees de Jong: Tobias, let me – let me take your question on the – on (milk quality) and milk volumes. You're right. And you will probably remember that we have mentioned in previous calls and previous occasions that the abolition of the milk quota system released more milk actually. It released more milk already in advance of the system being abolished.

Because farmers simply started to grow their herds. That indeed has led to (inaudible) benefiting (their farm). Very simply put, if there's more milk, it's not all going to be drunk as liquid milk. It's going to be converted.

And when it's converted into either yogurt or cheese, CHR. Hansen plays a role. Because you need our culture. And to make cheese, you even need our cultures and enzymes.

What we have seen in recent months and quarters is that the abundant availability of milk combined with low prices for skim milk powder, which is the only other way milk can go, if you want to sort of conserve it – have led to more milk flowing into cheese.

So, cheese production both in Europe as well as in the U.S. has been high. Current stocks of cheese are on the high side. We expect the growth of the milk volume to come to more normal levels.

And that's also why probably towards the end of our fiscal year, we will start to see the strong growth that we've seen in cheese production and hence our Culture & Enzymes (Division) to be – to be leveling off somewhat. (And) (inaudible) (towards) the end of this fiscal year or the next fiscal year, that remains to be seen.

But it's definitely something to watch. It is important to look at milk volumes. Because very often, when we're – when we're being asked, people look at what the big dairies are reporting in terms of their growth.

But then, of course, you miss all of the private label manufacturers and other manufacturers. So, when we look at dairy volumes, you have the key driver for our growth.

And that indeed has been good, both in Europe as well as in the U.S. I hope that answers your question – your second question.

Tobias Bjorklund: Yes, sir, it's very good. Thank you so much.

Operator: Thank you. Your next question comes from Fulvio Cazzol. Please ask your question.

Fulvio Cazzol: Yes, good morning, gentlemen. I've got a couple of questions. The first one is on China. I was just wondering is the restructuring now pretty much done in China? And the growth that we're seeing now, is this going to be the run rate for 2016? Or, are there some one-offs as you pick up some new customers?

Do they (load up) on certain products? And also related to China, I was wondering the two customers that Cees highlighted could become top five customers? Could you give us a bit of color as to what product group this will impact? Is it infant formula or is it fermented milk? Is it within the natural colors? That would – that would be helpful. Thank you.

Cees de Jong: OK, and for a second, Fulvio, I thought you were going to – were going to ask whether I was going to disclose the names of those customers, which obviously I can't.

Let's talk customers first. The Chinese market for dairy is predominately a market of fermented milk; so, (Greek yogurt), and yogurt type drinks, fermented milk drinks. The cheese markets in China is virtually nonexistent.

And it's also fair to say that today, the Chinese fermented milk, slash yogurt market is already by volume, the largest in the world. And that has developed since the last ten years. And we see the pace accelerating.

A very specific characteristic of the Chinese market for fermented milk products is that significant portion of those products are being kept and consumed at room temperature. And I still remember talking to some of our people a couple of years back say no, the Chinese guy is wrong. Yogurt needs to be chilled.

Well, that's just not how the Chinese consume it. So, we see significant growth in that segment of room temperature product. And that requires very specific solutions, which CHR. Hansen has developed and is able to offer.

So, that answers the second part of your question. The first part of your question, I'd like to take in two different sections. The first one, we talk about Cultures & Enzymes.

I wouldn't call it restructuring. What we've done there two years ago or two and a half year ago, we've decided to create (a complete) owned infrastructure to service the market in China. That meant whereas we were operating to (the) distributor before we set up our complete on shop sales, technical sales people, back office, (add) everything, backbone, everything to service those customers.

That has – it is complete for more than a year now, I would guess, or a year. And that has served us really well when it comes to cultures for the dairy industry. And those two customers, of course, that are ending up in the top five as a consequence thereof.

The other part that I would like to answer your question is the natural colors (part). There (indeed), you will remember that we've said before. We were not pleased with our performance. That (in a way), we had sort of a self-inflicted wound.

There, I'm really pleased to see that natural colors has to – seemed to have turned the corner with good growth in the Chinese market. Because also in

China, there's a good market for natural colors. We have (it on a) factory there.

We have created a technical service center. And we've brought (on board) the right people to also in natural colors grow their business. So, that's how I'd like to answer the (both) part of your question, Fulvio.

Fulvio Cazzol: No, that's very helpful. If I could also ask a question on the NPC acquisition. Could you give us a sense of how that particular business has grown in recent years, I guess compared to your existing animal health business?

Cees de Jong: I'm afraid we're not at a stage that we can disclose those numbers. You would have to ask Halifax or NPC.

Fulvio Cazzol: OK, fine, thank you.

Operator: Thank you. Your next question comes from Lars Topholm. Please ask your question.

Lars Topholm: Yes, congrats with another set of good results. I have three questions, please. In CED, can you give some comments on the nature of the reception of YoFlex Acidifix? And maybe comment on you see that product evolving?

And then jumping in (NCD), you mentioned commodity prices. Can you be a little bit more specific on which commodities are going up in price? And how does your customer relationship work (when there aren’t) price increases?

And, of course, I'm asking because the things still lacking in that division, at least in my view is profitability. So again, with commodity prices in mind, can you try to bridge how you plan to reach double digit margins here?

And then a household question, if I may on (HND). You mentioned that Q2 will be negatively affected by (de-staffing) by (FMC). Can you maybe guide a little bit more specifically on how that will affect Q2 growth? And how it will affect growth for the full year? Thank you.

Cees de Jong: Thanks Lars, I'll take the easy ones, the first two. And after, the last one is for – is for Soren. The – I mean, you as well as I know, Lars, that the dairy industry is conservative when it comes to the adoption of new technologies.

And whilst I would say that Acidifix has been received very positively, the impact of sales will span out over a large number of years. Remember what we said this morning that contributing to the good CED growth of the first quarter were concepts that were developed and introduced a large number of years ago.

So, Acidifix offers unique opportunities to both reduce cost when it comes to yogurt making due to the fact that a step can be eliminated. And that certain ingredients do not need to be added to the yogurt. And in addition, (too it), it provides a very mild yogurt.

To date, it's only on the market in a very limited number of markets. I've actually tasted it (in one of the markets). It's fantastic. But the full adoption will take time. But that's also the positive side of our business.

Because once we're in with good concepts, they're (sticking), as you know. And hence, the volatility in our Cultures & Enzymes business is limited. Now, all natural colors, Lars, if you allow me to take that, (the part).

The commodity, of course, we're talking to carmine. There we currently see prices over $50.00 per (kg) for the raw material and approaching 60. And obviously, what we've done is adjusted our contracts to reflect this, the raw material price increase.

You put it well. The margins in natural colors are not there where they need to be. Natural colors need to operate at mid-teen margins. However, we also need to take into consideration that when we completely separated all of the division, we found out that the – that actually more cost belonged to natural colors.

There were also some cost involved with setting up the sales force. So, they carry a bit of extra costs at this point and time, if you compare it to the past. I would expect it to take a few years before we're back at the mid-teen level.

But I can assure you, management is working hard on getting margins up. Part of that is indeed pricing through raw material prices. In addition, (too) there have been currency affects in natural colors. Now the (HND) question, I would like to (leave) to Soren.

Lars Topholm: (If you could), just a brief color to follow up on (NCD), if I may? What is the magnitude of one-off costs last year? And what magnitude do we see this year?

Cees de Jong: I'll leave that one for Soren as well. But let's first – let's first do the (HND) one where you asked all of the de-stocking effects for – with (FMC).

Soren Lonning: Yes, you asked specifically regarding you know our plan there (for certain). And I can say that the effect in Q2 for Health & Nutrition, the (reason) it will be below two percentage points and for the full year below minus one percent.

Now, the reason why we highlight is in combination with the Health & Nutrition timing, which we alluded to also, that will have an effect on minus three to four percent in Q2.

And bear in mind that Q2 is the last quarter where we have the (pioneer), and the effect of, sorry, the insourcing of one of our customers owned by a competitor. That will have an effect of – in this quarter also.

So, the combined effect of these three things in Q2, (basically) we want to highlight all of these three things.

Lars Topholm: So, we should basically pencil in that HND doesn't grow in Q2. Is that the sort of the underlying message here?

Soren Lonning: We aren't giving a specific guidance to …

Lars Topholm: Well, then I wouldn't (have) (inaudible) (time), so.

Soren Lonning: … No. So, I'll leave it to you to make your conclusions. But bear in mind that there are substantial negative effects in Q2. OK, and then you asked …

Lars Topholm: And then (the) …

Soren Lonning: – For (guiding in the margin). And that's your follow up.

Lars Topholm: Yes.

Soren Lonning: Yes.

Lars Topholm: The level of one-off costs in NCD, the last year. And then, and what you see this year for the full year?

Soren Lonning: Yes. And last year, we saw – we saw one-off costs in natural colors to the tune of one to two percentage point in natural color hitting the margin in Q1 last year. And just to reflect back you know the impact for currency alone in this quarter is minus four percent.

So, in this spectrum, then the currency, and in combination with the raw material development, which is to the tune of two percentage points negative. That clearly outweighs the one-off costs that we had last year.

Lars Topholm: (But that I know). But my question is for the full year last year what was the one-off costs? And which one-off costs do we see for the full year this year? So, not the currency effect, but the real one-off costs, please.

Soren Lonning: Last year for the full year? Yes, the effect – last year we declined in margin by five percentage points for the full year. Two of those were linked to currency, a little more than two percent was linked to currency. A little more than two percent was linked to the separation of color.

Part of those two percent was one-off costs. And part of (this) was related to what Cees alluded to. The fact that we needed to strengthen the sales management team, running it as an independent area. So, that would be the key effects from last year.

Lars Topholm: So, last year around E.U.R2 million in one-off costs. And what do we see for this year?

Cees de Jong: For this year, we have not disclosed any one-off costs, Lars.

Lars Topholm: OK, thank you very much and again, congrats with a strong quarter.

Operator: Thank you. Your next question comes from James Targett. Please ask your question.

James Targett: Good morning, just a couple of questions for me. Firstly, just a clarification actually on the – on the margins in Cultures & Enzymes. You mentioned the, sort of the 80 bps from depreciation, and then obviously about the one percent from higher admin costs.

I just wanted to check that the – obviously the 80 bps will continue throughout the year, I assume. But obviously, the one (centrum) admin cost is a – is a one-off.

And then secondly, on natural colors, you mentioned that some of the improvement in growth had come from U.S. conversion. I just wondered where you are and right now with your customers in terms of helping them with their, reformulating their products.

And when you expect them to really push the button on launches? And when we can sort of see that reflected in your volumes in natural colors? Thank you.

Soren Lonning: Hi James, it's Soren. Let me address your first question and Cees will address your second question. In terms of the CED margin, just to be clear, the impact, the positive impact from fully depreciation of some of the assets related to PAI, P-A-I, they as you say had an impact, positive impact of 0.8 percentage points in this quarter.

And we expect this will continue throughout the year. So, it will have an impact for all of the quarters this year. Then, relating to your administrative expenses. You were right.

That was a one–off. And that will not repeat. So, that was – that was a Q1 incident. I hope that clarifies?

James Targett: Yes, that's great, thank you.

Soren Lonning: OK, and then Cees?

Cees de Jong: On natural colors in the U.S., James, it's a mix of different things that we see. You will remember that some of the largest food and beverage producers in the U.S. have announced that they will take out their artificial colors.

Some of them, they want to complete their entire range before that introduce. And that obviously takes time. Some of them introduce only brands or sub-brands, and are actually starting.

And without mentioning names, there is a big provider of a certain processed food that at the beginning of this calendar year has started with a product that's changed over to a natural color.

What we have been guiding for though is that we would see the real effect coming in our next fiscal year. And that the effect from conversion in the United States in our current fiscal year, which ends in August would be more limited.

And the reason therefore is that the majority of large customers, they first want to do their, of course, their technical work. But then also the consumer testing, the in-home testing; and they want to make absolutely sure that consumers are OK with the changed product.

And that sounds trivial, but it is not. Because what happens is that not only are the colors changed out from artificial colorants to natural colorants; also, other ingredients including sometimes even the flavors are being converted to all natural.

Because nowadays consumers look at what's on the label. And they want real food and natural solutions. So, it is added, James, definitely there.

We're very confident that we play our relevant part in there. But again, we will see the major impact in our next fiscal year.

James Targett: OK, that's very helpful. Thank you.

Soren Lonning: Thank you.

Operator: Thank you. Your next question comes from Heidi Vesterinen. Please ask your question.

Heidi Vesterinen: Hi, I have a few questions on animal health. First of all on probiotics and the involvement with – well, the risks of antibiotics and how probiotics can help. It's an exciting opportunity. But I wondered if there are any alternatives that could be used as well?

And then, another question, the beef cattle segment that you're entering. If we compare it to swine, poultry, and dairy cattle, are there any differences we should be aware of either in terms of the market size or current penetration rates of probiotics? Thank you.

Soren Lonning: OK, let me take those questions Heidi. Consumers increasingly become aware about the risks that antibiotics bring when they're being used in animal feed. And when they end up (providing) – causing a resistant bacteria to end up in the meat.

And that is why also in the United States, we now see a little bit of legislation change. I mean, in California, it is announced that there's going to be a regulation in place, which is similar to the ones we have in Europe.

In Europe the use of antibiotics in feed have been banned for a large number of years now. California (actually) will start to do the same. But more importantly, consumers drive the change.

And I think that's very important because antibiotics are still allowed when the animals fall ill. I think ultimately consumers will say well, you have to make sure that those animals don't fall ill. Because sometimes, of course, there is a little bit of a trick to be able to continue to use the antibiotics.

Now, probiotics cannot replace antibiotics. We need to be very transparent in that. Antibiotics are extremely powerful. And not only do they promote growth directly, they also, of course, keep the animals healthy.

Probiotics keep the animals healthy and help to feed the conversion ratios. And CHR. Hansen is active in bacterial probiotics. And CHR. Hansen is the bacteria company.

There's also other forms of probiotics. Those can be yeast, either live or dead yeast that has probiotic effects.

And then, of course, there's other means by which farmers can keep their livestock healthy. But with the intensive intensity of the livestock industry, very often probiotics are important.

Now, (if) – the beef cattle segment is very similar to what we do in the dairy cattle segment or in the poultry segment in that it is a fairly concentrated market. And that bacterial probiotics work quite well.

What NPC have is a set of very good, well documented strains that work exceptionally well in the beef cattle segment. And based on that position, NPC has built relationships with the feedlot producers or the feedlot owners.

And given that it is such a technical sale, that keeping the animals healthy, those relationships – those trusted relationships are absolutely important to make that the market is a success. And that's exactly the same as what we've seen in dairy cattle or in poultry.

So, I hope that answers your question. And you can (read) from that, those (were of course,) very (antigestic) being able to make this acquisition.

I think operator, we have time for one more question.

Operator: Thank you. Your last question comes from Klaus Kehl. Please ask your question.

Klaus Kehl: Yes hello, Klaus Kehl from Nykredit Markets. You mentioned that you had some production problems in Health & Nutrition in Q1.

But, I missed what you said. So, could you please repeat that? And also, if you had any comments about what we could expect, (yan in) in Q2 related to this issue? That would be the question.

Cees de Jong: Yes. The answer to your question is that Soren has mentioned that we have had high scrapping in the production of our probiotics for human health. And whilst the fermentation of those products went very well, I'd say the secondary processing was not optimal.

And we have been investing in creating new freeze drying capacity because that's the step where we have the problems. Dedicated for the human health products, the human health products require a slightly more elaborate handling when it comes to freeze drying.

We have made investments in Roskilde, the facility is complete. And we're now in the process of starting it up, and then validating it. And the validation step, which we need to do in order to get our approvals from the regulatory authorities take time.

So, whilst we're working hard for reducing scrap rate in the, let's say, existing situation, the new situation will probably, only going to help us towards the end of the year. That said, we're obviously not pleased with higher scrapping levels.

So, we work very hard to reduce them also in the existing situation. We've not been given specific guidance for the second quarter on how that will pan out. Because it's simply too early for that.

Klaus Kehl: OK, good.

Cees de Jong: Operator? Go on, Klaus.

Klaus Kehl: But could you say anything about the impact then on profitability in Q1? Was it one percentage point? Or, what are we talking about?

Soren Lonning: It's – it was less than three percentage points in the Health & Nutrition Division.

Klaus Kehl: Less than three percent on the margin?

Soren Lonning: On the margin in the Health & Nutrition Division …

Klaus Kehl: Yes, OK. So, actually quite a lot?

Soren Lonning: Quite a lot …

Klaus Kehl: Yes. Thank you very much.

Cees de Jong: OK. Operator, I think that concludes this morning's call. Thank you for your assistance.

Operator: Thank you. That does conclude this webcast for today. Thank you for participating. You may all disconnect.

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