Chr. Hansen

Q2 2015/16
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Operator: Thank you for standing by and welcome to the presentation of Christian Hansen's Results for the First Six Months of 2015 and '16.

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 "1" on your telephone. You are also 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.

I will now hand over to your speaker today, CEO, Cees de Jong. Please go ahead.

Cees de Jong: Thank you Operator. Good morning and welcome everybody. I'm Cees de Jong CEO of Christian Hansen. With me today is our CFO, Soeren Lonning:

The results for our first half-year were very encouraging with both strong organic revenue growth and step-up in or EBIT margin before Special Items.

The performance and results show that the future for Christian Hansen looks very promising, if and only, if we will continue to improve our ability to create value for our customers, whilst at the same time optimizing our internal processes and we find new ways to utilize our core competencies within microbial solutions.

Now all of that is something we intend to do and which we will tell more about at our Capital Market Day, Tuesday.

Today we will only focus on results for the first half but before we go on, I would like you to take a look at a disclaimer on the next page.

Next slide please?

I hope you've all had a chance to read this statement or will do so afterwards, so let's move to Slide number 3, please, next slide?

When we start a look at the highlights of the first half of our financial year '15/'16 we see that revenue reached EUR 443 million or 12 percent above the first half of last year.

Organic growth was 13 percent, Cultures & Enzymes delivered and organic growth of 13 percent supported by both volume and price.

And the Health & Nutrition Division only delivered 2 percent with Q2 being the last quarter with negative impact from the customer that decided to in-source the production of Silage Inoculants, they took that decision last year as you all know.

Natural Colors delivered 22 percent organic growth with a contribution from volume and mix of around 16 percent and price contributing the remaining 6. The latter was driven by higher raw material prices and from enforcing Euro-based pricing to protect EBIT from depreciating currencies.

The operating profit or EBIT increased by 23 percent to EUR 118 million and that was driven primarily by the higher sales volume but also by operational efficiencies.

The EBIT margin before Special Items was 26.6 percent compared to 24.2 last year, reflecting amongst others the positive impact from operational efficiencies. After Special Items the EBIT margin was 25.1 and that is still up compared to last year.

R&D expenditures in the first half increased by 25 percent driven by the acquired Bacterial Strain collection from Dairy Innovation Australia and by increased activity mainly, in Denmark.

Profit for the period was EUR 76 million and that is up 17 percent from last year and the profit for the period was negatively impacted by Special Items of around EUR 7 million.

Finally, the free cash flow before Acquisitions and Special Items improved by 42 percent to EUR 16 million in the first half of this year and the improvement was mainly due to the stronger operating profit.

So let’s move to the next slide for an update on the Regional Highlight, next slide please?

Regional performance in EMEA and that accounts for 45 percent of our revenue, delivered 10 percent organic growth and this was despite mixed end markets.

We experienced strong growth in Natural Colors, fermented milk and cheese and Animal Health, while revenues from Probiotic Cultures, for fermented milk and Human Health were at the same level as last year.

The organic growth was positively impacted from using Euro-based pricing in countries such as Russia and Turkey.

In the Americas region which accounts for 40 percent of revenue, we delivered 12 percent organic growth with strong growth in Human Health, Natural Colors, cheese, enzymes and meat cultures. Probiotic Cultures for fermented milk and Animal Health were below last year though.

And Animal Health was as mentioned and as expected, negatively impacted by customer’s decision to in-source the production of Silage Inoculants from Q3 ‘14/’15 onwards.

In the APAC region and APAC now accounts for 15 percent of revenue, organic growth reached 25 percent. This strong growth was driven by fermented milk, including Probiotics, Natural Colors and cheese.

Also in the second quarter, China was the key market here albeit with growth at a lower level compared to the very strong growth in Q1. We do expect growth in China to further level off a bit in Q3 and Q4 as the comparables from last year become stronger but China is still expected to deliver a significant part of the regional growth.

Let me move to the next slide for a look at the Strategic and the Operational Highlights, next slide please?

As I mentioned, both Cultures & Enzymes and the Natural Colors Division delivered strong growth and improved profitability.

The modest growth in Health & Nutrition was expected. For Health & Nutrition we do expect the organic growth to improve in the second half and most significantly as we no longer are impacted by the customers that decided to in-source its silage products.

That being said, market conditions in Animal Health both in the Americas and in EMEA are a bit challenging at the moment given the continued low commodity price level for milk and also for swine.

During Q2 we received an unfavorable decision from the U.S. custom authorities regarding classification of certain products in Human Health and Soeren will fill you in on the details later.

On a more positive note, we closed the acquisition of NPC in February and we've immediately initiated the integration process so as to ensure that we obtain the strong potential of the combined businesses in the coming years.

The synergies that we see are both in Supply, Sales and in the Innovation and we will provide more details on the progress on integrating NPC next Tuesday, when we present our findings from the Strategy Review at the Capital Market Day.

In connection with the strategy update, we've also reviewed our organizational structure and we have today announced a number of changes to our organization, and I ask you to turn to the next slide, please?

As part of our strategic review, we have evaluated, how we from an organizational perspective can best support the Nature's Number 1 strategy. As a result of this we've decided, effective from today, to make a number of adjustments to our organization and we do so mostly within the microbial-based businesses.

We're making two important changes, first we consolidate the technical functions, that's R&D, Operations, Logistics and also IT, into a single, shared-backbone organization.

While Food Cultures & Enzymes, and that was previously the Cultures & Enzymes Division, and Health & Nutrition Units will drive commercial execution across the different business segments and hold the overall P&L responsibility for each business area.

External reporting per division will be unaffected by this, so we will continue to report our three areas.

Secondly, we will consolidate and simplify our global sales organization to enable an even stronger rollout of our sales excellence programs but also to serve international key accounts even better.

While the overall responsibility will be divided into lets say, 'developed' and 'more developing' markets, we will, going forward, reports sales figures on the four (inaudible) regions, that is going forward, we will report EMEA, North America, LATAM and APAC, separately.

Natural Colors is unaffected by this exercise as we already last year separated Natural Colors into a standalone organization with a few lines of support from amongst others, IT.

Finance, Compliance, Strategy and Business Development and Human Relations or Stakeholder Relations are also unaffected by these change.

And with this I will hand over to Soeren, so that he can explain the divisional performance in more detail. I'm asking you to turn to the next slide please?

Soeren Lonning: Thank you Cees. Starting with our largest business area, Cultures & Enzymes or Food Cultures & Enzymes as it has – as it has been renamed, which accounts for roughly 60 percent of our top-line.

As Cees mentioned, organic growth year-to-date has indeed been very strong with 13 percent of which volume and mix has driven 9 percent and price, 4 percent.

Pricing was mainly obtained through use of Euro-based pricing in certain country which have faced depreciating currencies.

Volume and mix have been driven by strong growth in fermented milk, cheese and meat and in addition, Probiotics and Enzymes have delivered good growth.

Looking specifically at Q2, then fermented milk, cheese and meat continued the strong growth seen in Q1, whereas Probiotic was in line with last year.

Enzymes showed solid growth in Q2, not least due to strong performance in lower margin product categories and when you combine Probiotics in line with last year, in Q2, it means that the positive margin impact from mixed effects in Q1 is more or less offset by now.

Year-to-date the EBIT margin has increased by 4.3 percentage points, primarily due to the operational efficiencies, including the lower depreciation level. Also we still have positive impact from exchange rates year-to-date, however the impact in Q2 was minimal and we expect the impact to turn slightly negative in the second half of the year.

In the second half of the year, we will also start to face a stronger comparable, as it was from Q3 last year, that we started to see positive benefits from the capacity expansion in Copenhagen.

In Q2 the EBIT margin increased by 4.7 percent – percentage point, the key driver remains operational efficiency including better utilization at the Copenhagen facility but also lower depreciation and (easy) comparables from last year as we had nonrecurring cost related to the change go-to-market strategy in China and the ramp-up of the Copenhagen facility.

Moving to, the Health & Nutrition on the next slide.

Health & Nutrition which accounts for roughly 18 percent of our revenue, have delivered 2 percent organic growth in the first half of this financial year.

In Q2 the organic growth rate was zero but please bear in mind that during both Q1 and Q2 we have seen a double-digit negative impact from the silage customers who in-source production in Q3 last year. The good news are that this is the last quarter with negative impact from this customer.

Human Health continue to deliver strong growth in Q2, despite the negative impact from timing of orders between Q1 and Q2 but it was only enough to offset the decline in Animal Health and Plant Protection.

As you know, we did expect a slow Q2 but we do expect to see substantially higher growth levels during the second half, however it is important to notice that the market condition in Animal Health in both Americas and EMEA are challenging at the moment given the low commodity prices, on for example, milk concert and meat products.

Year-to-date the EBIT margin is down 2.7 points compared to first half of last year. Higher R&D activities; higher scrapping levels in Human Health; increased U.S. duty cost; and higher administration cost, largely due to one-offs in Q1, were partly offset by favorable exchange rate.

The increased duty cost related to a decision by the U.S. duty authorities to reclassify certain human health products. Based on this decision, we have accrued a little less than EUR 1 million as additional cost for the first half of the year, and in addition to this, EUR 4 million related to previous years has been recognized as Special Items.

We have taken measures to protect us from further costs related to previous years and are working with the authorities to conclude on any potential outstanding exposure.

Going forward we will expect to see an increase in duty cost of EUR 1.5 to 2 million per year in Human Health and thus the business area.

In Q2 the EBIT margin was down 3.4 points, mainly due to the duty cost covering first half and while the negative impact from scrapping was significantly reduced, so was the positive impact from exchange rates.

We are currently running at a more acceptable level of scrapping and expect to be able to further improve the level, as we, in the coming month take the new, freeze fryers into operation.

With the closing of the acquisition of NPC in February, we have included NPC in our numbers, this means that NPC is impacting the closing balances in Q2, whereas the profit and loss will be impacting, starting 1st of March and thus from the start of Q3.

Please turn to the next slide for Natural Colors.

Natural Color accounts for just about 20 percent of our revenue and have delivered 22 percent organic growth in the first half, with strong volume growth of 16 percent and 6 percent from price increases.

The volume growth was broadly based across both geographies as well as customer segments. The EMEA region delivered solid growth whilst APAC and Americas remain very strong. Growth in the U.S. was strong and we did among others, achieve good progress in the prepared food category.

Q2 was with 21 percent growth, almost in line with Q1, however while the volume mix effect as expected was lower in Q1, then the impact from pricing increased from 4 percent in Q1 to 8 percent in Q2.

The effect from Euro-based pricing of around 2 percentage point was the same level as in Q1 while the raw material price impact increased to around 6 percent as we succeeded to reflect increase raw material prices in our sales prices.

With raw material prices for Carmine moving back to around $40 per kilo, we do expect this impact to be lower, rest of year.

The EBIT margin, year-to-date was up 2.6 points despite continued headwind from currency, the strong volume development combined with a number of optimization initiatives were the main drivers behind the improvement.

In Q2 the EBIT margin increased by 4.6 percentage points, primarily due to the strong volume, the optimization initiatives and a favorable change in Carmine inventory also contributed positively, while the negative effect from currency increased due to among other things, the development of the Brazilian Real.

Now despite a good traction of the market development, I would caution not to extrapolate the levels seen in Q2 to the remainder of the year.

Please turn to next page?

Cash flow from operating activities increased by EUR 16 million compared to the first half last year, however in Q2, the cash flow dropped to EUR 53 million from EUR 55 million last year. This year the cash flow was impacted by EUR 3 million in Special Items related to the acquisition of NPC and change in working capital.

Cash flow used for investing activities increased by EUR 13 million excluding NPC. The increase was among others due to investments and laboratory facilities for the Human Microbiome initiative and capacity for cultures. The acquisition of NPC impacted free cash flow by EUR 169 million.

Capital expenditures year-to-date excluding Acquisitions, corresponds to 9.3 percent of revenue compared to 7 percent last year. The increase was largely due to the acquired Bacterial Strain collection from DIAL in Q1 as well as timing of major investments.

ROIC excluding goodwill, was up 3.7 percentage points, driven by the strong development in Food Cultures & Enzymes, this despite only including the NPC in the balance sheet and that impacts negatively.

Please turn to the next page?

Based on the strong development in the first half of the year, as well as taking into consideration a favorable change in expected effect from applying euro price list, we have increased the organic growth revenue guidance from 9 to 11, to 10 to 12 percent.

Please bear in mind that the organic revenue growth is sensitive to changes in currency, where we use euro-based pricing to protect our EBIT against depreciating currencies.

We have also made a slight change to our R&D outlook from 6 1/2 to 7 percent of revenue, to around 7 percent, reflecting a higher activity level across our businesses.

Our target for EBIT margin and free cash flow before Acquisition, Divestments, and Special Items remain the same, however due to the changed tariff classification of certain human health products exported to the U.S., we now expect Special Items of around EUR 10 million of which 4 million relates to the U.S. duty and 6 million relates to the acquisition and integration of NPC.

With this I will hand over for the operator to open up for questions.

Operator: As a reminder ladies and gentlemen, if you wish to ask a question please press “star” and “1” on your telephone and wait for your name to be announced. If you choose to remove that question, touch the “#” or the “#” key; “star” and “1” to ask a question.

Your first question comes some the line of Lars Topholm. Please go ahead?

Lars Topholm: Yes, congrats with another good quarter. A couple of questions, to start with this U.S. duty situation, going forward this effect of 1.5 to EUR 2 million, you mentioned Soeren, what is the opportunity of a possibility to pass this on to your customers?

And then on the NPC acquisition and the revenue here, is there any seasonality in this or if they had a turnover, $41 million last year and they will now be consolidated in the second half of the year, can I just assume that you will consolidate additional revenue of around $20 million may be, plus a slight growth?

And then third question, if I may, in the CED Division, I now understand in your comp you now have much of the benefit from the capacity expansion you made in the summer of 2014 but looking at the coming quarters, can you please remind us, are there any other specific initiatives that will have margin impact year-on-year, either in positive or negative direction?

Thanks.

Soeren Lonning: Lars, let me try to answer your questions.

In terms of the U.S. duty and the 1 1/2 to 2 million extra cost going forward, then we will of course look to how and to what extent is it possible to mitigate this. However at this point in time it’s too early to say and we for now, the best guidance we can give you is to include the 1 1/2 to EUR 2 million.

Lars Topholm: OK.

Soeren Lonning: In terms of the NPC revenue, then I think when you talk to seasonality then I think including roughly half of the 40, $41 million is the best guidance we can give you. There’s not a lot of seasonality in this business, so that is the best guidance I can give you on that.

Lars Topholm: And just maybe a small additional question because you actually closed this deal on the 18th of February, so will the Q3 revenue include a couple of weeks of Q2 revenue or how should we treat this?

Soeren Lonning: Yes, it will include, I think it's, a little more than one week of revenue so it's relatively small in the larger picture but you are right, March will include a week more of revenue.

It is worth to say also, in this context that we have not yet, we are still exploring how we are going to deal with the distribution business going forward, so we have not taken a clear decision of to what extent we will drive this forward, so that's also something to bear in mind, Lars.

Lars Topholm: Yes.

Soeren Lonning: In terms of the CED, margin developing over the coming quarters, we have no new major scalability that will impact in the coming quarter.

We still expect to be able to deliver at some scalability but on a completely different level compared to what we have seen in the first half, so no new major things but we still reap some benefits of the expansions that we have done to a – to a lesser extent.

Lars Topholm: So we should just pencil in, sort of a small or modest, margin expansion compared to Q3 and 4, last year?

Soeren Lonning: I think that's a fair assumption, Lars.

Lars Topholm: Thank you very much for taking my questions.

Operator: Thank you. Your next request comes from the line of Hans Gregerson. Please go ahead?

Hans Gregerson: Good morning. A couple of questions relating to CED, you delivered 13 percent organic growth in the quarter and if I look on your Slide 7, we – where you're giving your – you -- for the last many quarters in terms of organic growth, the 7 to 8 percent you have currently guided as a medium-term growth – growth outlook, is that still a realistic target although you have basically beaten that more or less ever quarter for the last 10 quarters? That's the first question.

Secondly, you indicated a lower depreciation cost in the quarter, can you explain why and how much it is?

And then going to H, so Health & Nutrition, I noted that you highlighted higher scrapping cost, this is not something we've seen from Christian Hansen for quite some time, if you could give us some insight to what has happened there?

Thank you.

Cees de Jong: Hey Hans, good morning. First of all, I think it's your birthday, so congratulations.

Hans, on CED and the organic growth, our long-term guidance continues to stand at 7 to 8 percent. Let's – let's just to reiterate the extraordinary circumstances that have also helped us to outgrow our long-term guidance.

First and foremost and I think we've mentioned that before, we've seen a very significant increase in milk production and as we all know, when there's more milk being produced by the farmers, something needs to happen to it and there's only two ways of storing or keeping milk, one is to convert it into powder and powder prices have continued to be low and the other is cheese, so we've seen an extraordinary effect from that and in all fairness we don't know how long that will last.

I think all of us have seen the farmers are struggling given the very low milk prices at the farm gate at this price in time.

Secondly what we – what we've seen in the CED numbers is obviously also the euro price-list effect that has helped drive that organic growth number, so our long-term guidance for Cultures & Enzymes remains unchanged at 7 to 8 percent and remember at 7 to 8 percent we are outgrowing the underlying end markets, which grow 3 to 4 percent, very, very significantly.

I think Soeren's going to take your second question.

Soeren Lonning: Yes, Hans …

Hans Gregerson: OK, sorry, (inaudible)…

Soeren Lonning: … (inaudible) – yes?

Hans Gregerson: … sorry Cees, before you go on, what is difficult from the outside is also to get an insight into innovation pipeline as a lot of the work you're doing is more or less customer specific but are there anything especially going on, over the last couple of quarters, and what is the outlook for the next four to eight quarters in terms of innovation-driven growth?

Cees de Jong: Yes, also there and we will be talking about it also next week, the growth model for CED remains unchanged. So remember we have this 3 to 4 percent from the underlying markets and there in all probability, we're – we're – we're very much more to the 4 area.

But then when it comes to innovation, we need those innovations which sometimes are really major innovations. For instance, when we think about Acidifix™, when you think what we do there, it is – it is – it is a real massive innovation. Not only can we – can we take out a step in the production process for the yogurt, we can also then enable our customers to no longer need to buy an additive, and in addition too we create a better taste.

But having said that, the adoption rate of innovation in dairy is very slow, so if I look to areas that have growth in recent quarters, it's for instance Bioprotection that we've introduced in dairy, many, many years ago.

So you have to look at Christian Hansen not as a Company that has sort of innovations, that all of a sudden lift this growth rate to new dimensions, there are some extraordinary situations that drive growth all the way up, as it has, our long-term guidance remains unchanged, 7 to 8 percent, which we're actually quite pleased with, 7 to 8 percent is a very, very, good number, given our end markets.

Hans Gregerson: Thank you.

Cees de Jong: Let me – let me go to the second question.

Soeren Lonning: Yes, and so you asked about the lower depreciation. The effect for Food Culture & Enzymes is roughly 1 percentage point that comes from this and bear in mind that you need to split it in two portions, you have the part that's related to some of the assets that came out of the PAI acquisitions is now fully depreciated, that gives around 1 million per quarter, so it's around 0.7, 0.8 percentage point of this.

But then giving the investments that we are making is quite efficient from a (capital) deployment also, then we are also reaping benefits from S volume, sales volumes are growing, then we are doing it requiring less investments in plants, so that's – that's driving the remainder of the – of this part.

So that's the – that's the lower depreciation.

If you – to address your third question, regarding Scrapping in Human Health, yes, we are clearly not pleased about the higher scrap levels that is very clear.

We have during Q2 changed and optimized our cleaning processes in this human health and -- area and following this we have actually seen the scrap level come down below the level that we saw last year.

So we have taken measures that's had effect, it hadn't effect for the full quarter, so it means that we still have a little bit of impact this quarter but we expect to be back at normal level in Human Health in the – in the coming quarters.

That being said, to more structurally reduce the scrap level in Human Health we are still working to finalize the freeze dryers in our Human Health factory and when they are fully up and running and have been validated with customers, then we expect to more structurally lower the scrapping level in the Human Health Division, also to a level below what we've seen historically.

So that's the story on scrapping.

Hans Gregerson: Thank you.

Operator: Thank you. Your next quest comes from the line of Heidi Vesterinen. Please go ahead?

Heidi Vesterinen: Hi, I have a couple. So on the 10 to 12 percent organic growth, I wondered if you are able to say how much you're assuming for pricing, please?

Secondly, are you still confident on cheese volumes into the second half, as inventory still do seem quite high especially in the U.S.?

And last question on Plant Protection, I think that you had flagged a difficult Q2 but you had said volumes are likely to be delayed into the second half, so do you expect a recovery in the coming quarters?

Thank you.

Cees de Jong: Let's -- let me take your second and third questions and then Soeren will take the first, Heidi.

On cheese volumes, it is for us difficult to predict what will happen to the market but we do expect the growth in cheese volumes to come down a bit, simply as at farm gate people just don't make money.

And we've seen some, may be some very first signs that powder is recovering a bit, so that is why we are guiding 10 to 12 percent because we cannot straight extrapolate from previous quarters.

So again cheese volume growth, we expect to come down a bit.

When we talk about Plant Protection, it's – it's absolutely fair that during the second quarter FMC has brought down its inventory. It's no secret that all companies that are active in Plant Health have had a very, very, tough period recently, so we saw FMC bring down there volumes.

We expect – we do expect quarters to come to be a bit better but then the sort of sales that we make in Plant Health, they – they're -- they don't move the needle majorly, right it's -- it's still small volumes.

That said, we are very optimistic about what we see in the pipeline and we're probably going to be telling more about it next week at the Capital Market Day.

Soeren you want to take the first question?

Soeren Lonning: Yes, when you look to the impact on pricing, as we said year-to-date, it's been around 4 percentage points in Cultures & Enzymes. When you look forward to this area then you – we expect to see, based on the current currency rates, a pricing impact to the tune of 3, 3 1/2 percentage points for the remainder of the year, in Food Cultures & Enzymes.

So we do expect a continued impact from this, the rest of the year, although at a slightly lower level that what we've seen year-to-date.

Bear in mind that Food Cultures & Enzymes are the business area with the largest impact from euro price list.

Heidi Vesterinen: The – in addition to that, there's the impact of the raw material price increases in Colors, is that immaterial for the group top-line because 10 to 12 is for the group right, so could you …

Soeren Lonning: Yes.

Heidi Vesterinen: … elaborate on that?

Soeren Lonning: If you move to the group then the impact on the – from the raw materials and Color is to the tune of 1 percentage point.

I was speaking …

Heidi Vesterinen: OK.

Soeren Lonning: … before, I was speaking specifically about the Culture – Food Cultures & Enzymes area.

Heidi Vesterinen: All right. So to summarize, of the 10 to 12 for the group, how much do you expect to be price, are you able to tell us that?

Soeren Lonning: Yes, between 3 and 4 percent.

Heidi Vesterinen: Thank you, very clear.

Operator: Thank you. Your next request comes from the line of Arthur Reeves. Please go ahead?

Arthur Reeves: Good morning. Do you think you could give us a bit more background on the U.S. duty issue, please?

You've explained what it's going to cost but not quite clear what -- what's happened.

And secondly, can you – can you help us in Health & Nutrition, we haven't got the headwind of the customers who took his business away from you, as to what that means?

Soeren Lonning: OK, let me to the first question on the U.S. duty case, we – during our Q2 we received information from the U.S. custom authorities that we needed to reclassify certain products that we are importing into the U.S.

It is a selection of human health products, so it's very specific, a narrow area, however it is large products for us in the U.S. and basically we have been informed that we should change the tariff rate from zero percent which we have applied today, and which we apply for most of our products going into U.S., to 6.4 percent.

And upon that information, we immediately changed our duty classification based on that and we have accrued also accordingly, we believe -- we still want to explore with the U.S. custom authorities the exact impact of this decision.

We believe that some of the classification may be should have been differently but we are working with the U.S. authorities, we are basically laying out all our products to them and explaining exactly the rationale for using the classification that we are applying today, to be sure that we – that we follow the practice and also to have the dialogue with them, to be sure that we are indeed using the right ones also now.

So that's the – that's the additional information that I can give you on this case.

Arthur Reeves: Thanks.

Cees de Jong: Let me add to that Arthur, let me – let me add to that, that Christian Hansen classifies his products for custom duties (and) according with international regulations and we manage that at very high standard but what sometimes happens is that, those regulations are completely different for the same products, from one country to another and that can create a sort of situation where we find ourselves currently in.

On your second question, when you asked about the impact of the customer that's -- that in-sourced his production, for the first half, for the Division, that was an impact of about 10 percentage points, so for the full-year I think you should calculate with around 5 or a little bit higher than 5 percentage points.

Arthur Reeves: Thank you very much.

Operator: Thank you. As a reminder ladies and gentlemen, that's "star" and "1" to ask a question via the telephone.

Your next request comes from the line of Tobias Bjorklund. Please go ahead?

Tobias Bjorklund: Yes, good morning and congrats to the – to the good quarter, again. I have a question, just one household item I think but, if you expect 12 – 10 to 12 percent organic growth and then we did have some FX, around 3 percent the way I calculate it, then I add 2 percentage points from Acquisitions, would that be something like 9 to 11 percent in euro terms, when it comes to guidance? That's my first question.

Secondly, you talk about Culture capacity expansion, I wonder where it is and I wonder the reasoning behind it, if it's new and should we expect more of that?

And then thirdly, related to the acquisition here in the U.S., you talked about the milk prices and swine prices being down, a tougher environment, how is it with beef cattle in the U.S., is that also on – a little bit under pressure as such?

Thank you.

Soeren Lonning: Let me try to answer your first two questions Tobias. If you look to the full-year impact from currency, which is how I understood your question, then we – depending on whether you include or exclude the NPC, if we exclude the impact of NPC then we would in euro expect a euro growth that is 3 to 4 percentage points lower than the organic growth.

If you include the effect of NPC, which doesn't impact our organic growth obviously, then the impact or the difference between organic growth and the euro growth will be around 1, 1 percent plus in difference with organic growth being the higher of the two.

So that's – that's the full-year currency impact, as we expect.

Tobias Bjorklund: OK, so …

Soeren Lonning: If …

Tobias Bjorklund: … so 10 to 12 minus 3 to 4 plus 1 to 2?

Cees de Jong: Plus NPC, yes.

Tobias Bjorklund: OK.

Cees de Jong: Yes.

Tobias Bjorklund: OK, that's fair. Thank you.

Soeren Lonning: On the – on the Culture capacity, then we have very recently taken the decision to expand our Culture a production facility in Copenhagen, so we're basically starting the next phage – phase of that.

We will explain more about this in the upcoming Capital Market Day but this impacts the number and when you take such a decision and you – and you start initiating such a project then you have some down payments to make for part of the equipment, so that is what is the key driver behind this.

Cees de Jong: Let me take your last question Tobias, the one where we also see pressure on beef, as I said in the – in the call earlier, when it comes to milk and dairy, we see quite significant pressure also in the U.S., same goes for swine.

And to some extent you're right, there's also pressure on beef. I mean the whole commodity field is there under some pressure.

I think Operator, we have time for one last question?

Tobias Bjorklund: Thank you.

Operator: Thank you. Your next question comes some the line of Hans – one moment, of (Adam Gingrich). Please go ahead?

(Adam Gingrich): Yes, good morning. My question relates to CapEx because I noticed there was quite a big jump in Q2 and you had mentioned there was some sort of timing issue, so I was just wondering if that's likely to normalize in the second half because normally you were spending around 13, 14 million a quarter?

And if you can maybe give me outlook for '17, '18, '19, so, towards the end of the decade?

Cees de Jong: Yes, it's back to the point of – regarding the Culture production facility expansion which is really driving up the spend.

We – during Q2 we took the decision to go ahead with that. To do that you need to put quite substantial down payments into – to -- with the suppliers to make this happen and that has drive – driven, hike (everything) in the first half of the year, so there are timing impacting us this year.

We still expect to be within the 7 1/2, to 8 1/2 on the CapEx for the – for the year, probably in the higher end of this giving this recent decision but we expect to main – to stay within that guidance we have, normal guidance we have for CapEx.

When we look to next year, given that we have taken this decision to expand the facility, then we might be ending up, slightly higher than our normal guidance but after those years we expect to be back at the 7 1/2 to 8 1/2 percent of net sales which is our standard guidance for this Company.

(Adam Gingrich): Good, thanks.

Cees de Jong: Thank you Operator: And thank you all those who dialed in and listened this morning and thank you for your questions.

This concludes our call for the second quarter.

Thank you very much.

Operator: Ladies and gentlemen that does finish this conference for you today. Thank you for participating. You may all disconnect.

END