

# CHR. HANSEN HOLDING A/S

## First half 2015/16

1 September 2015 - 29 February 2016

7 April 2016

# Safe harbor statement

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Forward-looking statements are other than statements of historical facts. The words "believe," "expect," "anticipate," "intend," "estimate," "outlook," "will," "may," "continue," "should" and similar expressions identify forward-looking statements.

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# Financial highlights YTD 2015/16

## Revenue

EUR **443** million

(up 12% on 2014/15)

## Organic growth

**13%**

(11% in 2014/15)

## Operating profit (EBIT) margin

before special items

**26.6%**

(24.2% in 2014/15)

## Profit for the period

EUR **76** million

(up 17% from 2014/15)

## R&D expenditures incurred

EUR **33** million

(7.5% of revenue, compared to 6.7% in 2014/15)

## Free cash flow

before acquisitions and special items

EUR **16** million

(EUR 11 million in 2014/15)

# Regional performance YTD 2015/16

## Organic growth

EMEA  
**10%**

## Highlights

- Strong growth in natural colors, fermented milk, cheese and animal health
- Probiotic cultures and human health at the same level as in 2014/15
- Positive impact from enforcing EUR-based pricing to protect EBIT from depreciating currencies in countries such as Russia and Turkey

## Share of revenue



**45%**

AMERICAS  
**12%**

- Strong growth in human health, natural colors, cheese, enzymes and meat cultures
- Animal health and probiotics for fermented milk was below 2014/15
- Animal health negatively impacted by a major customer's decision to insource the production of silage inoculants from Q3 2014/15



**40%**

APAC  
**25%**

- Strong growth in fermented milk including probiotics, natural colors and cheese
- Organic growth strong in China for fermented milk and natural colors



**15%**

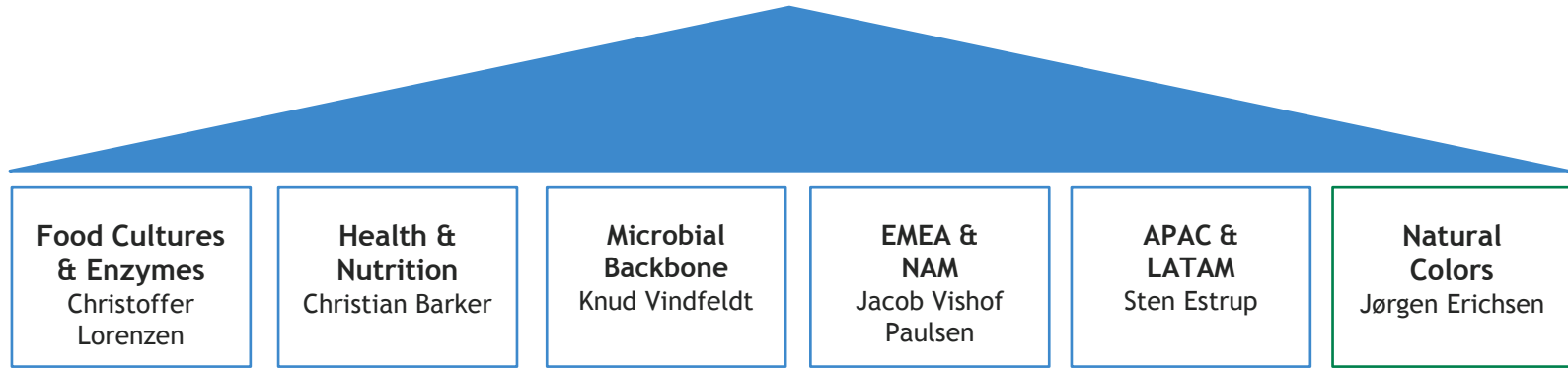
# Strategic & operational highlights 2015/16

No.1

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

- Strong organic revenue growth in Cultures & Enzymes and strong margin development
- Strong organic revenue growth in Natural Colors and solid improvement in profitability
- Modest growth in Health & Nutrition as anticipated and expect to see a higher growth in the second half of the year
- Increased duty costs from changed US custom tariff classification for human health products
- Acquisition of NPC was closed in February and integration process started
- Findings from strategy review of Nature's No. 1 to be presented Tuesday 12 April
- Adjusting the organization with new regional structure and creating a microbial backbone

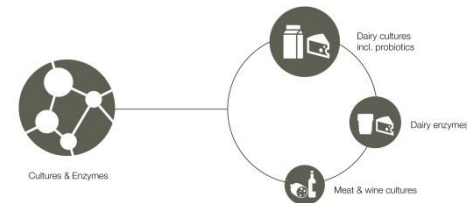
# New organization in microbial solutions



## Main changes to organization

- Created Microbial Backbone covering R&D, operations, logistics and IT to support Food Cultures & Enzymes and Health & Nutrition
- Consolidating sales responsibility - but reporting on four regions (EMEA, NAM, LATAM & APAC)
- No changes to Natural Colors, HR, Compliance and Finance

# Food Cultures & Enzymes

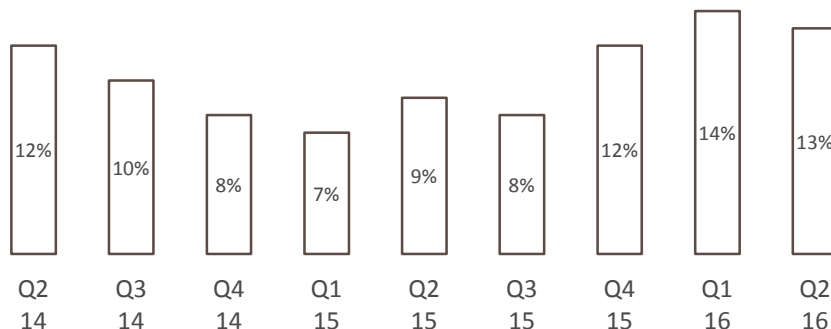


EUR million	Q2 15/16	Q2 14/15	YTD 15/16	YTD 14/15
Revenue	135	123	268	241
Organic growth	13%	9%	13%	8%
EBIT	43	34	85	66
EBIT margin	32.1%	27.4%	31.7%	27.4%
ROIC ex. goodwill			40.1%	32.1%

## Organic growth

- Volume/mix 9% and price 4%. Local price increases mainly through EUR-based pricing
- Strong growth in fermented milk, cheese and meat
- Good growth in probiotics and enzymes
- **Q2:** Strong growth in fermented milk, cheese and meat. Solid growth in enzymes, while probiotics in line with 2014/15

## Quarterly organic growth



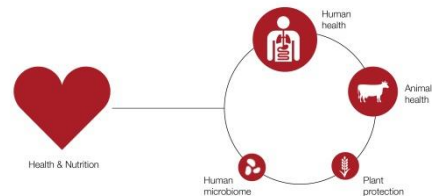
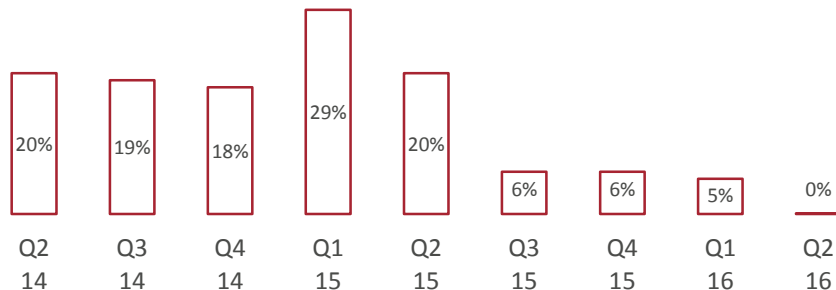
## EBIT margin

- Margin up 4.3%-points on 2014/15
  - Operational efficiencies, including lower depreciation level and impact from start-up costs in 2014/15
  - Favorable exchange rates
- **Q2:** Margin up 4.7%-points due to operational efficiencies and non-recurring costs related to ramp-up of capacity in Copenhagen in 2014/15 and the changed go-to-market strategy in China

# Health & Nutrition

EUR million	Q2 15/16	Q2 14/15	YTD 15/16	YTD 14/15
Revenue	45	44	81	76
Organic growth	0%	20%	2%	24%
EBIT	15	16	24	24
EBIT margin	32.5%	35.9%	29.1%	31.8%
ROIC ex. goodwill			28.1%	37.6%

## Quarterly organic growth



## Organic growth

- Volume/mix 2% and price 0%
- Strong growth in human health
- Revenue from animal health below last year due to insourcing of silage inoculants at major customer from Q3 2014/15 and challenging market conditions
- **Q2:** Strong growth in human health offset by declining revenue in animal health and plant protection

## EBIT margin

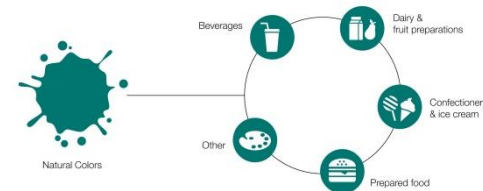
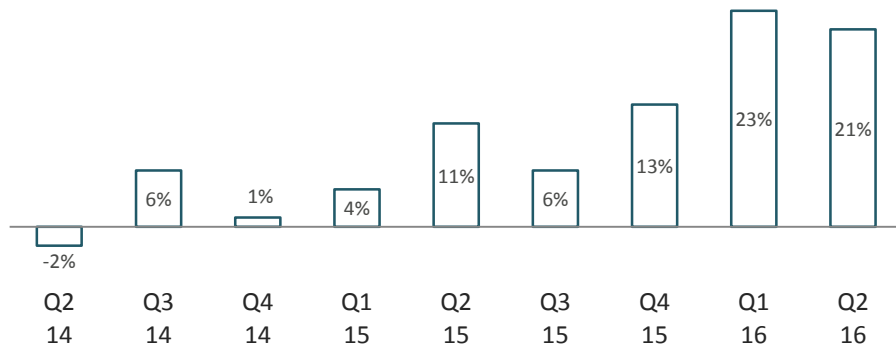
- Margin down 2.7 %-points on 2014/15
  - Increased research & development activity
  - Higher scrapping in human health
  - Increased US duty costs (approx. 1%-point)
- Partly offset by favorable exchange rates
- **Q2:** Negative impact from increased R&D, US duty costs (approx. 2%-points) and higher scrapping. Scrapping improved compared to Q1



# Natural Colors

EUR million	Q2 15/16	Q2 14/15	YTD 15/16	YTD 14/15
Revenue	49	42	94	80
Organic growth	21%	11%	22%	8%
EBIT	6	3	9	6
EBIT margin	11.9%	7.3%	9.9%	7.3%
ROIC ex. goodwill			19.4%	13.3%

## Quarterly organic growth



## Organic growth

- Volume/mix 16% and price 6%. Local price increases mainly reflecting increased raw material prices and EUR-based pricing
- Strong growth in dairy & fruit preparations, prepared food, and confectionery & ice cream. Modest organic growth in beverage
- **Q2:** Strong impact from price increases to reflect increased raw materials

## EBIT margin

- Margin up 2.6%-point on 2014/15
  - Increased volume
  - Optimization initiatives
- Partly offset by unfavorable exchange rates and increased raw material costs
- **Q2:** Margin up 4.6%-points

# Cash flow and balance sheet

EUR million	Q2 15/16	Q2 14/15	YTD 15/16	YTD 14/15
<b>Cash flow</b>				
Operating activities	53	55	55	39
Investing activities	(24)	(13)	(41)	(28)
Acquisitions activities	(169)	-	(169)	-
Free cash flow	(140)	42	(156)	11
<b>Balance sheet</b>				
Total assets			1,644	1,408
Equity			606	656
Net interest-bearing debt			715	477
<b>Key Figures</b>				
<i>Net working capital</i>			19.7%	21.4%
<i>Capital expenditure</i>			9.3%	7.0%
<i>ROIC excluding goodwill</i>			34.3%	30.6%
<i>NIBD/EBITDA</i>			2.3x	1.8x

## Highlights

- Cash flow from operating activities improved by EUR 16 million, mainly due to improved operating profit
- Cash flow used for investing activities increased by EUR 13 million. Investments in laboratory facilities for the human microbiome initiative and capacity for culture production
- Acquisition of NPC impacted free cash flow by EUR 169 million. NPC is included in balance sheet items in Q2. P/L will be included from Q3
- Capital expenditures corresponded to 9.3% of revenue, compared to 7.0% in 2014/15
  - Capitalized development expenditures increased to 1.7% of revenue, compared to 1.0% in 2014/15 driven by acquired bacterial strain collection from DIAL in Q1
- ROIC excluding goodwill up 3.7%-points

# Outlook for 2015/16

## Organic growth target increased

	Realized 2014/15	Outlook 2015/16	Long-term financial ambitions**
Organic revenue growth	10%	10-12%*	7-10%
✓ <i>Food Cultures &amp; Enzymes</i>	9%	<i>Above long-term ambitions*</i>	7-8%
✓ <i>Health &amp; Nutrition</i>	13%	<i>Below 2014/15</i>	+10%
✓ <i>Natural Colors</i>	9%	<i>Above 2014/15</i>	<i>Targeting around 10%</i>
R&D expenditures (as percentage of revenue)	6.4%	Around 7%	Around 7%
EBIT margin b.s.i.	27.1%	Above 2014/15	Increasing
✓ <i>Food Cultures &amp; Enzymes</i>	31.5%	<i>Above 2014/15</i>	<i>Increasing</i>
✓ <i>Health &amp; Nutrition</i>	33.3%	<i>Below 2014/15</i>	<i>Around 30%</i>
✓ <i>Natural Colors</i>	8.3%	<i>Above 2014/15</i>	<i>Increasing</i>
Free cash flow before acquisition, divestments and special items	EUR 151 million	Above 2014/15	Increasing

\* 14 January 2016: 9-11%; 21 October 2015: 8-10% and "in line with long-term ambitions"

\*\* Baseline 2012/13

**Q&A**





Back up

# Change in regional reporting

- Reporting on four regions EMEA, NAM, LATAM & APAC

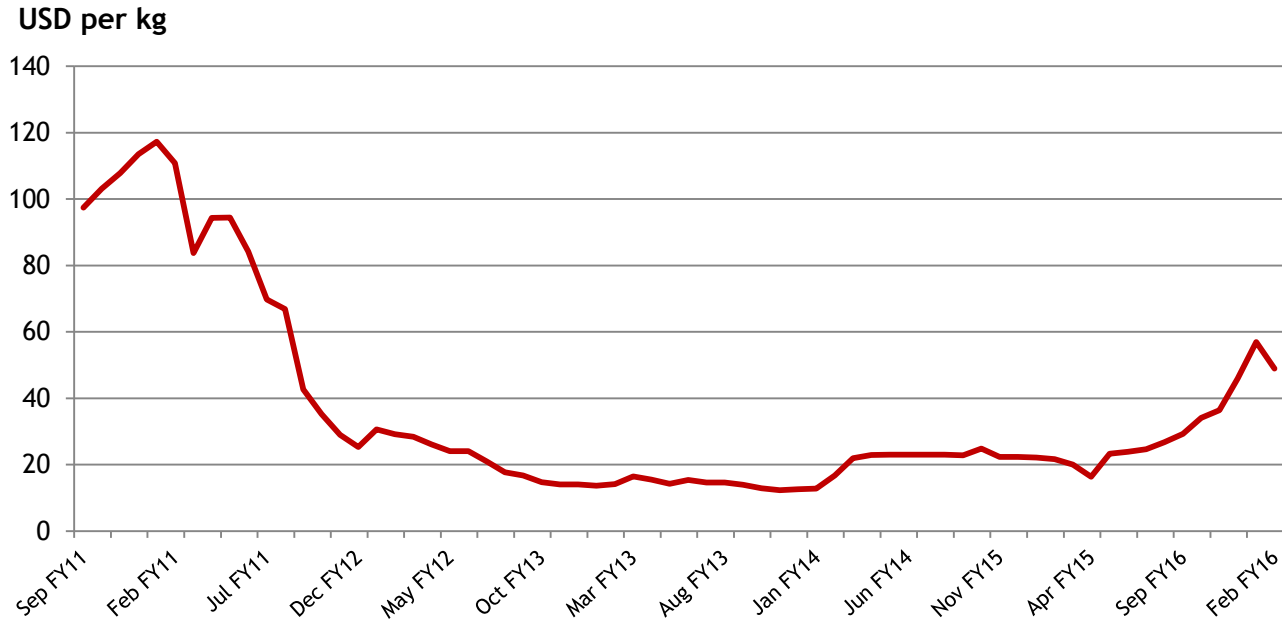
Organic growth	2014/15					2015/16		
	Q1	Q2	Q3	Q4	FY15	Q1	Q2	YTD16
North America (New)	12%	16%	2%	6%	9%	11%	4%	7%
South America (New)	6%	23%	19%	26%	19%	31%	18%	24%
Americas (Old)	10%	18%	7%	14%	12%	17%	8%	12%



# Income statement

EUR million	YTD 15/16	YTD 14/15
Revenue	443	397
<i>EUR growth</i>	12%	13%
<i>Organic growth</i>	13%	11%
<i>Gross margin</i>	52.5%	50.8%
R&D expenses	(29)	(25)
Sales & marketing expenses	(53)	(51)
Administrative expenses & other income/expenses	(33)	(29)
EBIT before special items	118	96
<i>EBIT margin b.s.i.</i>	26.6%	24.2%
Special items	(7)	-
EBIT	111	96
<i>EBIT Margin</i>	25.1%	24.2%
Net financials	(9)	(8)
Income tax	(25)	(23)
Profit for the period	76	65

# Cochineal price development





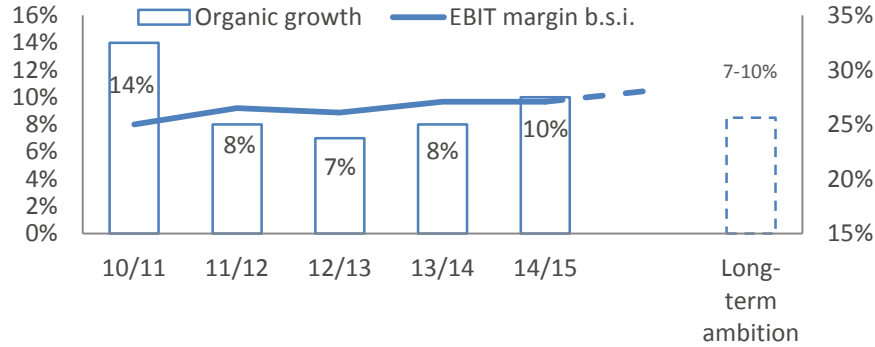
# R&D expenditures

EUR million	YTD 15/16	Share of revenue	YTD 14/15	Share of revenue
R&D expenses (P/L)	28.8	6.5%	25.5	6.4%
- Amortization	(3.2)	(0.7)%	(2.9)	(0.7)%
+ Capitalized development costs	7.6	1.7%	4.1	1.0%
<b>R&amp;D expenditures incurred</b>	<b>33.2</b>	<b>7.5%</b>	<b>26.6</b>	<b>6.7%</b>
- Depreciation	(2.0)	(0.4)%	(1.3)	(0.3)%
+ Investment in tangible assets	5.0	1.1%	2.7	0.7%
<b>Total R&amp;D investment</b>	<b>36.2</b>	<b>8.2%</b>	<b>28.0</b>	<b>7.1%</b>

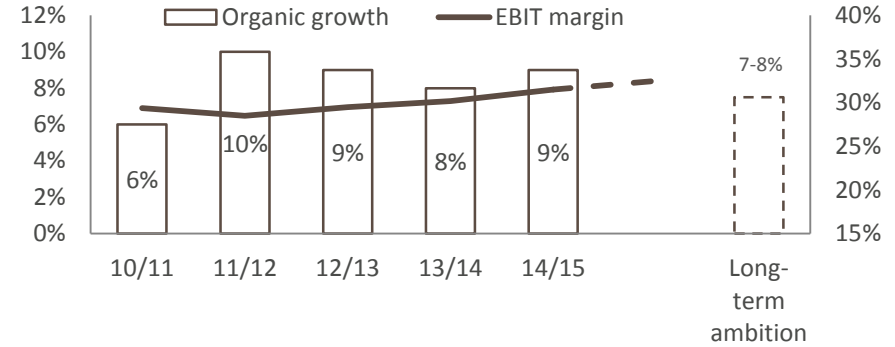
- R&D expenditures incurred was up 25% in 1H, mainly driven by acquisition of a bacterial strain collection from the Board of Dairy Innovation Australia (part of capitalized development costs)
- Increase in investment in tangible assets mainly due to new facility for human microbiome

# Organic growth and EBIT margin history

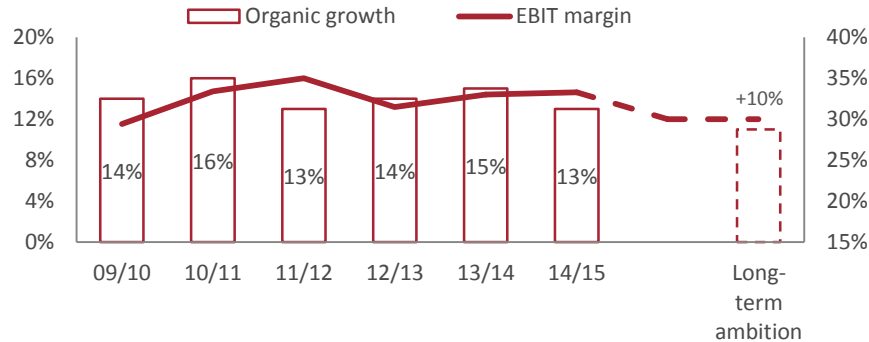
## Group



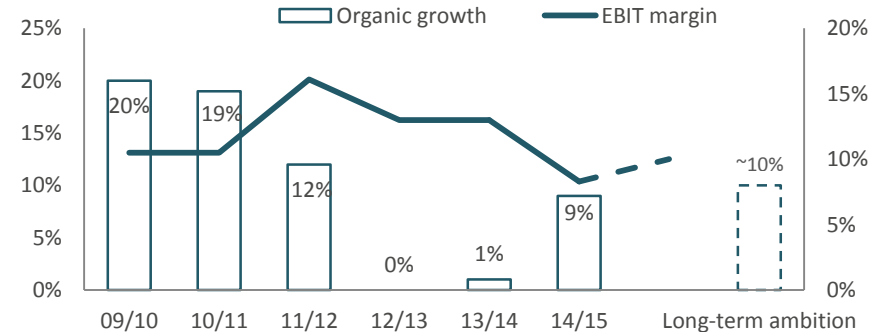
## CED



## HND



## NCD



\* Baseline 2012/13

# Definitions

## **Organic growth**

Adjusted organic revenue growth is calculated based on the reported International Financial Reporting Standards revenue adjusted for sales reductions (such as commissions and sales discounts), further adjusted for acquisitions and divestitures in order to standardize year-on-year comparisons and measured in local currency.

## **Special items**

Special items comprise material amounts that cannot be attributed to recurring operations, such as income and expenses related to divestment, closure or restructuring of subsidiaries and business lines from the time the decision is made. Also classified as special items are, if major, gains and losses on disposal of subsidiaries not qualifying for recognition as discontinued operations in the income statement. Material non-recurring income and expenses that originate from prior years or from projects related to the strategy for the development of the Group and process optimizations are classified as special items.

## **EBIT (Earnings before interest & taxes)**

EBIT is calculated as profit for the period before financial income and expenses and corporate income taxes. EBIT also excludes income and expenses from discontinued operations.

## **Free cash flow**

Free cash flow is a measure of financial performance calculated as operating cash flow less net capital expenditures.

## **Invested capital**

Invested capital is calculated as intangible assets, property, plant and equipment, trade receivables and inventories less trade payables.

## **ROIC (return on invested capital) excluding goodwill**

Operating profit as a percentage of average invested capital excluding goodwill.

# Share details

## Share Data

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Number of shares of DKK 10 (1 September 2015)	131,852,496
Own shares (29 February)	994,966
Classes of shares	1
Voting & Ownership restrictions	None

## NASDAQ Copenhagen

ISIN code	DK0060227585
Ticker symbol	CHR
Sector	Health Care

## OTC ADR Level 1 program (BNY Mellon)

DR Symbol	CHYHY
CUSIP	12545M207
DR ISIN	US12545M2070
Ratio	DR:ORD 2:1
Effective Date	Jan 27, 2014
Industry	General Industrials

## Financial Calendar 2015/16

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12 April 2016	Capital Markets Day
5 July 2016	Q3 interim report
26 October 2016	Annual Report 2015/16
29 November 2016	Annual General Meeting

## Contact Chr. Hansen

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