Chr. Hansen
Annual Report 2015/16
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Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the presentation of Chr. Hansen's annual report for 2015 to 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 would like to ask a question you may do so by pressing star one on your telephone. You are also invited to submit questions via the web by clicking on the Q&A tab 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.

And I would now like to hand over the conference to your speaker today, CEO, Cees de Jong. Please go ahead, sir.

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

2015/2016 was a busy but also a really good year for Chr. Hansen. The review of our Nature's No. 1 strategy reaffirmed both the short- and the long-term growth opportunities for our businesses; in addition, we've successfully integrated NPC which was acquired in February this year; and most importantly, our financial performance was strong.

Both food cultures and enzymes and natural colors delivered strong growth and significant improvements in profitability, and that underlines the attractiveness of both businesses.

In health and nutrition, the performance was below our expectations, but this was largely due to the challenging market conditions in the agricultural sector. And as the strategy review confirmed, the long-term growth outlook for all market segments in health and nutrition remains very position.

We expect 2016/2017 to be another good year for Chr. Hansen, but before we go into the details, I would like to ask you to take a look at the disclaimer in the next page. And I hope you've all had a chance to read the statement, or will do it afterwards.

So let's move to slide number 3 please. As I said, our financial performance was strong in our FY16. Revenue reached EUR949 million, and that is 11% above last year. NPC is included from Q3 and contributed with around 2 percentage points to the full year.

Organic growth, which, of course, excludes NPC, reached 12% for the year, with Q4 as expected at 9%. The organic growth continues to be positively supported by price increases to protect us from depreciating currencies and from raw material prices in natural colors. The impact from price increases was around 4% for the full year and 3% in Q4.

Food cultures and enzymes delivered organic growth of 12%, with growth supported by all the levers of our growth model. The organic growth in health and nutrition was only 2%. While human health delivered strong growth, animal health was hit by the tough market conditions and the decision to insource production of silage inoculants by a large customer. And as you know, that has impacted animal health in the first half of the year.

Natural colors delivered 19% organic growth; and volume and mix contributed around 9%; and price, 10%. The price increases were driven by higher raw material prices and, from using euro-based pricing to protect our EBIT, from depreciating currencies.

The operating profit before special items increased by 15% to EUR268 million, driven by the higher sales volume and by operational efficiencies.

The EBIT margin before special items was 28.2%, and that compares to 27.1% last year. The increase of more than a full percentage point reflects, among others, the positive impact from operational efficiencies in food cultures and enzymes.

And after special items, the EBIT margin was 26.9%, and that is down 0.2 percentage points compared to last year. The special items of EUR12 million pertain to our acquisitions and also to tariff costs related to previous years, and that is due to a reclassification of certain of our products by the US authorities.

R&D expenditures increased by 23% due to the increased activity in food cultures and enzymes, and health and nutrition, where we build the platform for future growth such as bioprotection, plant health and the next generation of human health products.

Profit for the year ended at EUR184 million and that is up 13% from last year, despite the negative impact from special items.

Finally, the free cash flow before acquisitions and special items increased by 16% to EUR175 million and this was driven by the improved profit.

Now let's move to the next slide for an update on the strategic highlights of 2015/2016. A major highlight for us in 2015/2016 was the review process which reaffirmed our Nature's No. 1 strategy, and as part of the review, we have extended the long-term growth ambitions by another two years, so to FY20. We are committed to deliver 8% to 10% organic growth every year in that period.

But of course, the strategy is not just about growth in the coming four years. We will sustain an attractive growth profile beyond 2020. And that is why we focus on three major strategic initiatives that support the future growth of our existing businesses.

All these initiatives are based on a single microbial technology platform as we want to keep a very focused approach to how we secure profitable growth.

Let me quickly review the three growth platforms. In bioprotection, we've identified a number of growth opportunities not just within the industry we historically have been present in, but also in new food categories. And while we still have a number of technological and regulatory challenges to overcome before we can capture the full potential of bioprotection, we are already seeing very good progress.

In the past year, the bioprotection category delivered very strong growth in fermented milk, in cheese and in meat, and we also moved into fresh cut salads and fish for the first time.

Plant health has now regained momentum after being challenged by the market conditions in previous years. Plant health delivered strong growth in 2015/2016, albeit from a low base.

The implementation of Nemix C has, indeed, taken longer than we expected, but trial results at the farmers, the end users of our product, are really good. We expect to continue to grow Nemix C in the coming years.

It's also positive that Nemix C is no longer our only product from plant health. Together with FMC ,we launched a new biostimulant for corn, which, when combined with one of FMC's chemicals, shows strong yield improvements for farmers. The product has been introduced in several states in the US and we will continue the implementation in coming years.

Now, while the revenue from plant health is still low, I'm very pleased with the progress and looking at the pipeline of new products and projects, we're moving in the right direction to meet the long-term opportunities in this field.

The opportunities in the human microbiome are further out. With our capabilities, which I often refer to as playing with bacteria, are in high demand and we have formally entered into two partnerships and also moved forward with our own programs.

The projects we have entered into have a long time horizon, but we are progressing as planned and we continue to invest both in trials, people and facilities for the human microbiome.

Looking at the core business, the expansion of production capacity for food cultures is proceeding as planned. Two weeks ago, we installed yet another large fermenter in Copenhagen and, once again, we did it by cutting a hole in the roof and sliding the fermenter in and placing it next to the three existing fermenters. We expect to be able to inaugurate the new capacity during autumn next year.

And the new fermenter is not the only project that we have planned for the coming year, and indeed, the CapEx spend will be high in the current financial year. This is to support both our growth as well as to address opportunities for further production efficiencies.

We've talked about the issues in animal health which will also impact the performance in the beginning of the financial year that we've just started. However, with commodity prices slowly starting to improve, combined with us introducing new products and ongoing projects with potential customers, we do expect the performance of the animal health business to improve as we move further into the year.

Despite the current situation, the long-term outlook for microbial solutions to the agricultural industry remains very positive and that is also why we chose to acquire NPC earlier in the year.

And then last month, we announced the acquisition of LGG and related business from Valio. With this acquisition, we support our position in probiotics for human health and dairy, but let me give you a more detailed update on both of these acquisitions.

Let's turn to the next page, page number 5 please. The acquisition of NPC brings us strong presence in the US beef cattle segment and it also supports our existing position in the US dairy cattle segment.

The integration process has been very successful thus far. We've focused on speed and direct involvement of key NPC employees. We've experienced a high retention rate of customers, employees and suppliers, and in this acquisition, especially the employees are the key assets.

Hence it was encouraging to see the results from our recent employee survey as they showed a very high engagement level of the NPC employees.

As part of the process, we've evaluated the strategic fit of the NPC distribution business and we have decided to phase it out as soon as possible.

The distribution business accounted for a revenue of around EUR10 million or 25% of NPC revenue based on 2015 numbers but, of course, with a very small positive impact on EBITDA.

For the six months NPC has been consolidated into our accounts, the traded products have generated an income of around EUR300,000 from a revenue of around EUR3 million, with the income reported under other operating incomes.

Revenue from the continuing business has been slightly lower than originally expected and, of course, that's due to the market conditions, but we have seen first revenue from both cross-selling and internationalization of NPC products.

And production synergies have been accelerated by up to four months, with initial impact from the second half of 2016/2017.

Let's turn to page 6 please. One of the ambitions in our Nature's No. 1 strategy is to expand our core business with microbial solutions for human health, and the acquisition of LGG and its related business from Valio offers exactly that.

The LGG strain is, together with our own probiotic strain, BB-12, the most researched probiotic strain in the world. The acquisition allows us to capture the full potential of the LGG brand across markets for both dietary supplements and infant formula, but also pursuing new opportunities in dairy.

For healthy and nutrition, we will drive value through optimizing the license agreements taken over from Valio, expanding existing Chr. Hansen LGG partnerships and target new business through strategic accounts and geographical expansion.

For food cultures and enzymes, our probiotic offering will be strengthened with the addition of LGG, especially in enhancing immune function for children through combining LGG and BB-12. And in addition to this, we will be supporting existing dairy customers including Valio. We'll support them with LGG and certain specialty strains.

The agreement also ties Valio and Chr. Hansen closer together and we will strengthen our research and development collaboration across both dairy supplements and food cultures and enzymes. We expect to close the acquisition during the first quarter and to start to consolidate the acquired business into our accounts with effect from the second quarter.

Both acquisitions offer unique opportunities to complement and strengthen our existing businesses in both food cultures and enzymes, and in health and nutrition.

We will continue to look for attractive bolt-on acquisitions, but with a very conservative approach as securing organic growth remains the key focus area for Chr. Hansen also in the years to come.

And now let's move to the next page and I want to give you an update on the regional performance. The EMEA region delivered 9% organic growth and the growth was supported by both volume and price. Fermented milk, cheese, meat and natural colors all delivered strong growth. It was also very positive that probiotics for yogurts delivered solid growth as the positive momentum continued in the fourth quarter.

Enzymes were at the same level as last year in EMEA, while human and animal health were below. Animal health continued to be negatively impacted by the tough market conditions, while a slight decline in human health in EMEA was more driven by order and launch patterns.

In North America, we saw 7% organic growth. There was strong growth in human health, natural colors, cheese and meat, while growth in fermented milk was modest.

Animal health and probiotic cultures were below last year. Animal health, of course, was hit was market conditions and the insourcing at a major customer and that impacted, as I said before, the first half of the year.

Latin America delivered 17% organic growth, with growth supported both by volume and price. Growth was strong across all segments except for probiotic cultures for fermented milk. We continue to see a demand for natural ingredients despite the economic turmoil. However, we do see the momentum slowing.

And then Asia Pacific, where we delivered 24% organic growth. We saw strong growth in fermented milk, including probiotics, natural colors, cheese and animal health. And we did achieve growth across the region, but it was particularly strong in China.

With this, I'll hand over for Soeren to go through the financials in each of our businesses. Soeren, over to you.

Soeren Lonning: Thank you very much, Cees. As usual, I will start with our largest business unit, food culture and enzymes, where the strong growth momentum continued in Q4 with 11%, and full year reaching 12% organic growth. 9 percentage points of the full year growth came from volume and mix, while the impact from pricing was around 3%. The impact from pricing in Q4 was slightly lower than in the first nine months, as the impact from euro-based pricing declined.

The volume growth was primary driven by fermented milk, cheese and meat, all of which were supported by very strong growth in our bioprotective solutions. It was also encouraging to see the solid growth in probiotic which have regained momentum. Enzymes delivered good growth for the full year. However, Q4 was on par with last year and we see this continuing into the first part of FY17.

All in all, very strong growth last year and the outlook for 2017 is also positive. But please bear in mind it will be up against a strong comparable not least in the first half of the year.

Turning to the EBIT margin where we also, as expected, experienced strong progression. The margin expansion of 2.8 percentage points was mainly driven by production efficiencies of roughly 2 percentage points and lower depreciation charges of 0.7% related to the PAI ownership.

Product mix and cost management also contributed positively to the margin expansion, but these improvements were offset by higher R&D activities.

In Q4, the EBIT margin expanded by 1.4 percentage point driven by production efficiencies of more than 1 percentage point; the lower depreciation charges of 0.7%; favorable product mix; and general cost management. However, the improvements were, again, partly offset by higher R&D activity and a negative impact from currencies.

Let's turn to the next page and look at health and nutrition, which did not deliver as expected in FY16 as organic growth only reached 2%. On a positive note, human health did show strong growth in FY16 especially in the beginning of the year. However, we did experience a significant decrease in the revenue in animal health when we exclude the acquisition of NPC.

The decline in animal health was primarily due to the challenging market condition as well as the earlier-communicated insourcing of silage inoculants production by a customer during the first half of the year.

In Q4, animal health did perform better than in previous quarters, although growth was still negative. Human health was negatively impacted by timing of orders between Q3 and Q4.

On a smaller scale, we did see a strong performance in plant health and the first revenue was generated in human microbiome.

The impact from NPC and euro growth was 9% for the full year and 11% in Q4, while organic growth was unaffected.

The outlooks for all of our businesses in health and nutrition remain positive, and we expect the business unit to grow in line with our long-term ambitions in FY17. However, it should be noted that growth is expected to be higher in the second half of the year.

The EBIT margin ended 5 percentage points lower than last year, driven by the lower sales in animal health, higher tariff costs in US following the decision by the US authorities and an impairment of an obsolete technology platform.

In Q4, the EBIT margin was down by 8 percentage points, of which half was driven by the impairment of the obsolete technology platform. The remaining impact was driven by the lower sales, the US tariff costs and the inclusion of NPC.

Please turn to the next page and natural colors. Natural colors has returned to growth this year and delivered 19% for the full year, with volume and mix contributing 9 percentage points and price 10 percentage points. The volume in Q4 was below the full year partly due to loss volume from margin improvement initiatives, most importantly in the carmine segment.

This was, however, partly offset by positive impact on pricing, which remained 10 percentage points in Q4, and is still driven by raw materials and euro-based pricing, but in the quarter also from like-for-like price increases. Growth was seen across all important industries and region as well as across pigments.

The EBIT margin increased by 2.6 percentage points in the full year, with the expansion driven especially by higher volume and optimization program, which were partly offset by a negative impact from currencies.

In Q4, the margin expansion of 3.2 percentage points was driven by optimization and positive timing of production cost, higher volumes and cost management, while we continue to see a negative, although smaller, impact on currencies.

Let's move to the next slide. Taking a step back and looking at the Group results, we delivered 11% growth in revenue, measured in euro, which equaled an organic growth of 12%.

Of the 12% organic growth, volume and mix accounted for 8 percentage points and price for 4 percentage points. Part of the price growth was offset by a negative impact from currencies of 3 percentage points, while NPC added 2 percentage points, leaving us with the 11% euro growth.

EBIT before special items was up by EUR35 million, leading to an improvement in EBIT margin before special items by 1.1 percentage points to 28.2% for the year. Special items accounted to EUR12 million and related to NPC acquisition and integration and US tariff cost from previous years.

Let's take a closer look at what drove the improvement in the EBIT margin before special items on the next slide. The largest impact came from a decrease in cost of sales of 1.3 percentage points, driven by operational efficiencies, not least in the food cultures and enzymes area.

Sales and marketing cost increased by 0.1 percentage point, but this was driven by the inclusion of NPC. If we exclude the impact from NPC, the sales and marketing cost actually decreased by 0.3 percentage point.

Administrative expenses decreased by 0.2 percentage point and we also saw a positive impact from other operating income, which was partly due to a sale of a property in the UK.

Part of these improvements from our scalable business model were then used to fuel a step-up in innovation, reducing EBIT margin by 0.6 percentage point. This increase was also partly due to an impairment charge of an obsolete technology platform.

Please move to the next slide, turning to our cash flow. Our cash flow from operating activities before special items improved by EUR28 million, due to the improved operating profit. The cash flow used for investing activities increased by EUR5 million, mainly due to investments in capacity for culture production and lab facilities for human microbiome. And on top of this, we also spent EUR169 million on the acquisition of NPC.

The capital expenditures, excluding the acquisition, corresponded to 8.2% of revenue, which was on par with last year.

Return on invested capital, excluding goodwill, increased by 2.1 percentage points. And the net interest-bearing debt to EBITDA ratio remained at 1.7 times, despite the acquisition of NPC. All in all, a very positive result, showing the strength of our business model.

Please turn to the next slide. Before we move on to the outlook for the year, let me just recap our capital allocation priorities. Priority number one for us is and remains to reinvest in initiatives supporting the organic growth. Then and only then will we look at all bolt-on acquisitions, and when doing so, we will remain highly disciplined.

Finally, we will be returning cash to shareholders through, first of all, ordinary dividends; and secondly, interim dividends or share buybacks. This, to the extent we can maintain a leverage consistent with a solid investment-grade profile.

Please turn to the next page. The priorities are unchanged. And as can be seen on this slide, we have followed them for years by consistently investing to secure organic growth.

When you exclude capitalized development costs and the recent acquisitions, we have spent around 7% of revenue on capacity for growth and, to some extent, optimization. And we have gradually increased investments in innovation also to around 7% of revenue.

These investments have enabled us to deliver between 7% to 12% organic growth in the same period, while also preparing for future growth. However, we have conducted these investments in a focused and efficient way, and in areas where we hold a unique position.

This has allowed us to simultaneously improve our free cash flow by 46%, or 13% per annum over the last three years, while, in the same period, also improving our return on invested capital, excluding goodwill, by 5.4 percentage points. So we are now close to 40%.

We will continue to invest in organic growth, and our CapEx spend for FY17 is expected to above both 2016 and the historic average, both in terms of euro and as a percent of net sales.

Please turn to the next slide. Despite the high investment level for FY17 and our recent acquisitions, we still see room for continuing to return excess cash to shareholders. This is why we proposed an ordinary dividend or FY16 of EUR0.70 per share, equal to 50% of profit for the year. And with this, the ordinary dividend has increased by 67% over the last three years. We will also consider the option of distributing excess cash during FY17, unless new, attractive bolder opportunities arise.

Please turn to the next slide, to have a look at the outlook for the year. FY16 was indeed a good year. And despite the tough comparable, we expect solid organic growth of 8% to 10% in FY17, with all business areas contributing in line with long-term ambitions.

Let me remind you that the outlook for organic growth is sensitive to both exchange rates in those countries where we use euro-based pricing, and raw material fluctuation in natural colors. Based on the current levels of those, we do expect the impact to be slightly negative on a Group level, but that is included in the 8% to 10%.

Following the strong improvement last year, we expect the EBIT margin to increase slightly compared to FY16. And the free cash flow is expected to be at the same level as last year due to the high investment level.

This concludes our presentation and I will hand over to the operator to take us through the Q&A session.

Operator: At this time if you would like to ask a question you may do by pressing star one on your telephone. If you would like to withdraw your question press the pound key. Your first question comes from Arthur Reeves. Please go ahead.

Arthur Reeves: Congratulations on a good set of results. Two questions from me please; one about China; and the other about health and nutrition.

It looks like China's accelerating through quarter 4. What do you think is going to happen next year?

And just how bad was animal health? You said it was getting slightly better in quarter 4, but it obviously was pretty bad. And what's going to change that through to 2016/2017 please?

Cees de Jong: Arthur, let me try and answer your questions. In China, we've seen fantastic growth as particularly the segment of ambience fermented milks has been growing, and that's based on end-market growth.

I don't think we've given any specific guidance, nor are we, as to what we expect in China but let me say this. Our fermented milks are very much dependent upon GDP growth in countries and the additional consumption that that brings with it. So we do expect China to continue to do quite well in that respect.

In addition to what we see in China is that people now start moving up the ladder with more high quality value-add products, so we do expect also to be able to sell additional innovative products into China. So we expect the good growth in China to continue, but we don't give specific guidance.

On health and nutrition, animal health was bad. Was it really bad or was it exceptionally bad? I don't know how to say that. And obviously, we were hit by the end-market conditions, both in the field of dairy, especially in the field of dairy, but also in the field of pork. And when you would look at commodity prices, you would see that they have been very poor; pork prices are now on the increase again.

Milk prices show some first sign of recovery, but it's no secret that dairy farmers around the world have been under tremendous pressure and that then means that they simply lack the funds to acquire the probiotics, either for their dairy cattle or for their silage. That's hit us.

The outlook, as we've guided, is more positive. We expect in the second half of our current fiscal year to do better. The long-term outlook, and that's what we've been talking to as well, for these type of products, very positive.

Remember that in the US, some 50 large investors have come together to basically almost force the 10 largest food and restaurant chains in the US and UK to curb the use of antibiotics in the food chain. There's going to be a new directive passed in the US to also reduce the irresponsible use of antibiotics in the food chain. So we think the long-term outlook is very positive.

And maybe the last thing I should say is that when we look in detail to how we were hit, then actually, in the area where we've invested most, which is the US, our specialty products, there actually, we've weathered the storm the best. So we are optimistic for the longer term in terms of antibiotics.

Arthur Reeves: Thank you.

Operator: Your next question comes from Lars Topholm. Please go ahead.

Lars Topholm: Yes, I'd also like to congratulate you on another good quarter. A couple of questions on my side just to make absolutely sure. So for health and nutrition, the guidance for growth for this year is more than 10% organic growth? And maybe can you comment on to what extent you expect the total animal health business to contribute to reaching that.

And then a question on the acquisition of LGG, etc., from Valio. First of all, do you consider this to pose a risk for your sourcing business with BioGaia? LGG is competing very directly with a major strain of BioGaia's.

And a second question. How fast, and with what effect do you expect to be able to roll out Valio's ProVa technology to your existing customer base?

And then a final question if I may; that's on the installation of the new fermenter. Can you comment a little bit on how you see that affecting margins isolated scene this year and on longer term? Thank you.

Cees de Jong: Lars, why don't I take the LGG question and then Soeren will take the health and nutrition and the new fermenter question.

Obviously, we do not comment on individual customers of ours, so the BioGaia question I would leave to your speculation how to address that.

In terms of what LGG brings to our business and what the whole set of technologies that we acquire bring to our business, I think it's fair to say that we would expect to be able, over the somewhat longer term, to add about 0.5% or so to food cultures and enzymes' top line and up to 1% in the health and nutrition space.

But that's something for the longer run. It's also something that does not lead us to increase our guidance for both those areas.

When you look to LGG, and let me make that clear to everybody, that is the best documented and the best researched probiotic strain in the world. And together with BB-12, that will open up unique opportunities for us. And internally, I have almost compared that to being able to buy your neighbor's land when that comes for sale. It only comes for sale once and you need to act fast.

But we also have to remember that we still need to close the acquisition, which we expect to happen in this quarter and then we can start the work of integration and getting the full benefits. Soeren, would you take the other questions?

Soeren Lonning: Yes. When you look to the growth guidance on health and nutrition, I can confirm that we are seeing double-digit growth in the FY17. That is -- of course, continues to be driven by human health and plant health, as it's been this year, but to deliver these numbers, we also need to see an improvement in the animal health space.

We are not giving a specific number on this but we are expecting to see improvement that is -- and they will be largely in the second half. We expect to see the margin improve somewhat but, more importantly, we can see in our product, or in our pipeline in terms of sales projects, that there is good progress here and we are optimistic on that part.

So we do expect to see a clear improvement in animal health especially during the last half of the year.

Lars Topholm: And just to make it absolutely clear. So to reach plus 10% organic growth, does that require a further improvement in commodity prices and I assume particularly milk prices and feed prices which hurts animal health now?

Or do we expect to be able to reach that guidance based on current commodity price levels?

Soeren Lonning: We have only built in a slight improvement in the commodity pricing and it will also take some time before this really translates into a much better financial position for the farmers. So that will not be the key lever; it will be the pipeline that we have and look into.

Lars Topholm: Excellent.

Soeren Lonning: Good. And then let me address your question regarding the fermenter. It's true that we have now lifted the fermenter through the roof in Avedoere. It will still not be completed and operational until the fall of 2017.

In terms of the margin impact of this, it means that we will be running at a very high and efficient capacity utilization in our Copenhagen facility this year.

So we do expect we will not be able to anyway replicate the benefits that we realized in 2016, but we do expect a positive benefit as although smaller, in 2017 also from the high utilization.

When it comes to 2018, then this is where it's really being ramped up and we start depreciating on the asset, etc. Here, the best guidance I can give you, it will be more or less flattish the impact from bringing this online. So I think that's the guidance I can give you in terms of the margin on this part here, Lars.

Lars Topholm: Thank you. But just to make sure, so when you say flattish for 2018, that is the fermenter isolated scene, right?

Soeren Lonning: That's the fermenter isolated. We are not giving guidance on the overall business for 2018 at this point in time.

Lars Topholm: Excellent, thank you very much. Thanks, guys.

Operator: Your next question comes from Soren Samsoe. Please go ahead.

Soren Samsoe: First a question on your ag business. I saw that you had progress for the first time, although from a low level of course. Just if you could elaborate a little bit on Nemix C and VGR why it's starting to improve now; and then your expectations for this in 2017?

And then, a second question regarding also your expectations for 2016/2017. How much should we -- in the guidance you have given, how much effect have you assumed for total pricing, i.e., euro pricing, raw material pricing and like-for-like pricing? Thank you.

Cees de Jong: Thanks, Soren. Let me take your first question and you relate to -- you asked a question about plant health. I think I should say three things there.

With Nemix C, we're now in the third year of testing and I think it's fair to say that about half of all the sugar cane manufacturers in Brazil are now testing our products. I know that there's even one that has completely converted already, but obviously, that's not the largest one.

And the results that we see there are very positive. And what we really like is that it looks like Nemix C only needs to be applied once. And as you know, sugar cane is being harvested from the same root system for about four or five years in a row and hence, we seem to be offering a huge advantage there. So that's one of the reasons.

Why are we gaining momentum? You will remember that Brazil was having a very serious drought and hence, the market conditions didn't really help us in the first year when we launched it. We now gained some traction.

Then on our next product which is on the market, which is called VGR, Capture VGR. It's a biostimulant for corn. We introduced it in, like I said, several states in the US. When you combine that with an FMC pesticide, a chemical pesticide, it increases yield by about 2%. That is a lot for corn and so we will continue to roll out that product further.

And looking outside of those two products, we have submitted registration, a registration dossier for a biofungicide that stimulates both growth and battles disease in several different crops.

So we've filed there with the US Environmental Protection Agency. Registration time is about two years, but we're really firing on all cylinders when it comes to plant health.

So sales are still small and, of course, we were somewhat delayed from our original 2013 expectations, but the outlook is very promising.

Soeren, you want to take the other question?

Soren Samsoe: Just to add to the earner on [BioAg] when you were there. Are you expecting more product launches in the coming year in this area?

Cees de Jong: We will be based on the two products that I talked about first, as the registrations take some time, Soren. And I forgot to answer that one, we've not specifically guided for 2017 on plant health. We don't go that detailed.

Soren Samsoe: Okay.

Soeren Lonning: Let me take your questions related to impact, pricing impact for the coming year.

In the guidance and the outlook we have given here, we have factored in a slight negative impact from euro-based pricing and a slight negative impact from raw material prices and natural colors. However, should we reflect back to our growth model in food culture and enzymes where pricing as a component is around 1%, we do expect that to hold this year, because we will work on prices with our customers.

So the euro pricing, as it looks right now, looks to be rather marginal although slightly negative.

Soren Samsoe: Okay. That's clear. Thank you.

Operator: Your next question comes from Michael Rasmussen. Please go ahead.

Michael Rasmussen: A couple of questions from here also. Could you talk a little bit about the flat growth in enzymes that you talked about both in Q4 and the reason for that staying rather low in 2016/2017?

And then moving on to 2016/2017, also if you could give us some guidance on the level of special items?

And finally on colors, could you talk a little bit about more this case in China about yogurts starting to be converted into colors. Is that impacting growth in the natural colors division right now, or how big is the potential there, please?

Cees de Jong: Let me take the first and third question and then special items, obviously, is something where I leave it to Soeren.

You will remember that in enzymes, we've seen a very strong growth in previous years, not in the last year. So it's basically more normalization that we see.

I don't think we've given specific guidance for enzymes in the upcoming year. We continuously work to come with new innovations and when we launch them, we'll probably see another step up in growth. But last year for us was just a normalization after having seen two very strong years prior to that when we had introduced new enzyme solutions.

When it comes to the colors in yogurt in China, I think it's fair to say that we have excellent relationships with all the large players in China. They now, like I said before, start to move up the ladder with more premium-type products and there, indeed, our colors come into demand.

I don't think it's fair to say that that's going to be a big driver of growth in the natural colors; it's just a nice contributor to us achieving good growth in natural colors.

Soeren Lonning: And let me address your question related to special items. In 2017, we have guided previously that we expect around EUR2 million of special items related to the LGG acquisition. That is what we expect to report on special items in 2017.

One thing though, you should be aware that when you look to the cash timing of this, then we -- part of the EUR12 million that we have incurred in our P&L statement this year, now in 2016, will be paid out in 2017. Just so you take that into account. But the reported in our P&L will be to the tune of EUR2 million in 2017.

Michael Rasmussen: Great, Soeren. And as a follow-up on that, the US tariffs, is that going away for 2016/2017? Or what's the story here?

Soeren Lonning: We have completed a full review of all our products that we import into the US. And we have now made accruals and filed the registration with the authorities based upon that. So, as such, we have accrued what we believe is what should be the right level.

We are still in dialog with the US authorities to get a complete verification and confirmation that that is actually the amounts. But that will happen in -- we expect that to happen in the first half of 2017.

But obviously, we expect that the very diligent work we have done also with support from external advisors that that is the conclusion now. But to be finally confirmed we expect during the first half of FY17 subject to the dialog with the US custom authorities.

Michael Rasmussen: Great. Thank you very much.

Operator: Your next question comes from James Targett. Please go ahead.

James Targett: Just one question from me remaining. Just on the microbiome products you're saying you're generating the first revenues from. Can you just give some color on what the actual product is that is generating the revenue? And what's the outlook for the next 12 months in this area? Thank you.

Cees de Jong: James, I would wish you had two questions because this one I really can't answer as it is a partnership where we're not capable of disclosing who the party is yet.

But the one thing I can say about microbiome is that remember the way we set it up, right; we have created what we call a startup unit. We said to the team there, listen, we're going to build the lab, we're going to build the facilities. You get access through the Chr. Hansen technologies, but by 2018, you need to be break-even.

We then strengthened the team with business development capability. And they've been able to negotiate these type of deals where we get partnership income.

Unfortunately, I cannot disclose the party with whom we're working. And obviously, as you can imagine, the revenue from this is still low. That won't move the needle for Chr. Hansen. But it is proof for us that our technology is in demand and that this model is working.

At the same time, we're progressing our own activities as well which, obviously, are now being funded, in part, through these types of income.

James Targett: Can I just ask when you'd be in a position to be able to disclose that timeframe-wise; and also, the timeframe for the end market being released into the product from your customer, just in terms of the timeframe that that might materialize?

Cees de Jong: And if this is to populate your model, I would be very cautious. This is still very far out, James. Because obviously, what we're doing is we're producing material that enables our partners to do their clinical trials. And hence, for us, it's highly unpredictable what the time lines are going to be there.

And why is it unpredictable? Because today, the regulatory field that needs to come to regulate microbiome products is still being defined.

I'm pretty sure you've seen the initiatives by companies like Nestle to enter the dialog within FDA basically saying, hey, this microbiome space requires different regulations somewhere in between food and pharma.

But if you want to populate your model with income from this, do it at the very, very, very, last years of your model, because this is still very far out.

James Targett: I guess it was really just to get a further understanding for what the type of end products will be, that these are –

Cees de Jong: Yes. Well, we have disclosed one partnership where we're working with a company that has a strain that can potentially delay the onset of type 2 diabetes.

So, if we just imagine the tests, may I call it probiotics for lack of a better word, can be added either as a dietary supplement or a food supplement and will then, if successful, be able to delay the onset of type 2 diabetes, that's the sort of products that we're working on. I'm not saying that this is the one generating the revenue because it actually isn't. But those are the sort of products.

James Targett: Okay, thank you.

Operator: Your next question comes from Hans Gregersen. Please go ahead.

Hans Gregersen: Two questions, first of all bioprotection, Cees. Could you give a little bit further insight on to what's going on in the dairy industry as well as you mentioned in your introduction fresh salads and fish, what you're seeing happening over the next one to two years in that regard? That was the first question.

The other question, Cees, is it has been a pretty strong announcement you have made this morning. What are your three to five key risk factors or concerns you're looking at, at this point of time? Thank you.

Cees de Jong: Thanks, Hans. Hans, in bioprotection, in dairy, we've seen very good growth in both fermented milk as well as in cheese. And you have to remember that bioprotection enables our customers to come with a complete clean label, reduce their scrap rates, extend shelf life. So it's driving massive value for our customers. Hence it's contributing to our growth. There, the dynamics are that we –

Hans Gregersen: I'm sorry, Cees, how penetrated is the product today in dairy?

Cees de Jong: In all fairness, in dairy, very low. I think we have the opportunity for very significant upsides here. That's why we created it as a lighthouse.

When you would look in our models, Hans, let me help you a bit there, for many years to come, we see the growth primarily being driven by the dairy space, given that the penetration is still so low. And that is both geographically, but also when we look at our overall customer base.

Now, the dynamic in the other segments is slightly different because you can imagine that we don't have existing customers in salads and fish. And here, what's happening is that actually retail is driving a lot of the changeover to bioprotection.

And there, in a number of countries, in Germany, in Poland, in Australia, once retail found out what bioprotection is all about, they asked us to come in to explain the methods. And then they, basically, endorsed us towards their suppliers. So we now work with a number of players in salads and fish and we even made some first sales there.

In animals, we see the larger sales of those applications coming significantly later. So growth first in dairy, given the penetration's so low.

What we're going to be doing, Hans, is we're going to be showing our bioprotective sales as of our Q1 report this year. We're going to be reporting it separately, so that the market gets more insight.

In terms of –

Hans Gregersen: So how much was your sales this year?

Cees de Jong: I don't think we've disclosed that.

Soeren Lonning: We're saying it's around 5% of the food cultures and enzymes business area, but with a much, much higher growth rate than what we see in general in food culture and enzymes.

Cees de Jong: And for the rest, Hans, you have to wait for another couple of months, when we come out with the Q1 report and then you can see the details.

Hans Gregersen: Yes.

Cees de Jong: On the risks, that's a super good question. We have to remember that nowadays, more than 1 billion people every day consume something which has Chr. Hansen ingredients in it. And that means that Chr. Hansen to operate at the highest possible quality levels.

Is that something that keeps me awake at night? No, but we are all, as a Company, very aware and alert on the position that we have. Now, the good thing is, and you will remember that, that we've been audited by the FDA earlier in this financial year, in 2015/2016.

And this was a very extensive audit. It was for the human health business, which is probably the highest quality levels that we have throughout our business. And there the auditor or investigator had zero observations on the 483.

Hans, you know me quite well, you know that I've worked in a number of industries, including the pharmaceutical industry. I've never worked for a company that has zero observations. So whilst we're very aware of this risk, I think we also manage to the highest possible standards.

Hans Gregersen: But commercially, what do you see as the main risk issues?

Cees de Jong: Yes, there, in all fairness, when you look at the multiple growth levers that we have, as evidenced by our performance in 2015/2016, I think we have a very solid growth platform.

Because when you look to 2015/2016, it's clear that animal health wasn't very good; it was bad. But even in a year where we have headwinds in one of our businesses, in one of the businesses that we consider strategically very important, we can still deliver 12% organic growth. So, given that we've got multiple levers there, I think we're good.

One of the things, obviously, is that we've been growing very rapidly. So for us to have the production capacity keep pace with our fast-growing sales, is something that requires us to work very hard.

But, as said, on top line, I don't think that would make top of my list, in all fairness, Hans.

Hans Gregersen: Thank you.

Operator: Your next question comes from Heidi Vesterinen with Exane BNP Paribas. Please go ahead.

Heidi Vesterinen: Two questions please. Just to check on the momentum in fermented milk in EMEA. Was that driven by a specific initiative from a given customer or is it a broad pickup in the market across many customers? And are you confident that this momentum continues?

And then a second question. I just wanted to check what Soeren said on the call. I think you mentioned a [EUR4 million] benefit from a land sale in the UK. I just wanted to check, was that included in EBIT before special items please? Thank you.

Cees de Jong: Heidi, let me take here the first question. It's almost like leading the witness, what you're doing. And you know we'd never comment on the individual customer relationships. But I think in this case, it's seems fair to say that the good growth was much more broadly anchored in EMEA and not just due to a specific initiative. Soeren, if you would take Heidi's second question?

Soeren Lonning: Yes. The property sale we made in UK was not a [EUR4 million] win in EBIT. It helped contributing to that. Our other operating income and cost net improved by 0.4 percentage point compared to last year. That was part of that explanation.

It was -- the result realized in the accounts was significantly lower than the [EUR4 million] that you mentioned here, Heidi.

Heidi Vesterinen: So it was 0.4 percentage point then sorry, just to clarify?

Soeren Lonning: It was part of that, it was part of that. It was one contributing factor to that. There were several others also, but that was one example.

Heidi Vesterinen: Thank you.

Cees de Jong: Operator I think we have time for one more question.

Operator: Your next question comes from Lars Topholm. Please go ahead.

Lars Topholm: Yes. Just a quick additional question. Can you comment on the rollout of Acidifix please?

Cees de Jong: Yes, Lars, you probably know that better than anybody else. The pickup of new introductions in the dairy space is always a very slow process. So the same holds for Acidifix.

In addition to what we've seen, of course, is that Acidifix enables to take out some expensive ingredients. But at the very low milk prices that the dairies are facing, that's not really a driver.

So the driver for the pickup has been the other benefits that Acidifix offers. And that is to give very mild-tasting yogurts. So we're satisfied with the rollout, recognizing that it is a slow pickup, as all the introductions in dairy are.

Lars Topholm: And is it too early to put any kind of penetration rate on? I should maybe expect that, yes.

Cees de Jong: Yes, it definitely is. Yes. No, that's too early.

Lars Topholm: Yes. Thank you very much.

Cees de Jong: Thank you. Thank you, operator. I think that concludes the call operator. Thanks, all, for participating and listening to our results.

Operator: Thank you. Ladies and gentlemen, that does conclude your conference for today. Thank you all for participating, and you may now disconnect.

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