

Chr. Hansen
Q1 results 2016/17
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10:00 CET

Operator: Thank you for standing by and welcome to the presentation of Christian Hansen's Results for the First Three Months of 2016/17.

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 today.

And I'd now like to hand the conference 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 Henson and with me is our CFO, Soren Lonning.

The results in the first quarter gave us a good start to the year and both food cultures and enzymes and natural colors delivered strong organic growth,

while the organic growth in health and nutrition did better than expected, but was still below our long term ambitions.

Our EBIT margin also showed good progress driven by food cultures and enzymes and natural colors, while health and nutrition was below last year. As you've probably seen, we announced last week that Knud Vindfeldt will be leaving Christian Hansen later this year, and Knud's been one of the key drivers behind the success of Christian Hansen's in the dairy market, and he has relentlessly pushed for continued improvements in our strategic, operational and financial performance and I think the results delivered by the food cultures and enzymes division speak for themselves, as since 2005, both revenue and EBIT margin have more than doubled.

Now, with the transfer of the commercial responsibility for food cultures and enzymes to Christoffer Lorenzen already in April last year, combined with the recent recruitment of Thomas Schafer as Chief Scientific Officer and with the promotion of Torsten Steenholt as Head of Global Operations, we have ensured Knud's succession, and I would like to thank Knud for his exceptional contribution to Christian Hansen and wish him all the best for the future.

Now, before we move on, I'd like you to take a look at the safe harbor statement on the next page. And I hope that you've all had the chance to read the statement or will do it afterwards, so let's move to slide number three, please.

As I said, we had a good start to the financial year '16/'17 with revenue reaching 242 million euro and that is 13 percent above last year. Organic growth for the quarter reached 11 percent, and that's better than we initially expected. Good momentum in food cultures and enzymes, including a small impact from euro based pricing and positive timing of (waters) in health and nutrition supported the better than expected growth in Q1.

Volume and mix accounted for 9 percent of the growth, with 2 percent coming from pricing. Now, the latter was positively impacted by the euro based

pricing and by price adjustments to reflect higher raw material prices in natural colors. Food cultures and enzymes delivered organic growth of 10 percent, with strong growth in cheese, fermented milk and (wine). The growth in cheese was partly driven by good momentum in conversion of US customers to our DVS solutions.

The organic growth in health and nutrition reached 8 percent, mainly driven by animal and plant health, while human health delivered more modest growth as order patterns and customer projects are more skewed towards the very end of the year.

The performance in animal health was a good sign, but not a reflection that we're back to a full normal growth yet. As part of the sales related to distributors, the restocking (silas) products ahead of the 2017 season, and of course that full (inaudible) reduction that hit us in the third quarter of last year.

Natural colors delivered 13 percent organic growth and volume and mix contributed around 6 percent and (price) 7. The price increases were driven by higher raw material prices and to a lesser extent, they came from general price increases as part of our initiative to restore profitability.

The operating profit, before special items increased by 21 percent to 66 million euro, driven by the higher sales volume and operational efficiencies. The EBIT margin before special items was 27.1 percent and that compares to 25.2 last year. Now, the increase of almost 2 percentage points amongst others reflects a positive impact from operational efficiencies in food cultures and enzymes, but also the timing of production cost.

After special items, the EBIT margin was 26.8 percent and that is up 1.6 percentage points compared to last year. R&D expenditures amounted to 18 million, or 7.4 percent of revenue, and that compares to 7.8 percent last year. Now, the decline relative to revenue was driven by cost related to the acquisition of a (strain collection) from the Dairy Innovation of Australia, and that happened last year. Excluding that, we continue to expand our

investments into R&D and also very pleased to soon be able to welcome Thomas Schafer as our Chief Scientific Officer.

Profits for the period ended at 47 million euro and that is up 21 percent from last year. And finally, the free cash flow before acquisitions and special items was at negative 19 million euro, which was slightly below last year and that of course is due to an increased investment level.

Now, let's move on to the next slide, slide number four for an update on the strategic highlights of the first quarter. As you know, we've identified three key strategic initiatives and in-house, we call them lighthouses to support the long term growth of Christian Hansen. I'm pleased to see the continued good progress across all three of these.

First, in bio protection, and I want to come back to that later, we continue to see strong growth. In Q1, growth reached approximately 25 percent and bio protection already today accounts for about 5 percent of the revenue of food cultures and enzymes.

In plant health, we saw strong growth in both NEMIX C and VGR and combining this with the good progress and our efforts to introduce new products in the coming years, we are getting more and more confident on our opportunities in this area. Now, that being said, we still have a long way to go before I can say that I'm satisfied with our position.

Within human microbiome, we're progressing well on developing both our own competences and potential partnerships. And the outlook for both first and second generation probiotics looks very promising. This is also why we decided to invest more than 70 million euro in the LGG strain and the related business from (Valio).

The acquisition of LGG was completed in November last year and we've initiated the integration process of the acquired assets, and we're investing into this area to ensure we reap the opportunities from getting the full access to

search the well documented strain. The acquisition, of course, supports our existing business in both human health as well as in dairy.

Now, moving to dairy and our food cultures and enzymes business, we are progressing with expansion of the production capacity for cultures in Copenhagen and we expect to inaugurate at the beginning of the next financial year. With the strong volume growth that we've seen in the last 12 to 18 months, the expansion is critical for our ability to secure growth in the coming years and it's a key focus area for us for the rest of the year.

Last, in animal health, we're starting to see market conditions improving with key commodity prices moving up. However, it's a slow process and the better than expected performance in Q1 was mainly due to timing. The business that we acquired from MPC is also still impacted by the market conditions, especially for the dairy related business and here, revenues are slightly behind expectations. However, this is offset by a very successful integration and we're seeing the expected synergies materializing ahead of schedule.

Now, please turn to the next page – page number five, please. I would like to spend a few more minutes on the opportunities within bio protection. Bio protection gives food manufacturers a competitive edge without compromising their product label and it can strengthen the trust that both retailers and consumers have in a product. When the food reaches the consumers, it will be the way food manufacturers intended it to be each and every time. Bio protection not only helps food manufacturers to create a great brand experience, it helps them to keep it great.

Now, by applying our bio protective solutions we can help to reduce food waste, and we've set ourselves the target to reduce global yogurt waste by 2 percent and that is 700,000 tons by the financial year '19/'20. Now to set but to also validate this target for bio protection, we conducted a third party impact study on how bio protection can help to reduce food waste in the dairy industry.

In addition, the study has also helped us to identify the commercial opportunity for bio protection in this space. And the key conclusions of the study are that if bio protection would be applied to all yogurt in the EU, it could reduce waste by 30 percent, and that's 3-0 percent, and (as) would be an equivalent to no yogurt being wasted in the UK during a six year period. It represents a potential net saving opportunity of 180 million euro across the chain and it would reduce CO2 (with) 430,000 tons. Now again, that would happen if Fresh Q would be applied to all yogurt in the EU.

That said, the numbers that I just mentioned are for the yogurt segment in Europe only and our aspirations, of course, go further.

Let's turn to the next slide, please. In addition to yogurt, we already have successful bio protective cultures on the market in the meat and cheese segments. The market for natural protection in these segments is increasing rapidly, and that's driven by consumer demand for real food with less artificial additives. Over the last four years, this business has grown by a (keger) of around 40 percent – 4-0, and we continue to see very attractive growth, both in our current core segments, but also in other prepared food segments.

In Q1, the growth was around 25 percent, and we see potential to maintain a very attractive growth rate in the years to come, but to fulfill the full potential, we're working to further improve our ability to bring the buyer protective technology to the market. And this is why we're increasing our investments in R&D, regulatory and sales and marketing. We do this to develop the next generation of buyer protective solutions. We do this to work with authorities to define a regulatory framework for expanding into new areas, and last but not least, more short term, we accelerate penetration in existing markets.

Let's move to the next slide for a look at the overall regional performance. So, looking at Christian Hansen as a whole, the EMEA segments or the EMEA region I should say delivered 10 percent organic growth. The growth was supported by both volume and price, and was broadly based across most of our businesses. Now, especially fermented milk, including probiotics, cheese,

meat, animal health and natural colors grew quite well. For fermented milk, cheese and meat, the growth was also supported by bio protective solutions.

Human health in EMEA was only on par with last year, but this is due to order pattern and performance was as expected.

In North America, we saw 7 percent organic growth and there was strong growth in cheese, natural colors and plant health, while growth in cultures for fermented milk was more modest. In cheese, we've seen good progression in convergence with a number of customers.

Animal health in North America was below last year, as we're still hit by market conditions. Now that being said, we do see signs that the worst might be behind us.

LatAm delivered 13 percent organic growth with growth supported both by volume and price. Growth was strong across all segments except for probiotics. And we continue to see a demand for natural ingredients despite the economic turmoil. That said however, it appears that the momentum is slowing.

APAC delivered 16 percent organic growth. We saw strong growth in (fermented) milk – fermented milk, including probiotics, in cheese, enzymes, human health and animal health. Growth in natural colors was more modest. Now, the strong growth in fermented milk continues to be driven by China.

Now with this, I'd like to hand over to Soren who will go through the financials of each of the businesses.

Soren?

Soren Lonning: Thank you Cees.

Let me start with our largest business unit, food cultures and enzymes. While the strong momentum continued in Q1, with 10 percent organic growth, 9

percentage points of the growth came from volume and mix, while the impact from pricing was around 1 percent. The impact from pricing in Q1 was lower than last year, as the impact from euro based pricing declined, although we did still see a small positive impact in Q1 largely driven by LatAm.

The volume growth was primarily driven by fermented milk, cheese and wine, with both fermented milk and cheese being supported by our bio protective solutions.

Turning to the EBIT margin, then we did see a significant increase of 3.7 percentage points in Q1, which was driven by operational efficiencies, favorable timing of production cost, income from a property sale in Argentina and positive product mix, all of which was partly offset by higher R&D activity.

Although very positive, please do note that some of these effects will not be replicated in the rest of the year. The property sales, combined with (ECQ1 comms) last year due to one off administration costs drove around 2 percentage point of the improvement, while timing of production cost contributed more than 1 percentage point, and with the latter effect reversing in the coming quarters.

The impact from operational efficiencies was around 1 percentage point, however part of this will, in the coming quarters be offset by negative impacts from utilization of our production capacity, moving at (past) the optimal level until we have the new capacity in place in the fall.

And finally, we will see an increase in costs related to the bio protective initiatives, so when we look at the full year, we still expect to see only a slight improvement in the EBIT margin for food cultures and enzymes, despite the good results in Q1.

Let's turn to the next page, and (doga) health and nutrition, which did better than we initially expected with organic growth reaching 8 percent. Animal health did well with good performance, especially in the swine and poultry

segments. The (silent) segment was also better than expected as we did see some distributors increasing their stock level (again), ahead of the next season. Contrary, the (dairies cattle) segment remained weak.

Plant health did well, supported by both of our products on the market. Human health did grow, but was as expected, impacted by timing of orders and customer projects. The EBIT margin (ended) 3.6 percentage points below last year, driven by unfavorable timing of production costs, negative sales mix and higher US tariffs cost, whereas an improvement in (swep) levels and human health production mitigated part of those effects.

The timing of production costs had a negative impact of around 3 percentage point, the negative sales mix approximately minus 2 percentage point, and the US tariff cost around 1 percentage point. The positive effects from (lower scrap) levels was around 4 percentage points compared to Q1 last year when we did experience an unusually high (scrap) leverage in our (freeze frying) process.

The impact from production cost is expected to be reversed during the year and do remember that we took the impact from the US tariffs costs for the first half year in Q2 last year, meaning that comparables will be slightly easier in Q2 and normalized for Q3 and onwards.

Please turn to the next slide. Natural colors delivered 13 percent organic growth in Q1 with volume mix contributing 6 percentage point and price 7 percentage point. The volume growth was primarily driven by strong growth in the anthocyanin, natural carotene and natural categories, while carmine and volume declined due to a dedicated effort to improve profitability in the category.

Pricing contributed 7 percent to the organic growth through both raw materials and to a lesser extent, like for like price increases. The EBIT margin increased by 2.7 percentage point, with the expansion driven especially by the ongoing optimization initiatives, including reduced logistics cost.

Let's move to the next slide, looking at the group results, we delivered 13 percent growth in revenue measured in euro, which equals an organic growth of 11 percent. Of the 11 percent organic growth, volume and mix accounted for 9 percentage point and price for 2 percentage point. Part of the price growth was offset by a negative impact from currencies of 1 percentage point, while MPC added approximately 3 percentage points, leaving us with this 13 percent euro growth.

EBIT before special items was up by 12 millions euros, leading to an improvement in EBIT margin before special items at 1.9 points to 27.1 percent for the period.

Let's take a closer look at the cash flow on the next slide. The cash flow from operating activities improved by 1 million euro, while the cash flow used for operational investment activities increased by 4 million euros, largely due to investments in capacity for culture production. All in all, this resulted in a free cash flow of minus 20 million euro.

On top of this, we also spent 73 million euros on the acquisition of LGG and the related businesses. The capital expenditures, excluding the acquisition corresponded to 10.2 percent of revenue, which was well above last year, as we have stepped up the investment level this year.

Return on investor capital excluding goodwill increased by 1.2 percentage point, while the net interest bearing debt to EBITDA ratio moved up to 1.9 times, due to the acquisition of LGG.

Please turn to the next page. As Cees mentioned, we have indeed come off to a good start, (what) gives us comfort in maintaining the outlook for the year or 8 to 10 percent organic growth, and a slight increase in EBIT margins compared to last year. The free cash flow is still expected to be around the same level as last year, due to higher investment level.

In order to deliver on our outlook, it is important that we manage our production of cultures during the expansion of capacity in the Copenhagen

side. We have seen stronger than expected volume growth during the last 12 to 18 months, meaning that we will be pushing our production platform close to the limits until the new capacity is open. As Cees said, this will be an important focus area for us in the coming months, but we are well positioned to do this and the expansion is progressing as planned.

If we move to the next slide, I can go through some of the key milestones achieved so far. The pre-projects (audit) in 2015 and after there ramp up of the capacity, which we added in 2014, and this 2017 expansion is the final step of the master plan that started with the first phase of the culture production facility in Copenhagen back in 2007, and which has been a key driver behind our market expansion since then.

We are right now, finalizing the installation with all main equipment already installed and expect to have concluded the installation within the next few months. Commissioning activities are scheduled to take place during the spring and summer, with expected inauguration in the autumn of this year. Once we have started commercial operation, it will take around six months before productions have been (ramped) up and we are able to gain the expected benefits of this investment, which will provide us with enough capacity for dairy cultures for the current planning period.

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

Operator: Thank you.

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 wish to cancel that request, please press the hash key. So, star and 1 on your telephone if you wish to ask a question.

Your first question comes from the line of (Thoren Samso). Please ask your question.

(Thorne Samsø): Yes, good morning, gentlemen. First of all, in animal nutrition, I would like to know how sure are you that this positive growth is due to stocking effect and how sure you – are you that you will not see a similar effect in Q2 and Q3?

Cees de Jong: OK, (sure) let me take that question right away, I thought more was coming so...

(Thorne Samsø): (Yes), there will – there will come more...

Cees de Jong: ... (inaudible) OK, (go ahead) (inaudible) then. We have a relative good (vision where we see all) what happens with distributors this time around, of course when they destock, it's a little bit more different than when they stock, we can see that. You have to remember that when you look at the markets, the recovery is slow process. I mean when we look at milk prices, at the (farm gate), we see a continuous recovery but we don't think that farmers are in an extremely healthy situation, so we have no changed guidance for the overall year. There was a bit of timing of orders here, with them stocking up. It does not impact how we view the full year.

(Thorne Samsø): OK, and then jumping to the bio protective cultures, if you could just give an overview of – I mean you talk about the first generation products, if you give an overview of what is in the pipeline and what is the timing of new product launches? And also if you could also give an overview of what regions are you in now? Obviously Europe is the big one, and what is time of going into new regions?

Cees de Jong: Yes, we've not – we've not guided so specifically on bio protection, Soren, and I'm not going to do that on the call either. I'm willing to say, though that indeed Europe and to a somewhat lesser extent, North America are key drivers for growth. Cheese has been a key driver for growth in Q1. When you think about penetration levels of the – of the – of the let's say current bio protective solutions, then penetration and fermented milk is below 10 percent and in cheese, it's even below 5 percent, so there's still very significant demand for the current generation products.

We are preparing to launch second generation products, but I don't think we've guided for when we're going to be doing that, so I'm not going to – I cannot do that on this call.

(Thorne Samsø): But are we talking five years out in the future or is it sooner than that?

Cees de Jong: I'd say it's sooner than that.

(Thorne Samsø): OK. And then, for natural colors if you can just guide maybe a little bit on – you saw 7 percent price effect in Q1, but what – is it less or more in the rest of the year?

Soren Lonning: Yes, the price effect will be decreasing rest of the year, and it will also – towards the second half of the year turn negative. The largest driver of this is the carmine prices, and as you may remember, we saw the increased price in raw materials during Q1 last year, and then we – it takes a little bit of time for us to price it up, so we were priced up somewhere in second half – oh sorry, in Q2 last year, and it means that we will very soon be hitting at top of baseline first of all.

And then secondly, right now what we are seeing is that carmine is coming down in price. It's between 25 to 30 – closer to 25, and it means that the price levels will be lower than what our baseline is for most of the rest of the year. So, carmine will pull down growth in natural colors in the – in the second half of the year.

We're seeing some other raw materials, which are smaller in size, moving a little bit the other way, but the net/net effect is that it will turn negative in the remaining of the year.

(Thorne Samsø): OK, and then last question on LGG acquisition, which is still a little bit unknown to us, maybe you can elaborate a little bit on kind of what synergies you see and if you have – you know, potential customers that you can use the strain for that value was not able to do?

Cees de Jong: Yes, I'll take that one, Soren. Obviously we will not comment on individual customers, and you wouldn't expect me to do so, but both in human health as well as in dairy, we see opportunities to leverage the acquisition. And I think I've mentioned it before on a call, but in human health, this can help us to substantiate or to drive up growth by about a percentage (inaudible) at this point, and in food cultures an enzymes, about half a percent or so, (whilst) we do not change our long term overall guidance for these – for these segments.

And the reason why we can do that is that we have a true global reach. Remember our market share in dairy is probably some 45 percent or so, we deal with all companies in all countries, if I – if I may put it like that. And that gives us a good opportunity to leverage the LGG and otherwise of course, we wouldn't have bought it. It is the best documented strain, and in all fairness, value only had a certain reach (with it) and we think we can do – we can do better.

(Thorne Samso): OK, thank you. Very helpful.

Cees de Jong: Thanks, (Thorne).

Operator: Thank you.

Your next question comes from the line of (Annette Likey). Please ask your question.

(Annette Likey): Thank you so much (inaudible) my first questions is maybe a little odd, but is about your bio protection and all the benefits you're doing there, if you're successful in using bio protection in many of the areas and are getting closer to some of the visions you are mentioning on slide five and six, where you will reduce the waste of yogurt, what will be – of course, that's very good for society and sustainability, but what would be the net effect for Christian Hansen if less product or yogurt is wasted, and so is it better for you to sell Fresh Q or the products of bio protection rather than selling cultures if demand is going down due to less waste?

Cees de Jong: I like your questions, (Annette). Obviously, we have a moral obligation to the world to reduce food wastage. I mean there's still several hundred million of people starving, so that is – that is the first. When you would like to sort of model this long term, the benefit that bio protective cultures in dairy offer is a benefit not just to consumers, but also to producers. They will be able to produce larger batches, hence more efficient. And because they can keep the material in their factories just a little bit longer, and that's a big benefit for them, and then obviously to consumers, there's a benefit that they throw away less.

So, overall is beneficial for the whole chain, and that's actually what the impact study that we have published on our website is showing you, so if you want to go into the full detail, that's where to look. Overall, this is highly beneficial to Christian Hansen, last but not least, bio protective cultures are so technologically advanced that they command higher pricing than – let's say than normal basic cultures that turn milk into yogurt.

(Annette Likey): Thank you. And my second question then is on the natural color, I just wanted to know a little bit – you are having a long term ambition of growing this around 10 percent, and it is my impression, but please correct me if I'm wrong, that this is not the – including a lot of price increases, so are you happy with the – with the 6 percent volume mix growth in the first quarter or would you like it to be slightly higher maybe towards the end of the year?

Cees de Jong: That's a fair question, (Annette), and let me try to answer that. Obviously over time, over a certain period of time, we would expect raw material impact to be relatively close to zero. So, of course it means that we, from a volume point of view, needs to get close to the 10 percent, It is actually also – when you – when you look to our natural colors, you can say we have the carmine category and we have all the other pigments, and outside the carmine, we are growing above 10 percent volume growth.

Where we are growing less is within the carmine where, due to the fluctuation and also our clear focus on ensuring profitable growth going forward, we are

taking some tough decision to ensure that we – that we have a profitable business and profitable growth in this area. And we are also ready to accept some volume reduction on that account. And that is what (is taking) place in the carmine and that's why carmine volume have been declining, pulling down the overall volume growth.

(Inaudible).

(Annette Likey): OK, thank you – one – (inaudible)?.

Cees de Jong: Yes, sorry I was just – if that answered your question?

(Annette Likey): Yes, it did indeed. And then just one last question on animal health, you are saying that you're seeing a slow indicating – or slow indications of an improvement within the dairy cows, what (indications) are they? Can you elaborate on why you might see a little bit of a turnaround?

Cees de Jong: Yes, the important thing to monitor there and that would be the (farm gate) dairy prices, (that's perfectly available) and once you would look them up, you would see that (farm gate) milk prices have been on the increase I think, since September, October of last year...

(Annette Likey): Yes.

Cees de Jong: ... now – I mean the way the world works is that that doesn't turn around farmers into financially healthy and happy individuals overnight, but these first signs are definitely promising when it comes to dairy, and it is something that is almost like – we almost see it like globally (and) Europe is quite prominent, but we also see it in North America.

(Annette Likey): OK, thank you very much.

Cees de Jong: You're welcome.

Operator: Your next question comes from the line of (Hans Grexa). Please ask your question.

(Hans Grexa): Good morning. So, first a question to Soren, if we look on your capacity expansion comments, was I right to understand that the upcoming – or the ongoing capacity expansion was that already affecting margins in the coming year 2017 (thus) '18 or is it (first) the following year, as the first question and potentially what the impact might be?

Secondly, you have now previously stated that this is sort of the end point in terms of capacity expansion in Copenhagen, would that suggest that next time you run out of capacity, you will actually have to build a brand new production site where you might not see the same sort of (past to marking) implication from capacity expansion as the first question?

Secondly, US conversion, could you give an update on that, because it appears to me that you have not seen a whole lot of benefit from that in the first quarter? And then finally, regarding indirect production cost, as I understand, you have been stuck in somewhat – made some inventory build up due to the ongoing capacity expansion, how much has – in your terms, has the stocking effect been from putting cost on the balance sheet? Thank you.

Cees de Jong: OK, (Hans), so what we're going to be doing is that Soren's going to be taking questions one and three and let me take the second one. Want to start, Soren?

Soren Lonning: Yes, I believe your first question related to what's the margin implication of the expansion we have ongoing, both in '17 and '18. We will, in '17, in food cultures and enzymes, we will have some positive effects, although much smaller than in '16 from the – from the high utilization. We – the reason why it's not larger is that it is – we are running at a very high level, and it means that we need to add some extra cost so safeguard the production volumes this year. And it becomes generally as efficient when you operate at those utilization levels.

Then once this site is up and running, towards the fall, it will take some time to fully ramp it up. And we will also need to invest and man the facility, and that means that in '18, our expectation is it will be roughly a neutral effect to the – to the margin in food cultures and enzymes from the expansion. And then we will start to see the benefits '19 and beyond that. So, a small positive effect in '17 and then flattish in '18 and then starting to see the benefit in '19 and onwards.

When you look to the Copenhagen facility, then you are right that with the expansion that we are doing now, we expect to have capacity beyond '20 so ('22) plus minus depending on the volume growth, and we will benefit from that. We have not at this point in time decided what will be the next way we are going to do the expansion. We will not rule out that we will further expand in Copenhagen, but we will of course, also look to other locations, as it be less obvious for us to expand in the Copenhagen site. So, that will be the answers to that part.

Then...

(Hans Grexa): : Soren, can I – Soren, can I just interrupt here, sorry – but...

Soren Lonning: Yes.

(Hans Grexa): ... would that suggest that let's say the next ramp up, what ever the size might be CAPEX wise, will be more expensive?

Soren Lonning: If it is a Greenfield, then it will be more expensive than when you sort of fit it into the model that has been outlined here and which has been driving a very substantial margin expansion. That – that's a fair assumption, (Han).

(Hans Grexa): But I mean if you look commercially on it, as you – you could argue that (a share) – other regions will start perhaps becoming more important over time, would it – would it make more sense also to expand capacity outside of Denmark, just for let's say, a risk point of view?

Soren Lonning: We – there's a lot of factors that go into the decision. It's both where the demand is (is risk) and scalability and many other things, and we have simply not concluded on this at this point in time, so we are – we are keeping all the doors open until we get further in the process on this.

(Hans Grexa): Thank you.

Soren Lonning: Then I believe you had a question regarding the impact of the – of the indirect cost also in food cultures and enzymes, the build up of inventory, and that is (inaudible) 1 to 1.5 percentage point in the quarter, and that's of course because we are putting in – we are building up inventories for the shut downs that we will be having to expand the facility during the remaining of the year. So, that will – we expect that to reverse over the coming three quarters.

(Hans Grexa): So, (it's) zero on a full year basis.

Soren Lonning: So, zero – more or less zero on a full year basis, yes. Difficult to predict exactly, but close to zero, yes.

Cees de Jong: Let me take your question on natural colors, (Hans), and you're right, we have guided, and we're guiding that we will see a meaningful impact of the conversion in the US in our 2017 numbers. And that continues (the way) how we see it. And we work very close with our customers, and hence we are – we are sort of at the table when we see them work on their reformulations, and some of those portfolios are very extensive. I mean remember that there is one customer that has to convert close to 400 SKUs in confectionary space.

So, we see the commitment and we don't doubt that it's there, but it often takes extensive work and testing to get it right. I think it's now public knowledge that Kraft tested 250 recipes before they changed the Mac and Cheese blue box. We are extremely well positioned to take part in the conversion and then maybe one example, without mentioning any individual customer names, but there is a big QSR chain in the US that have asked us to work with their suppliers to formulate their natural (cover) strategy. And we

will also expect to see wins from that. So, outlook – conversion US, really very good.

(Hans Grexa): Thank you.

Operator: Thank you.

Your next question comes from the line of (Michael Rasmussen). Please ask your question.

(Michael Rasmussen): Thank you very much, and good morning everybody. Firstly, a question for Cees and then two questions for Soren, please. Cees, can you make kind of a general comment on competition, and I'm mainly thinking about what is changing in Europe and what is changing from your main competitor to (inaudible), they were actually out here this morning with a release saying that they are investing in the expansion of capacity in Western Europe, both talking about fermentation and (three strain) capacity in three sites.

So, first if you could comment on that. And then for Soren, if you could comment on the tax (phrase), I think the 24 percent in the fourth quarter was slightly higher than I had expected, what should we look for in the full year here? And then also on specialized (some) – is 2 million euros for the full year still the right number? Thank you.

Cees de Jong: Hey, (Michael), good morning. I think – if you want to know things about Dupont you need to ask them, right, and not me. Let me take a more general stance, when we look in the – in the – in food cultures and enzymes (specs) and we look in the dairy (specs), remember that our model, by and large is one of convincing big and small dairies to outsource their production to us or to our competitors.

And there it's important that given the large market share that we have that there are good competitors around, because you can – can you just imagine that our people talk to a big cheese factory and they try to convince them to outsource their culture production to Christian Hansen and Christian Hansen

will be the only credible player out, then probably conversion wouldn't happen. They want to know that there is – that there is alternatives. So, I think it's great that there is good competitors around in the cultures and enzyme space.

I've also seen the announcements of Dupont and I think that goes with the normal sort of business. This is an industry that's growing, that's growing quite rapidly, so I would see in the ordinary course of business. But for details, you need – you need to turn to them. I think that's only fair to answer it that way.

Soren Lonning: And on the tax rate, (Michael), 24 is actually what we are expecting around that level. We did end slightly above 23 last year, but as we also mentioned back then, then we had some one offs from some closing – (reversals) of some tax accruals related to some ongoing investigation by the – by the authorities, they were (closed) and that pulled the tax rate down that year.

We are – since we have a large share of our income tax in Denmark, then the basis is the 22, and then the net effect of all the foreign activities that we had is that it's normally plus 2 percent – around plus 2 percent from that. So, 24'ish is a – is a good assumption for the year.

(Michael Rasmussen):Great. And on special items (inaudible)?

Soren Lonning: Yes, we have guided around – that we expected around 2 million euros on the LGG acquisition this year. It looks like that could be slightly smaller, so it will be between 1 and 2, so it can be either or, depending on how it rounds in the end, but that's – we see no changes – major changes to what we said earlier, slightly better, but...

(Michael Rasmussen):Great. And just as a follow up on the property sale that you did here, is it right – rightly understood that that was roughly 2 million and then roughly 1 million was the distribution business, which could continue in the quarters to come? Is that right?

Soren Lonning: Yes. We had – you are right about the 2 million on the Argentinean property sale, but the – but could you please – I didn't fully understand distributor business...

(Michael Rasmussen): Yes, in the report, you mentioned that it was 3 million in total in (lead line), but only roughly 2 million was from the property sale. So...

Soren Lonning: Oh, OK...

(Michael Rasmussen): ... what is the remaining...

Soren Lonning: ... yes and now I've got (inaudible)...

(Michael Rasmussen): ... 1 million and can this continue?

Soren Lonning: ... yes, the positive effect from the distributor business relates to the – to the distributor business we took over from (MPC) and which we had decided not to continue. And the – and (yes, there) will be very limited effect going forward from that, given that we are closing most – we closed most of our activities related to that as (per) January 1st, so that will be very limited what you will see from that particular thing, going forward.

(Michael Rasmussen): OK, great for explaining that. Thank you very much.

Operator: Thank you.

Your next question comes from the line of (Arthur Green). Please ask your question.

(Arthur Green): Good morning. My question's about natural colors. I think you said back in last year that you expected some growth in China using your leverage with yogurt manufacturers that you deal with, are you still expecting that? It doesn't appear to have come through in quarter one? Thanks.

Cees de Jong: You're correct, Arthur that in Q1, China was not the strongest in natural colors. That said, there is a good market for colors and we would more see it as a timing of orders and comparables rather than anything else. So, Chinese market for natural colors, our view (of that) market has been changed.

(Arthur Green): Thank you.

Operator: Thank you.

Your next question comes from the line of (Lars Topple). Please as your question.

(Lars Topple): Yes, congrats (with the) strong quarter. Just a couple of questions, on the product side, Cees, you mentioned the positive mix effects from margins and food (colors) and enzymes, can you comment on which application is driving up the margin? And for general demand, can you put some comments on NOLA Fit and Acidifix? Then in probiotics for yogurt, Dannon in December flagged some problems for Activia, and I know your strain is not going into Activia, but just to make sure, have you seen any kind of weaker momentum for probiotic for yogurt in Europe after the end of the quarter? Thank you.

Cees de Jong: OK, we're going to have Soren take the first part of your question and then I'll take the second. (Lars), good morning.

Soren Lonning: In terms of the product mix in food cultures and enzymes, then we did have a quite strong sales (within some inter milk) cultures, which is among our highest margin product. And similarly, we also did grow very well in bio protection across the areas, which is also a high margin product. Similar, wine was quite good. So, we had some of our highest margin products really doing well, and at the same time, the enzymes category, which on average is lower margin, did not grow as fast as the cultures. So, those are the product segment dynamics that is helping us on the product mix.

In case – in the – in the case of NOLA Fit and Acidifix, then we are working to continue the launch and sales process of this. The Acidifix is a – is a

relatively slow ramp up also due to the fact that the – our customers need to invest in new equipment to get the full benefit on the efficiency side of this. And right now, many of the dairies are very tight in terms of the capital expenditures that they are – they are conducting. So, this is a – it is a slow and gradual ramp up in a – in a relatively conservative industry where it takes time to get adoption of this.

It's a little bit the same on NOLA Fit, but it is – it is an area where we expect penetration to be faster as the lactase product segment is easier to make new changes, than compared to the Acidifix, so we have – we are selling in this area, but we expect it also to gradually ramp up over the coming one to two years.

Cees de Jong: And, (Lars), with regards to your question on Activia, obviously we don't comment on individual customers but that said, we've seen a good performance in probiotics also in Europe. Now, markets like France may see a little bit lower consumption, but overall, we've seen a good performance.

(Lars Topple): But you have not seen any sort of change in momentum after the end of the quarter, have you?

Cees de Jong: No, not really.

(Lars Topple): OK, but then one additional question, if I may, on the competitor expansion, my understanding was that the factory in (Avedure) had the possibility to replace the 40 cubic meter tanks with 100 cubic meters, is that correct?

Cees de Jong: No, it's not – it's not about replacing. We – as you may remember the first original phase was to add two 40 cubic meter tanks. Then what we did in the – in the most recent phase was to add a 100 cubic meter tank in addition to the other ones. But then we – the bottleneck became the downstream part of it, which meant that we couldn't operate one of the 40 cubic meter tanks at the same time as the 100 cubic meter.

So, now what we are doing in this phase is that we are putting in the downstream phase, so we will get the 40 cubic meter tank up and running together with what the other facilities that we have, and then we are adding an additional 100 cubic meter, so...

(Lars Topple): (Inaudible).

Cees de Jong: ... the two 40s and the (two 100) is in combination now, but we have, for a period of time, not being able to operating all three – the three tanks that were in place now at the same time.

(Lars Topple): No, that I understand, but my question is once you have put up the second 100 cubic meter, so eventually, is it possible to lift out a 40 cubic meter and put in a 100 cubic meter instead?

Cees de Jong: (Lars), I'm going to show you the factory. The answer is no. I mean this is not a simple hole in the roof. This will be breaking up the entire factory, no. Once we've done this, we will effectively have really doubled the capacity of the – of the factory just in the way that Soren described. Then putting in or replacing 40s by 1 or 200 doesn't make sense, because the bottleneck would be downstream.

So, once we're done here, the next expansion is in all probability going to be a Greenfield. That said, the Greenfield – in respect to (Hans)' question earlier, that Greenfield could very well be the Copenhagen factory, because there we still have plenty of space. I mean if you would come join me one day, you'll see that there's still a couple of soccer fields behind the factory that we do own, (and) one of the fields has shrunk a bit, but we can build more factories there.

And I'd like to stress to everybody on the call that it's not our intention to take production into Asia for all the reasons that you guys know. Our products travel quite well, and we like to keep our technology very close to our chest.

(Lars Topple): Thank you, Cees, thank you very much.

Operator: Thank you.

Your next question comes from the line of (Heidi Festerinen). Please ask your question.

(Heidi Festeriene): Yes, two questions please, in animal health, are you already seeing a benefit from the FDA's recommendation against farmers overusing antibiotics? And second question for Soren, what is your expectation on the euro price list effect on organic growth in the coming quarters, please? Thank you.

Cees de Jong: (Heidi), great first question, and I wish we would, but the answer is no. I mean the directive has come into use as per the 1st of January, and I'm pretty sure you've read it, but it also now requires veterinaries to sign off, only use of antibiotics in the feed – in the feed chain, but I think it's too early for us to say that we've – that we've seen a benefit. But what it is is an important step in a – in a market like the US, where such a regulation have come in place.

I mean here in Europe, we have the regulations already since the 90s, and for one reason or another, the US has never followed but of course it is – it is immoral to use so many antibiotics in the feed chain, where we know that you will create resistant (blocks) that ultimately will kill people. So, it's a great step. And it's clear that this is done under a lot of consumer pressure, but it's too early to say that we already see it reflected in our numbers.

Soren Lonning: And to your second question, (Heidi), in terms of the (euro based) pricing then we had around 1 percentage point favorable this quarter. We expect for the full year, for the company to be close to 0, so it means that we will have a slight negative effect in the – in the rest of the year from euro pricing. Bear in mind that food culture and enzyme is the division of the business area most exposed to this effect, so this is (why) you will see the majority of it.

(Heidi Festerinen): Thank you.

Cees de Jong: Operator, we have time for one last question.

Operator: Thank you.

Your next question comes from the line of (James Target). Please ask your question.

(James Target): Hello, good morning, everyone. Two questions from me, firstly, just – you know, on the fermented milk category, generally I mean we can talk about (name) briefly but also General Mills has been having some pretty weak numbers and the (scan data) is pretty negative as well, so (I mean I know not all) that is directly relevant to, but just has everything – you know, you had to (have view) of kind of the outlook for the fermented milk category, I guess in mature markets, European and North America change for 2017 versus previously, I'd be interested in your thoughts on that.

And then secondly, just you mentioned you're increasing R&D in the – in the bio protection category, you know, just in terms of the group level, you know, should we be expecting further increases in terms of percentage of sales at the group level? Thank you.

Cees de Jong: OK, Soren's going to take your second question, (James) – good morning. It's indeed true that the yogurt market – the end market, especially in the US are a bit flattish and there, I think what needs to happen for some of the big players is to really distinguish themselves through innovation.

Our outlook for the category has not changed. And I think it's important to remember that the way Christian Hansen drives growth in the category is through innovation, through conversion and a (bit price up) and a bit market share, but when we look at the – at the underlying growth, we think that come back when that innovation is there, because there's still significant innovation possible. And what you also have to remember is that a significant part of the innovation that we bring to the market is optimizing the production processes of our customers.

And there, Acidifix is probably a great example as it enables yogurt manufacturers to take out a production step to reduce the use of artificial ingredients. So, it's a very efficient solution. And then on top of that, it gives a very mild yogurt. Now back to the point that Soren was making, we're getting into a more healthy situation in the dairy space, and we expect those innovations to land, albeit at the normal slow pace that we're used to in the dairy industry.

So, now our outlook has not changed, but we are aware that the end market is competitive. And maybe I should add a last point, very often you guys – and of course you have no choice, but you look at the – at the reports of the big players. You have to remember that Christian Hansen is very well leveraged across the industry. We supply all players, not just the big ones. And I think it's no secret that our margin profile is similar across different segments there.

Soren?

Soren Lonning: In terms of your question to the (ID) as percent of net sales, then we do (expect) to be around 7 percent for the full year. We did 7.4 in Q1, but that's also the quarter where we normally have the lowest sales and we have more sales in the second half of the year. So, overall for the year, I think the 7 percent is a fair assumption. And that will also be a step up compared to last year, because do remember that we did acquire the – a small – a strain collection in Australia last year, which increased our R&D percent, especially in Q1, but also for the full year last year. So, around 7 percent, that's a good expectation to have.

(James Target): I'm sorry, can you talk about your mid term guidance for R&D spend (is)?

Soren Lonning: Yes, it's around 7 (inaudible)...

(James Target): Seven (inaudible) OK.

Cees de Jong: OK, thanks, (James) for your questions.

Thanks everybody for calling in and for your questions and for following Christian Hansen.

And operator, that's concluding the call of this morning. Thanks for your assistance as well.

Operator: Thank you.

That does conclude our webcast for today. Thank you all for participating. You may all disconnect.

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