Nature’s No. 1 sustainably – strategy update

Chr. Hansen today remains committed to the Nature’s No. 1 strategy (launched in September 2013 and reaffirmed in April 2016) and updates its long-term financial ambitions through 2021/22. The strategy aims to capture the full potential of Chr. Hansen’s core businesses while at the same time pursuing broader opportunities within microbial solutions by leveraging the company’s strong technology platform. The long-term financial ambitions are organic revenue growth of 8-10% each year from 2016/17 through 2021/22, combined with improvements in EBIT margin to above 30% and a compound annual growth rate in the free cash flow of around 10%. The guidance for 2017/18 remains unchanged.

“I am very pleased with the outcome of the strategy review and with the results we have created through our Nature’s No. 1 strategy in the past 5 years. We are on an exciting journey of capturing the business potential of microbes and we are in a unique position to do so. Our microbial platform holds great potential, and we believe Nature’s No. 1 is the right strategy for Chr. Hansen to realize this potential. Today, we are making minor adjustments to the strategy – again, it is evolution, not revolution – and extending the horizon of our ambitious financial targets,” says CEO Cees de Jong.

Results achieved so far

Since the last update of the Nature’s No. 1 strategy in 2016, Chr. Hansen has delivered in line with the financial targets. Organic revenue growth has averaged around 11% per year since 2014/15, and the EBIT margin was 28.9% in 2016/17, which reflects an increase of 1.8%-point in the period. Free cash flow has increased by almost 25% in the same period.

Food Cultures & Enzymes has grown the core business of providing dairy producers globally with innovative solutions that either improve processing economics or give dairy products their unique flavors and textures. The new segment of bioprotection has grown strongly in the period, and now represents more than 6% of Food Cultures & Enzymes. The main production facility in Copenhagen was again expanded significantly during 2016 and 2017, and will continue to facilitate scalability benefits to production.

Health & Nutrition has grown the two main business areas, Human Health and Animal Health, organically and via acquisition. In 2016, the probiotic brand LGG® was acquired to strengthen the portfolio of human probiotics. Animal Health has shown strong growth through an increased market presence with focus on strong partnerships in certain market segments, and direct sales in others. Plant Health has developed through approvals and subsequent launches of new products with promising growth prospects, primarily in Brazil. Human Microbiome has focused on creating collaborations and partnerships.
Natural Colors has focused on increasing profitability and growing sales. A streamlining of the product portfolio has been completed and new products have been launched in the coloring foodstuffs segment. The EBIT margin has increased by 4.5%-points, and absolute EBIT has doubled in two years. Conversion to natural colors is progressing in all regions at varying paces, and growth prospects remain attractive. Raw material volatility and cost-in use of solutions are challenges to faster conversion, which we are seeking to address.

Main conclusions of the review:

The technology base – the Microbial Platform – that Chr. Hansen has is unique
The Microbial Platform is leveraged across all applications in Food Cultures & Enzymes and Health & Nutrition. This allows for knowledge sharing and synergies in R&D. Planned product launches over the next five years will support growth in all business areas. To stay ahead of competitors, and to increase the technology lead in key areas, continued investments in R&D are planned.

The main growth driver in Food Cultures & Enzymes will continue to be the core dairy business
Chr. Hansen has a very strong market position in the dairy space, supported by a technologically advanced product portfolio that is highly relevant for customers. Chr. Hansen will reinforce its market position, particularly in growth markets, by increasing application support to customers and by focused innovation of concepts that suit the requirements of these growth markets. The strong position in Dairy, Meat and Wine will continue to be leveraged through increased penetration of DVS® culture solutions, recruitment of new customers and upselling and cross-selling primarily of the existing product portfolio, to existing customers. The position will also be used, to a lesser degree, as a foundation for entering into near adjacencies, where Chr. Hansen technology will be offered in new market segments.

The new capacity in Copenhagen will continue to support margin development as the capacity utilization increases. New investments in dairy fermentation capacity as well as the freeze-drying value chain are planned. Digitalization of core Chr. Hansen processes, and the addition of new services based on data, which will augment the value of Chr. Hansen’s products to customers, will also be explored.

Food Cultures & Enzymes is expected to grow organically by 7-8% per year. Bioprotection is expected to continue growing at a very strong rate and is targeted to reach EUR 200 million by 2025.

Health & Nutrition will pursue three separate strategies to capture the potential of microbes
Microbial solutions have extraordinary potential to improve health for humans and animals and productivity in the agricultural sector. Chr. Hansen is exceptionally positioned to capture this potential across both Human Health, Animal Health and Plant Health. Strong megatrends, such as awareness of
the benefits of good bacteria for human well-being, the need to reduce the use of antibiotic growth promoters for livestock and pressure to reduce chemicals in crop production, support the business.

New products for Human Health are expected to drive growth. The dietary supplements business is growing rapidly in emerging markets, and Chr. Hansen plans to expand its product offering for these growing segments to capture growth. In developed markets, existing and new products can achieve even higher market penetration. Human Microbiome will create new opportunities by using existing, conventional strains already used in other segments for new applications, as well as building partnerships to develop new microbial-based products.

Expanded market coverage, particularly in emerging markets, and a strengthened route to market, are expected to drive Animal Health growth. New product launches are also expected to support growth.

The Plant Health platform holds the potential for Chr. Hansen to reach sales of EUR 100 million by 2025. The recent launches of Presence® and Quartzo® in Brazil, give Chr. Hansen a very strong position from which to grow. Recent regulations concerning chemical nematicides in Brazil have opened a window of opportunity that will increase penetration of microbial solutions.

Investments in capacity expansions over the period are planned.

**Natural Colors will continue the strategy of increasing profitability while driving conversion**

The potential to convert synthetic colors to natural colors in foods and beverages remains a very attractive growth opportunity. The reduction in complexity in the portfolio within Natural Colors has been completed. New products were launched in the FruitMax® range of coloring foodstuffs towards the end of 2017, providing a strong base from which to return to a higher revenue growth. An investment in a new production facility in the US was announced on 11 April 2018, and this will bring opportunities to streamline operations and also bring needed capacity. This investment will be phased over 2018/19 and 2019/20.

**Long-term financial ambition through 2021/22**

- Organic revenue growth rate of 8-10% per year supported by all business areas, with average organic growth of 7-8% in Food Cultures & Enzymes
- To increase EBIT margin to above 30%
- Compound annual growth rate in the free cash flow of around 10%

All targets assume constant currencies, constant raw material prices, no acquisitions/divestments, and no special items.

**Capital allocation principles**

Chr. Hansen’s capital allocation principles prioritize investment in organic revenue growth and bolt-on
acquisitions to support its existing businesses. The priorities remain as follows:

1. To support organic revenue growth through investments in innovation, capacity and people
2. To pursue bolt-on acquisitions, e.g. via technology or market presence
3. To pay an ordinary dividend of 40-60% of net profit, subject to the Board of Directors’ decision
4. To maintain financial leverage consistent with a solid investment-grade credit profile, while returning excess cash to shareholders through interim dividends or buyback programs

Capital Markets Day
The updated strategy will be presented at a Capital Markets Day event on 18 April 2018. The presentation will be webcast and can be accessed via www.chr-hansen.com/investors.

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About Chr. Hansen
Chr. Hansen is a leading global bioscience company that develops natural ingredient solutions for the food, nutritional, pharmaceutical and agricultural industries. We develop and produce cultures, enzymes, probiotics and natural colors for a rich variety of foods, confectionery, beverages, dietary supplements and even animal feed and plant protection. Our product innovation is based on more than 30,000 microbial strains – we like to refer to them as “good bacteria.” Our solutions enable food manufacturers to produce more with less – while also reducing the use of chemicals and other synthetic additives – which makes our products highly relevant in today’s world. We have been delivering value to our partners – and, ultimately, end consumers worldwide – for more than 140 years. We are proud that more than 1 billion people consume products containing our natural ingredients every day.