

Chr. Hansen

Moderator: Martin Riise
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OPERATOR: This is Conference #5098886

Operator: Thank you for standing by, and welcome to the presentation of Chr. Hansen's results for Q2 2017/2018. 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 one on your telephone. I must advise you that this conference is being recorded. I would now like to turn the conference over to your speaker today, Cees de Jong. Please go ahead.

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

The first half of the financial year '17/'18 for Chr. Hansen has been solid. The good overall momentum from Q1 continued into Q2, and we realized organic revenue growth of 9 percent, with continued strong growth in Food Cultures & Enzymes, while Health & Nutrition grew in line with expectations.

Natural Colors grew below our expectations as the efforts to improve margins longer-term are impacting the sales growth, and we continue to see the soft market for colors and food prep and dairy in North America.

Currencies, particularly the U.S. dollar, has been a major headwind for us in the first half, and we'll get more into that throughout the call. Now please

have a look at Slide number two, and read through the disclaimer or do so afterwards.

And with that, please let's move to the next slide. As I mentioned, our organic growth rate was 9 percent in the first half, which translates into a revenue of EUR 518 million, 3 percent up compared to last year.

Overall, growth was in line with expectations, with a stronger performance in Food Cultures & Enzymes driven by bioprotection, which offset by slightly slower performance in Health & Nutrition and Natural Colors.

Volume and mix accounted for 7 percent of the growth, with euro-based price increases of 2 percent accounting for the remainder. At first, developments in currencies have a negative 6 percent impact between the organic growth and the reported euro growth, and was even worse in Q2 compared to Q1.

The decline in the U.S. dollar of 10 percent relative to the euro is clearly the main impact here. The EBIT margin, before special items, was 26.2 percent in the first half year compared to 26.9 percent during the same period last year.

Our margins are negatively impacted by currencies and would have been almost a full percentage point higher if the U.S. dollar had not depreciated so much against the euro. The underlying performance of our business is sound and strong, and we can see that going forward, we will benefit as expected from the new capacity in Copenhagen.

In Q2, the EBIT margin before special items was 27 percent, unchanged from '16/'17, and the flat development was despite the negative impact from currencies of more than 1 percentage point. And it was largely offset by operating efficiencies and the positive mix.

R&D expenditures amounted to EUR 39 million or 7.6 percent of sales compared with 7.2 percent last year. The increase was driven by strategic initiatives, including bioprotection and LGG.

Profit for the period ended at EUR 98 million, on par with last year. Finally, the free cash flow before acquisitions and special items was EUR 11 million, which is below last year.

And the key reason for the decline comes from the changed Danish export credit scheme, which impacted working capital negatively. And finally, we also have negative currency impacts here.

Please move the next slide for a look at the strategic highlights of the first half. As you know, we continue to pursue our nature's number one strategy, and we will discuss the second update of the strategy more in-depth during the upcoming Capital Market Day in Loma next week. Until then, I just want to highlight some of the current focused areas.

Let me start with bioprotection that continued the strong growth momentum with 45 percent growth. And it's still driven by the first-generation of the technology. The growth rates in bioprotection are expected to come down somewhat in the second half of the year, where growth also was very strong last year and the base is becoming higher.

With that said, we do, however, still expect strong double-digit growth for the full year. We launched the second-generation bioprotective cultures in the beginning of this financial year, and we see good filling of the sales pipeline that, particularly in emerging markets like Latin America.

In Food Cultures & Enzymes, the new capacity in Copenhagen is now fully operational, and we are now quite confident that we will see margin benefits towards the end of this year.

We're also focusing on growth in emerging markets, both for Food Cultures & Enzymes as well as for Health & Nutrition. In Food Cultures & Enzymes, we're strengthening our local presence, including application labs and resources.

And in Health & Nutrition, we're expounding sales coverage, especially in APAC, but also in EMEA, and we do so to increase the penetration of our

products. In plant health, as you know, we launched two new products, Quartzo and presence, and we did so at the end of the last financial year.

These new products, which are biological nematode control products, are already supporting the strong growth of plant health in Latin America, together with the existing product (inaudible)

Our portfolio is quite strong for sugarcane applications, and we're optimistic about our position here. The Brazilian authorities have recently banned some of the chemicals, which our products may replace. These banned chemicals were quite toxic, and our products offer a natural solution, with a performance that is similar to the chemicals.

Finally, in Natural Colors, we aimed to both grow the business and increase margins. And as a result of those two priorities, we have adjusted our portfolio towards more profitable (inaudible) segments, and that has a negative impact on the top line.

In addition, the U.S. market for food prep and dairy continues to be soft. Now please turn to Slide number five, the next slide, please.

As can be seen from the slide, Food Cultures & Enzymes' organic growth was 12 percent, with strong growth in cheese, fermented milk, enzymes and milk. And bioprotection as I've said before, continued the very strong growth trends and grew by around 45 percent.

Organic growth in Health & Nutrition was 80 percent, mainly driven by animal and plant health, and offset by low growth in human health. The situation in the U.S. for probiotics for dietary supplements within human health has been challenging during the first half of our current financial year.

We know that most of the negative developmental that we've seen is related to inventory reductions by a few large customers. This suppresses our growth temporarily.

The overall markets for our human health probiotics sees volume growing, and we are confident that our business will return to stronger growth rates over the next 6 to 12 months.

Natural Colors grew by 4 percent organically, with 2 percent from volume and 2 percent from prices. The adjustments to our portfolio to increase profitability has impacted the growth rate negatively, as expected. And that is combined with negative order timing in North America.

And as mentioned before, we also saw a soft market for food preparations to the dairy market in North America, where colored yogurts are losing share to yogurts with less sugar.

When we entered to the next slide, and we look at the developments in our 4 regions, then we grew 7 percent organically in the largest region of Europe, Middle East and Africa, and that region represented 44 percent of group revenue. Growth was driven by strong growth in cheese, enzymes and meat and solid growth in probiotics or fermented milk.

The growth in bioprotection continues to be very strong in this region, and is almost exclusively driven by the first-generation technology. Organic growth in the second quarter was 9 percent, effectively by the same drivers.

In North America, which represented 26 percent of revenues, we saw 4 percent organic growth. However, given the declining U.S. dollar, this translates into a 7 percent decline in euro revenues.

We saw strong growth in cheese, probiotics for fermented milk, meat and animal health. And in North America, we also see strong growth from bioprotection. And again, like EMEA, the growth is first-generation.

Like I mentioned previously, human health is challenged by the market conditions in North America, so here, revenues declined. And in Natural Colors, revenues declined due to timing of orders and a soft market in dairy and food prep.

In Q2, organic growth was 1 percent, as we left conversion of a large cheese manufacturer in the U.S., making for high comparable.

Then in Asia-Pacific, which nowadays represents 17 percent of group revenues, we grew 21 percent organically, driven by strong growth in fermented milk in China, human health, with both dietary supplements and infant formula growing strongly, animal health and Natural Colors.

Enzymes and probiotics for fermented milk showed good growth, while revenues from cheese declined. In Asia Pacific, organic growth in the second quarter was 22 percent.

And then, finally, in Latin America, which represents 13 percent, we grew 15 percent organically, driven by strong growth in cheese, fermented milk, enzymes and plant health. Natural Colors showed good growth, while probiotics for fermented milk and animal health were below last year.

In Q2, organic growth was 14 percent. And again, as mentioned earlier, in Latin America, we now have the first wins for the second-generation bioprotective technology. And with this, I'd like to hand over to Søren to go through the financials of the business.

Søren Lonning: Thank you, Case. In Food Cultures & Enzymes, the 12 percent organic growth after the first half year was driven by 10 percent growth from volume and mix and 2 percent from prices. The volume growth was primarily supported by strong development in cheese, fermented milk, enzymes and meat as well as good growth in probiotics.

Bioprotective cultures delivered organic growth of approximately 45 percent, and this was driven by the existing segments within fermented milk, cheese and meat, with EMEA, North America, being the main regions.

In Q2, the growth momentum was maintained, and the drivers in the business were basically the same as for the first half.

The EBIT margin for the first half year was 31.3 percent, which was 1.4 percentage point below last year, as a result of adverse currency impact, high

inventory build last year and unfavorable product mix and the sale of a property in Argentina in Q1 2016/'17.

In Q2, the margin was 31 percent, which was up 0.5 percentage point compared to last year. We have started to fully depreciate our new capacity in Copenhagen, and have had a heavy headwind from currencies.

However, we have been able to more than offset these negative impacts, which scalability and production and cost management, and we expect scalability and production to continue to improve during the second half of the year. Let us turn to the next page.

Sales for nutrition delivered 8 percent organic growth after the first half year, all from volume and mix. This was driven by strong growth in animal health and very strong growth in plant health, albeit from a low base.

Like we had already mentioned, human health in North America declined due to inventory reductions with a few customers and challenging market dynamics. In Q2, organic growth was 7 percent and both dietary supplements and infant formula in APAC more than offset the decline in sales in human health in North America.

Animal health also grew strongly, driven by improved sales coverage in EMEA and APAC. The EBIT margin in the first half improved by 1.1 percentage point to 28.2 percent, driven by a positive product mix in human health, reduced breathe, in sourcing of NPC products and the absence of royalty payments for LGG.

This more than offset a sizable negative impact from the growth in U.S. dollar. In Q2, the EBIT margin improved by 0.8 percentage point to 32.5 percent, primarily driven by a better product mix, which more than compensated for negative impact from the U.S. dollar. Please turn to the next slide.

Natural Colors grew by 4 percent organically, with 2 percent from volume and mix and 2 percent from prices. The price increases reflected both increased raw material prices and general price increases.

Carmine volumes continued to decline, partly due to a dedicated effort to focus on higher value customer segments. But this was offset by strong growth in the natural and carotene categories as well as in coloring foodstuff.

In Q2, organic growth was also 4 percent, and the drivers were very much the same. However, we had expected to grow -- we had expected growth to be stronger in the second quarter.

Based on the start of the year, we are lowering our expectation to organic growth for Natural Colors for the full year. We now expect growth to be below our long-term financial ambition, which is around 10 percent for this business area.

The EBIT margin was 8.9 percent in the first half, a decline of 2.6 percentage point, driven by negative impacts from raw materials, including timing of inventories as well as the lower sales. The profitability improvement initiatives partly offset the negative impact.

In Q2, the EBIT margin was 9.5 percent, 3 percentage point lower than last year, primarily due to raw material impacts and a one-off impact from management changes. And let me also add that we, earlier today, in the press release, announced that we will expand our production capacity facilities in North America.

Please turn to the next slide. On this slide, we have tried to illustrate the significant adverse impact that we have from currency in general and from the U.S. dollar in particular over the course of this financial year.

In our Q1, the U.S. dollar depreciated by 7 percent compared to the euro, and this deteriorated to minus 13 percent in our Q2. So in our first half, the U.S. dollar was an average 10 percent weaker relative to the euro.

As a rule of thumb, a 5 percent decline in the U.S. dollar will have a negative impact on our top line of around EUR 50 million and around half of that amount on EBIT.

So as you can see, a sizable part of our total currency impact of minus 6 percent on top line in the first half year comes from the depreciating U.S. dollar, while smaller impacts came from the Chinese, Brazilian and Australian currencies.

As you can also see from the slide, if the U.S. dollar stays where it currently is for the remainder of the year, we will see a similar negative effect in the second half of the year.

In terms of the EBIT margin, the currency impact was minus 1.2 percentage point in Q2 and minus 0.8 percentage point for the first half, and again, this is primarily driven by the U.S. dollar.

Please turn to the next slide. Here, we have the group results for the first 6 months. Sales grew by 9 percent organically, which is in line with our long-term target of 8 percent to 10 percent for the group. Volume and mix accounted for 7 percentage point and prices the remaining 2 percentage point.

Gross margin declined by 0.5 percentage point due to the ramp up of new capacity in Food Cultures & Enzymes and negative currency impact, primarily the U.S. dollar. Leaving the currency impact aside, the margin development is as expected and beyond the line performance in the business is solid.

Please turn to the next slide for the cash flow development. The cash flow from operation decreased by EUR 14 million, and the main reason is the change in the Danish export credit scheme, which took effect in January.

This impacted our networking capital negative, but it is a one-off effect. But we also had a higher tax payment compared to last year, but we had a tax benefit relating to the NPC acquisition.

Cash flow used for operational investment activity decreased by EUR 2 million. The investment level for this financial year will be roughly on par with last year in absolute terms.

We are investing across the business in various expansion and upgrades in order to both remove bottlenecks and to save the very high level of quality that our customer expects from us.

Free cash flow before special items and acquisition was EUR 11 million compared to with 13 -- EUR 30 million last year. Let me add here that the Board of Directors will assist the possibility of distribution excess cash in relation to the Q3 interim result announcement.

Please turn to the next slide. With the solid start to the year, we are remaining -- we are maintaining the group guidance in all parameters. This means, we still expect to see 8 percent to 10 percent organic growth and EBIT margin and free cash flow levels in line with last year.

However, we are, like we had mentioned, adjusting the guidance for Natural Colors. We now expect organic growth to be below the long-term financial ambition of around 10 percent.

We expect that reported revenue growth this year will be around 6 percentage point lower than organic growth, especially driven by the weaker U.S. dollar. There are no changes to the other guidance metrics. Please move to the next slide. This concludes our presentation today. Operator, please open the line for questions.

Operator: (Operator Instructions). Your first question is coming from the line of Lars Topholm.

Lars Topholm: A couple of questions from my side. On second-generation bioprotectants, can you just remind me, compared to the first-generation, what is the difference? And which new end markets, if any, can you address with second-generation compared to what you do now?

Question number two, you mentioned you had some one-offs in Natural Colors, I assume that's for the management change in that division, and probably also some costs for recruiting a new CEO.

On group level, can you specify how large those one-off items are for the quarter? And then a final question, and I'm sorry if it's a little harsh, you know I love you guys dearly, but Natural Color seems to be one (inaudible) disappointment.

And now we have seen a situation where she would then has put a bid up for natural (inaudible) 20x EBITDA? And in that context, what makes you so convinced you are the best owner of Natural Colors?

Cees de Jong: Lars, let me take the last question first, and we know you love us. When you look at Natural Colors, and you look a 30 percent return on invested capital, it is not a bad business, right?

And when we look at the specific reasons for why the first half have been below our expectations and why we needed to lower guidance for the year, there are three things that I would like to mention.

First is that Chr. Hansen, which predominantly has been a dairy company throughout most of its history, also in the color space, is exposed, let's say above-average to the dairy space.

And there, people are shying away from colored yogurts and food prepare, because they contain higher sugar levels. So that impact our sales quite significantly.

Secondly, when we look at what we're doing with the business, we are optimizing the product portfolio. We're pruning the product portfolio, and that means that we're -- we've been cutting low profitability products, that also impact sells.

And the last, but not least, in the first half of last year, we made a fantastic win in the Middle East, where the regulation for Natural Colors is now similar to one of the countries is now similar to that in Europe. And that win, of course, isn't repeated in this first half. So that impact sales. Is Natural Colors an internal disappointment?

I remember that when I joined, we started talking about carmine prices going up and down, and we will continue to see some fluctuation of raw materials. But I think a 30 percent return on invested capital is not bad.

(Inaudible) having a background in flavors, and as most of you know flavors and colors are closely related. We'll surely take a view on this business. And I think you guys should wait for him to get his feet under the table to see what he wants to do with the business.

Let me also take your first question, last, on bioprotection, and (inaudible) 2 and 3 for Søren. With second-generation bioprotection, we are still targeting the same end product category. So mostly in dairy, a little bit in meat.

And what the second-generation bioprotective cultures can do is basically keep the dairy products and meat products safe under harsher conditions. And with harsher conditions, and not necessarily mean that hygiene levels in production facilities, but are more mean cool change that maybe really disruptive.

That maybe disruptive in countries in Latin America, where we've, of course, seen these wins for the second-generation, but it will also allow us to penetrate the bioprotective market in China for products that have to trouble longer distances in the country.

But I had to add is that -- in certain of the emerging markets, some people still use chemicals, and some of those chemicals are not always completely declared on the labels or the quantity that's being used is sometimes a little bit higher.

There, second-generation bioprotection as we've also seen through the wins, offers a perfect solution to come clean logistically in label but also really clean from a customer's perspective.

Last thing I want to say about bioprotection, it's clear that other pays in the industry are trying to copy us, when we compare the other solutions that are out there with our solutions and we do so in stress tests, where we basically

spike the yogurts with nasty molds and stuff, we see that our products both but also second-generation have completed everything else on the market.

So that's probably why bioprotection first-generation is already driving 45 percent growth, and that's also why we're so optimistic about bioprotection going forward. So do you want to take the second and third question?

Søren Lonning: Yes. The second question regarding one-offs and the impacts on the group level. The management change is impacting negatively on group level somewhat above EUR 2 million.

So, of course, it impacts us at the group level compared to momentum. However, it should be noted also that when you compare to last year, we did also (inaudible) Q2 last year have a management change that also impacted closely almost the same size of this.

So it's not explaining our group developments to last year in this particular quarter, but should be mentioned though is this effect is hitting somewhat differently, a longer -- across the division, so we are seeing a sizable negative impact in Natural Color of close to 2 percentage point negative in Q2, where it is -- in Food Cultures & Enzymes. It has a positive effect of around 0.5 point in this quarter. So that's -- so I hope that answers your question, Lars.

Casper Blom: And I know it doesn't maybe affect (inaudible) but your results actually come out with an EBIT EUR 2 million below consensus, so that basically bridges it.

Operator: Your next question coming from Annette Lykke.

Annette Lykke: My first question relates to the market trends in the U.S. for the Natural Color divisions. With the lower demand for yogurts with a high content of sugar and also color, and the way that is negative for your color division, but that is also open up opportunities for your SE divisions?

Of course, I'm thinking about a product like (inaudible). My second question will relate to HNT. And the inventory reductions, where are we? What's the status now? What should we expect for Q3 and Q4? And are you still expecting inventory reductions? Or are they down for this time?

Operator: Let me take those questions, Anna. On your first question, as to whether people are shying away from colored yogurts, it would open up extra opportunity for Food Cultures & Enzymes, we don't think so.

We already looked at quite good growth in North America for Food Cultures & Enzymes. And as you know, uptake of new innovations is always quite slow in the dairy space. So I don't think you should read too much into the Food Cultures & Enzymes.

On your second question, with regards to inventory reductions in human health in North America, I think we're going to be seeing the improvement in our sales probably towards the very end of this financial year to a limited extent, and more so at the beginning of our next financial year.

Having seen the forecasts of some of our last customers in the U.S., I would almost call this a nice welcome present for Mauricio, but it's going to happen in the new financial year.

Operator: Your next question is coming from Michael Rasmussen.

Michael Vitfell-Rasmussen: Three questions for me. First of all, on the Natural Color side, I do also expect -- understand that you've seen some customers actually switching back to synthetics.

Is this because they are just more looking into cost? Or is it because of price difference -- differentials between synthetics and/or naturals change and in which markets is this happening at the moment?

My second question is basically on the euro prices, I don't hear you talk a lot about that. Is that really not happening in any markets as we currencies to depreciate from the U.S. dollar.

And then finally on the new production facilities for colors in the U.S., when should we expect this CapEx? And can we add a bit more flavor about how much it potentially will be?

Søren Lonning: Michael, let me take your first Natural Colors question. It's indeed, I think, well known that General Mills product has reverted back to synthetics. For those of you who do not know, (inaudible) that was a product when it was artificially colored, very bright, very bright colors.

And hence, the industry had great difficulty sort of matching that. So the product with Natural Colors really looked different. They have moved back, and it's actually not a big surprise as consumers were complaining.

That said, Michael, 90 percent, 9-0 percent of the General Mills' cereal portfolio, because (inaudible) is a serial is with Natural Colors today, and we - and we're quite confident that this is just sort of a one-off with one product.

And I'm not aware of any other major brands where conversion to natural happens and then the customer switching back. Søren, can you take the other 2?

Søren Lonning: On the euro price list, it's important to emphasize that the dollar is not the key driver of euro prices as we predominately pricing U.S. dollar in North America.

That being said, we've had a sizable impact in the first half, and it is to the tune of 1.5, almost 2 percent up to that tune in the first half. That will come somewhat in the second half, so we will end at, for the full year, of something that is slightly higher than 1 percent based on the currency rate as it looks now.

So still, a smaller positive effect in the second half, but not to the tune of what we have seen in the first half. So that's on the euro price list. And then relating to the investment in Natural Color, the CapEx will predominantly impact our financial year '19 and '20.

So there will be no effects in '18 because we are so far only entering the agreement of our taking over our site that will take a while before we actually take it all and start constructing on it. So it will be a '19/'20 thing for us.

And in terms of the size, we are not disclosing the precised size, but I would say that it's a sizable investment, but it is also an investment that is clearly below our -- the investment we made in the Copenhagen facility, which was around EUR 45 million. So it is clearly below that investment level also.

Operator: Your next question is coming from Søren Samsøe.

Søren Samsøe: Just a question regarding Health & Nutrition, where you are guiding below your long-term guidance. If you could quantify how much negative is the inventory effect? I mean, how much -- is this part of the reason you are guiding below your long-term guidance?

That's the first question. And then the second question is regarding this migration to online. If you could just say whether this is the same level as we saw in Q1? Or if you feel that effect is accelerating?

Cees de Jong: If I take your last one here, I think the trend is the same in Q2 as what we saw in Q1 in terms of online migration.

And what we can see is that some of our customers are focusing on how they can optimize their sales to those channels. So we see clearly efforts from our partners in terms of how to address that. But no major changes compared to what we saw in Q1.

Michael Vitfell-Rasmussen: Just on that are actively trying to get some new partners or customers that is addressing that segment more clearly?

Cees de Jong: We are always looking for new partners, and new ways in terms of getting new business. So yes, that is a yes. And in terms of how we can support our customers addressing that, that is -- we are spending some more resources in engaging with key opinion leaders in this field.

And as you may have seen, we have launched a new webpage also in the LGG, how to really push the notion of the importance of documentation and how strong documentation that actually system the LGG. So we are doing things that can help our customers also (inaudible) going forward on this.

If I to answer your question on inventory, I would say that we've, of course, spent some time looking more into this and the impact that we can effect from our customers, I think it's fair to say that in case we wouldn't have seen any inventory reduction this year for Health & Nutrition, then we would not have been in a situation where we've had to downgrade the guidance for the year. So I think that's what I can say on that topic.

Søren Samsøe: And when do you think this sort of inventory reduction has come to an end roughly?

Cees de Jong: As Case alluded to earlier, we will be -- the impact will now gradually becomes smaller. We'll still have a sizable impact in Q3. It will be come somewhat better in Q4.

And in the new financial year, we do expect to see a quite good start to the year from this, because then, of course, the baseline in (inaudible) and we are sort off the inventory reduction. So we do believe that when we get to '19, this is behind us, and it could actually show hopefully some very solid development in North America.

Operator: Your next question is coming from Ben Gorman.

Ben Gorman: Just a few for me. First of all, just to clarify are the headwinds, it sounds like you had to whether that's repeatable. And I think strong enzyme growth, which sounded like bit of a negative mix effect in Q1, is that repeated as well?

And sort of outside of that, sort of what would you think is the underlying margin improvement for cultures and enzyme? And secondly in terms of the weakness and the destocking in the U.S., just sort of outside of that, are you seeing any margin pressure or pricing change in animal and health?

It sounds like some of the peers that you have in the sector outside of probiotics are also seeing some price pressures, so I don't know whether that's intrinsic of the market or particular products? So any indication of that would be helpful as well.

Cees de Jong: Then let me address your first question, and then Case will address your second question. In terms of the margin impact in Food Cultures & Enzymes from the mix effect, it is relatively small in the quarter, it's 0.2, 0.3 percentage point negative, and it's really driven by the fact that our -- some of our lower margin enzymes.

And now we're talking (inaudible) lactase enzymes, which is somewhat some more basic enzymes type has grown a lot fueled by (inaudible) reduced lactose and reduced sugar content in yogurts and other dairy products. So that is the key driver, and that is more than offsetting the positive effect that we have from bioprotection growing well.

And it's also one of the parameters in this equation is also that probiotics is also growing, but it's not growing up to the 12 percent that we have for the -- for Food Cultures & Enzymes, and that's a pretty high margin product also. So those are the three things playing in that that is net negative in the core, but it's relatively modest impact.

So if I was to sort of break out the underlying drivers in the Food Cultures & Enzymes in Q2 as an example, then we have roughly minus 1 percentage point from currency, which is the -- lastly, the U.S. dollar, we have roughly 1 percentage point from the ramp up -- in our Copenhagen facility, and that's partly driven by the depreciation and partly driven by the -- we built some inventory last year that we are not building this year.

And then there's a small negative mix. And what is compensating is, of course, as I alluded to, we had the management changes was slightly positive here, so that's -- a little more than 0.5 percentage point.

So netting that out, then you have an effect after these things here that is roughly 2 percentage point left, and that is driven by underlying scalability in the production and also some cost management.

We are basically not growing our cost base to the tune of what we see in top line in Food Cultures & Enzymes, we are managing that ramp up. So underlying, scalability in the Food Cultures & Enzymes are quite solid when you take out the one-off ramp up effects and the currency effect.

Søren Lonning: Let me take your second question, Ben. The one on whether we see price pressure in our animal health products, if I got you right. Four points to make.

One, the end markets for most of our animal health products to think, beef, milk, poultry, those end markets have normalized. Second point, consumers continue to drive the elimination of antibiotics from resources.

I mean so much relation, it's really consumers that become more aware about the issue of healthy micro by resistance and they want products where for sure what at vertex has been used. The third point and that's probably the most fundamental when it comes to Chr. Hansen, we how strengthening our route to market.

We've seen historically that when we have our own people or our well-trained distributors, our capital more business partners, when they sell our probiotics and they are in dialogue with the users, they have a better way of selling these and explain the benefits.

And we are strengthening our markets in Asia Pacific and India, because feet underground, well-educated business partners is helping this business.

And then the last point to make, fourth, is that you know we are strengthening our portfolio of products that are either give it better yields for our customers, how we are commercial layer, lower mortality, lower sickness. But also in the size area, we've been introducing a new version of (inaudible), and that actually is growing fantastically well.

Because farmers have used it, (inaudible) actually talked to some of the farmers, they really love it because they see the effect that they get higher feed value out of it. So no is the answer to your question, we don't see any price pressure in animal health.

Ben Gorman: (Inaudible) lovely, brilliant. Can you just -- at the question is over. Third question, if that's all right. Just you highlighted the particularly strong growth in LATAM, and you listed bioprotection in that. I just wanted to check the commentary that you are giving on bioprotection earlier in the year.

It sounded like the impact on top line for the second-generation wasn't going to be seen until maybe even the beginning of next year. Is that still the case? Or do you think H2 you could start to see sort of a notable impact from that?

Søren Lonning: I think in H2, the impact from second-generation is going to be very, very modest. I was actually surprised myself to see that in a certain country, one of our first-generation products was capable of helping out a customer, where I thought it might even require a second. So what you're seeing in there is first-generation. We've seen the pipeline fill up very well.

I mean these guys don't allow me to give numbers, then I get a red card, and I don't want it in the last call. But the pipeline with second-generation is filling up fantastically well in Latin America. But I think the majority of sales will come in the next financial year.

Operator: Your next question is coming from Arthur Reeves.

Arthur Reeves: With Natural Colors now below your medium-term expectations, it's Food Cultures & Enzymes taking the strain. What are the key differences that you're thinking about now in that business compared to where you were at the end of the quarter 1? The less you maintain guidance overall?

Søren Lonning: Let me try and kick it off, and then Søren may chip in. When we look to our portfolio, 60 percent of what we do is Food Cultures & Enzymes. and there you've seen us do two quarters in a row with 12 percent organic growth.

Hence, we've been getting, after the first quarter, that we were going to be the above our long-term guidance for Food Cultures & Enzymes, which is 7 percent to 8 percent. That part of the business is just hovers along quite nicely. And that with Natural Colors, I mean, we're not completely falling off the scale.

And we have lowered our guidance, because we're not going to be meeting our long-term ambitions, it's not mid-term ambitions, it's long-term ambitions for this business. Yes, that can happen in the year.

Like we said before, there's three reasons for that. But overall, in Food Cultures & Enzymes, we got great momentum in the core businesses. And have you seen, bioprotection with 45 percent growth first half is doing well too. Søren, you want to add anything (inaudible).

Søren Lonning: I would like to summarize a few points, I would put down that in Food Cultures & Enzymes beef has done probably much better than we expected. We've also seen the more mature markets like EMEA and North America performing really strong, and that's still a very sizable part of the business in Food Cultures & Enzymes.

And finally, we have also a smaller effect from euro prices, given the currency developments that is also adding a bit to organic growth. So I will point to those 3 if I was to add something to Case's remarks.

Arthur Reeves: Do you think you can keep up this 12 percent through the rest of the year? I don't want to get your red card, Case, but can you -- is that something you can do?

Cees de Jong: We have -- what we've said is that we're going to be above our long-term guidance, and we've not been more specific than that. So thanks for reminding me that I could get a red card.

Søren Lonning: In the Q1, if I was to say anything, Arthur, in Q1, we increased the guidance from being slightly above to being above, and then I think you can interpret based on that, that is probably a little more -- it is a little more than slightly above.

Operator: Your next question is coming from Heidi Vesterinen.

Heidi Vesterinen: Few questions, please. In human health, I think you said on one of the slides that in Europe, you saw infant formula down due to destocking. Can you talk about what's happening in the adult dietary supplements market there in Europe? And then another point on human health.

I think last quarter, we had talked about the fact that your position at the premium end of the market, and you're selling to premium customers who are

positioned in the wrong channel, I wondered if you consider to selling to nonperforming customers if the current customers did not fix the situation?

Going on premium doesn't sound to Chr. Hansen so I just wanted to check to what your view on that was. And then, lastly, your clarification on Natural Colors. Are your customers here in North America, mainly the large multinationals? Or do you also have a balanced mix with more small customers as well?

Cees de Jong: Quite good questions, Heidi. I think I'm going to tag team with Søren. Taking your first question on human health in Europe. What we've seen in Europe is actually related to some specific customers. One customer has pulled its business up for sales, lost a little bit of attention.

One customer, how I'm going to put this? Is not repeating the strong growth that we saw there last year with the new products, it's sort of stocking up situation. So that has impacted sales in Europe to some extent. When I then moved to premium versus nonpremium, now Chr. Hansen is really into premium.

And one of the things that we may talk about at the Capital Market Day, is the importance having done the work, the clinical studies, to prove that probiotics are working. And we don't want to go nonpremium with products that really work. So that's not part of our strategy.

What we are doing though is making sure that key opinion leaders, and ultimately consumers, understand the difference between the strain where the work is being done and the strain where the species where once has been done. In addition thereto, we're also trying to get those premium products into the other channels.

And then when it comes to Natural Colors, I think it's fair to say that we are very well diversified in our portfolio amongst large customers and large food multinationals as well as private label as well as food service.

And especially in food service, we nowadays see a fast uptake of Natural Colors, as they are converting to naturals. They're actually quite outspoken about it, and I think, for instance, dunking.

In addition to what we see is that sometimes some of the very large brands goes slow when it comes to conversion, and large brand owners try things just to be very cautious, whereas the smaller brands and food service grow significantly faster.

What I -- the point I tried to make before is that Chr. Hansen is having a little bit of overexposure in natural cost to the dairy space, and that has impacted our growth because the colored yogurts and food prep are clearly under pressure. Søren, you want to add any?

Søren Lonning: I think you colored well. My only comment would be on the first question regarding human health in EMEA.

I would just like to emphasize that EMEA is not a growth market that is growing as fast as we have seen APAC or North America have done in recent years, it's been like that for a while. But it is growing, and we don't see changes in the market trends. It is customer specific observations that we talk to.

Operator: Your next question is coming from Jonas Guldborg.

Jonas Guldborg Hansen: Jonas from Danske Bank. I have a couple questions left on my list. So first of all, you've declining momentum or worsening momentum in organic growth in Natural Colors in Q2 or Q1.

So how should we think about organic growth in the second half in Natural Colors? And then my second question is just, if you could remind us how much plant health is of revenue as of now?

Søren Lonning: Yes, but I can address these questions. Actually, when we look to Natural Colors, I believe we did 4 percent in Q1 and 4 percent in Q2. So it's roughly the same momentum that we saw. And obviously, as communicated, that's not where we want to be, so we are not pleased with the situation.

We are, of course, putting actions to place to support that we can lift the momentum in the second half, but of course, we need to be successful with that. But it is our ambition to lift the momentum in the Natural Color business in the second half of the year.

In terms of plant health, then it is still a relatively small part of Chr. Hansen's business. We normally say that it's -- it is to the tune of 2 percent, maybe around 3 percent of Health & Nutrition revenue. So it's still quite small.

However, when we look to the pipeline and the products that we are now seeing progressing in the market, that makes us optimistic that, that is something that we can -- that can grow in size quite well over the coming years. But I think this is more topic for the Capital Market Day next week, where we maybe able to say a bit more about that.

Operator: Your next question is coming from Klaus Kehl.

Klaus Kehl: Klaus Kehl from Nykredit Markets. Three questions from my side. Would you give us any indications about what would be a reasonable EBIT margin for the Colors division in this full year?

That would be my first question. Secondly, on group level, you have an EBIT margin guidance of around the same level as last year. Would 28 percent be around the same level as last year? Just any thoughts about this range, I would say.

And thirdly, is it correct that bioprojections, they constitute around 5 percent of group sales? Meaning, that this 45 percent growth you are seeing right now it must be adding around 2 percentage points to your growth right now? That would be my questions.

Søren Lonning: Let me try to address these questions, Klaus. If I start from the bioprotection, what we are saying that, that is slightly above 5 percent for Food Cultures & Enzymes, so that will not translate into 5 percent for the entire group, it will be slightly below that.

When we look to the margin for this year, when we say around last year, it is a more narrow stand on what you're indicating.

What I would say though is, that when considering these numbers here, you will see we had a negative currency impact of almost 1 percentage point in the first half, and we expect that to be more or less replicated in the second half. That is, of course, a challenge that we are addressing and absorbing.

So that needs to be seen in consideration with the guidance of around last year that we actually absorbing quite a substantial impact from currency in this year. But 28.0, that will -- we are looking into something more narrow when we talk about their margin.

And then finally, you had a question on the EBIT margin in Natural Color. And what I would say here is that we believe that we will have a sizable improvement in the second half compared to first half, but moving into a more specific guidance at the divisional level, we don't want to do that here.

Operator: Your next question is coming from (inaudible).

Unidentified Analyst: Three questions please. If you look on the 1 percentage point negative impact from FX, can you see us (inaudible) on how that is distributed three -- across the three divisions? That's the first question. Second question goes to bioprotection. There was a little bit of noise here, so I couldn't hear the answer.

But was I right to hear that you expect very limited growth for bioprotection in the second half? And follow-up on that. If I look on Page 6, there's nothing you mentioned about bioprotection in APAC. Is there no real sales going on there?

And then finally, Natural Colors, that conversion on existing food and beverage product goes very slow in the U.S., bearing that in mind, are you still able to sustain the medium term growth target over the next two to three years?

Cees de Jong: Hans, I'm going to ask Søren to answer your first three questions. You may have to repeat your fourth because the line muted for a second at the beginning of your question. But we can take that later. Søren, go ahead.

Søren Lonning: When we looked to the currency impact, and when you say almost 1 percentage point, I see that it's the EBIT margin that we are discussing here. And then, the guidance I can give you on divisional level is that it's Food Cultures & Enzymes is more or less on average for the group.

Health & Nutrition have a quite high exposure to the U.S. dollar, so they are hit clearly tougher than the average. And then in Natural Color, you will see basically no impact from currency, because we have a more natural hitch in Natural Color as we are sourcing quite a bit in U.S. dollar of the more exotic pigments around the world.

So that was sort of speak to the distribution of currency effect on EBIT margin across our business areas. You asked whether bioprotection, whether we expect limited growth in second half? I don't think you can adapt that.

I think what we are saying is it will be extremely challenging to maintain a level of 45 percent, which we've seen in the first half, given that we had some quite large wins last year around the time of where second half started.

And that also led through that, during last year, as you may remember grew by 25 percent in the first half, and then 35 percent in the second half.

So we really saw a step up in momentum here, and that tougher baseline will hit us here in the second half. That will take growth down somewhat, but it will not be -- it's not like we will not be growing bio p in the second half.

Unidentified Analyst: (Inaudible) your market penetration right now?

Cees de Jong: It's not -- it's still quite low. So when you look to what you can say our existing categories, where we're already present and active, so in yogurt and in certain meat types, salami, we're selling it into then it's below 10 percent. And when you look into cheese, it still way below 5 percent.

And when you start to look above penetration outside these segments, that has been our focus areas from the start. Then, it's below 1 percent. I mean, and it's very, very low. So it's fair to say that the penetration rates are still very low in this field.

Unidentified Analyst: Would you just repeat to me. I didn't understand. In terms of yogurts, what was the penetration there?

Cees de Jong: Below 10 percent. And in a few meat segments, where we are selling this into, it is also below 10 percent. And then in cheese, it's way below 5 percent. On the bio p in APAC, it's fair to say that bio p is still not a sizable segment for us in Asia Pacific, but believe there is a large opportunity out here.

But this is exactly what the second-generation is going to help us address. The first generation was not very well-suited for the needs in Asia Pacific and also to (inaudible) and also the need of Latin America.

So one of the key benefits of the second-generation is that it will allow us to address that you can say the more emerging markets much better. So to your question, it's not big for us yet, but we do see a large potential out there.

Søren Lonning: Hans, would you care to repeat your fourth question because (inaudible) time (inaudible) so let's do that quickly.

Catherine Farrant: Natural Colors, I understand that the conversion of existing products from synthetic to Natural Colors is going quite slow in the U.S. Bearing that in mind, can you still sustain over the next three years the current medium-term targets?

Cees de Jong: Let me answer that in two ways. First, the last part. At this point in time, there's no changed guidance. Next week, there is a Capital Markets Day. And then we'll look at our long-term guidance.

When I look at the conversion in the U.S., some of the big brands take time. However, when I look at food service or let's say the sort of mid-tier companies, their conversion is actually happening at quite a good pace.

And so I don't think there is any reason to believe that the conversion overall is slowing down. Operator, we have run out of time. So I think we need to close the call.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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