CHR. HANSEN HOLDING A/S

Moderator: Mauricio Graber
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Operator: This is conference # 3956059

Operator: Thank you for standing by, and welcome to the presentation of Chr. Hansen's results for quarter 4 2017/2018 and annual report 2017/2018.

At this time, all participants are in listen-only mode. There will be a presentation followed by the 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 keypad.

I must advise you that this conference is being recorded today.

I would now like to hand the conference over to your speaker today, Mauricio Graber. Please go ahead, sir.

Mauricio Graber: Thank you very much. Good morning, ladies and gentlemen. Welcome to everybody, and thank you for joining this conference call on the publication of Chr. Hansen's full year 2017/'18 results.

My name is Mauricio Graber. I'm the CEO of Chr. Hansen, and together with our CFO, Søren Westh Lonning, I would like to walk you through the key highlights of our financial year before opening the floor for questions and answers.

Before we get started, please take notice of the disclaimer on Slide 2 related to the Safe Harbor statement. I will just pause for a second. Thank you.

Let's move on then to Page 3. 2017/'18 was another successful year for Chr. Hansen, and I am very pleased to report that we delivered on the financial targets that we set out at the beginning of the year.

The group revenue increased to EUR 1.1 billion, driven by a solid organic growth, which came in at the midpoint of our target range at 9 percent, supported by all 3 business areas, and particularly, a strong fourth quarter with 10 percent organic growth. EBIT before special items rose by 4 percent to EUR 320 million, resulting in an EBIT margin of 29.2 percent, slightly up compared to prior year. In Q4, the EBIT margin before special items was 33.8 percent.

The improvement during the year was mainly driven by positive developments in Food Cultures & Enzymes and Health & Nutrition that offset the substantial foreign exchange headwinds, as well as slightly lower margin in our Natural Colors business. Our third financial target, free cash flow before special items and acquisitions, increased by 4 percent to EUR 196 million, also in line with our guidance.

Based on these set of strong results and in line with prior years, the Board of Directors will propose to the Annual General Meeting in November to pay an ordinary dividend of EUR 0.87 per share, which is equivalent to 50 percent of net profit.

Looking at the 3 business areas on the next slide, Slide 4, you can see that our 2017/'18 performance was very much driven by Food Cultures & Enzymes that deliver a strong organic growth of 12 percent, both in the full year and the fourth quarter. Health & Nutrition reported a solid growth of 8 percent for the full year and a slightly stronger growth of 10 percent for Q4, driven by very good momentum in Animal and Plant Health.

In Natural Colors, growth picked up in the second half of the year, with 6 percent organic growth in Q4, leading to a 5 percent organic growth for the full year. I recognize that while this performance was clearly below last year results and our long-term aspiration, we are optimistic to see the continuation of a positive trend during the next year, and I will elaborate more on this later in the presentation.

Let's look at the operational and strategic highlights of the past year before we go into more details on the financials. Please turn to the next slide, Slide 5.

As you know, Chr. Hansen runs a 2-year strategic cycle, and the results of our last review were presented in London during the Capital Markets Day in April.

The core of our strategy, Nature's no. 1, is as relevant today as it was when it was introduced in 2013 by my predecessor, Cees de Jong, and I would like to once more state my full commitment and support for our strategy, the financial ambitions attached to it as well as the capital allocation principles that we will review in our presentation today.

Leveraging the full potential of Food Cultures & Enzymes, while developing our microbial platform for solutions in human, animal and Plant Health, continues to be the top strategic priority for Chr. Hansen. At the same time, we remain committed to create further value in Natural Colors by transforming it into the top player in its field, both in terms of growth and profitability.

To implement our strategy, we'll remain focused on 3 things -- driving penetration of innovation, reinforcing our position in growth markets and maintaining our relentless focus on operational excellence. On all of the above, we made very good progress in 2017/'18.

Looking first at innovation and new product launches. We successfully introduced the second generation of our bioprotection range, FreshQ, last November and continue to see very good momentum here, particularly in Latin America. In fact, we're very pleased with the strong growth that bioprotection showed in the fourth quarter, 75 percent of which was driven by our second-generation products.

In Health & Nutrition, we have made 2 very exciting announcement related to the human microbiome lighthouse. First of all, we are entering into a partnership with Prota Therapeutics to do Phase III clinical trials with the LGG strain on the effectiveness of treating peanut allergy. And secondly, we completed a clinical Phase I study with a new probiotic strain that strengthens the defense against gut damage caused by regular usage of household painkillers.

More clinical trials are needed before to further investigate the latter, and we have not yet decided on the commercialization strategy. But if you consider that in the U.S. alone, 50 million adults take painkillers like aspirin on a regular basis, you get the idea of the potential of this new strain.

Coming to our third lighthouse, Plant Health. We also made some good progress during the past year. Most importantly, we extended the collaboration with our partner, FMC, with whom we will continue to work on the commercialization of our mutually developed pipeline over the next years.

Together, we launched the first 2 products, Quartzo and Presence, 2 crop-agnostic bionematicides in the Brazilian market, and we're currently in the process of getting the necessary approvals to introduce the strains into the U.S. market, too. The first milestone, the EPA approval, was reached very recently, and we hope to start commercialization during the next calendar year.

When it comes to reinforcing our position in growth markets, let me tell you, I still see a lot of potential for Chr. Hansen to move closer to our customers in emerging markets like Latin America, India, Southeast Asia and the Middle East/Africa. And I am very pleased to report that we extended our local customer support teams and infrastructure during the year in Food Cultures & Enzymes. Among others, we opened 2 application centers in Mexico and South Africa and upgraded our existing facilities in Dubai and China.

In terms of markets, China continues to be the growth motor for also in Asia Pacific, driven by fermented milk, infant formula and dietary supplements. Reinforcing our position in growth markets though is not only about geographic reach, but also about fast-growing categories, and I'm happy to report that Natural Colors started expanding into the fast-growing category of food service last year, with some promising wins in the U.S. and Asia Pacific.

Lastly, looking at fuel for growth or productivity agenda. The major milestone last year was the completion of our Copenhagen expansion, where we doubled capacity. The ramp-up went smoothly, and we are already seeing productivity gains come through during the second half of the year. And Søren will elaborate on this a little bit more when he talks about Food Cultures & Enzymes.

So you can see, 2017/'18 was not only a good financial year for Chr. Hansen, but also quite an eventful year from a strategic point of view in advancing the execution of our Nature's no. 1 strategy.

At this point, I would like also to mention that we announced a small bolt-on acquisition in Austria this morning to strengthen our market access in rennet and consolidate a niche market for Food Cultures & Enzymes. It's a very small company called Hundsbichler, and a nice existing addition to our existing portfolio with some synergy potential.

That said, the acquisition is fully in line with our Nature's no. 1 strategy as well as our general acquisition criteria, and it should by no means be perceived as a signal of a new CEO coming in and doing major transformational M&A. Chr. Hansen is, at the core, an organic growth story and I have no intention to change this.

Of course, we will continue to develop the business and fine-tune our strategy, but I'm fully convinced that we have the right principles in place. And this is actually a nice transition to the next slide, which talks about our sustainability efforts, on which I would like to update you and, also going forward, report this on a regular basis.

As you know, sustainability for Chr. Hansen is not a buzzword but the foundation of our business model and which is also why we added the tagline sustainably to our Nature's no. 1 update in April.

Sustainability is embedded in our purpose, our strategy and our culture. With our products and solutions, we address some of the most pressing challenges society is facing nowadays, be it the fight against antibiotics, food waste or the need for more sustainable agricultural practices. And I strongly believe that there are a very few companies that are as well-positioned as Chr. Hansen when it comes to doing well whilst doing good.

With our efforts in this space, we will not only continue to support the United Nations' Sustainable Development Goals, but we will also secure a market-leading, long-term growth going forward.

Last year, we pioneered in conducting a mapping of our product portfolio against the U.S. (sic) (UN) Global Goals. And based on our methodology and calculations that were reviewed by PwC, I am pleased to report that 82 percent of our gross revenue contributes to the UN Global Goals.

But not only did would we do the mapping, but we also set ourselves 3 ambitious targets that support the Sustainable Development Goals #2, 3 and 12. By our fiscal year 2024/'25, we want to have treated 25 million hectares of farmland with our plant probiotics and silage inoculants. In 2017/'18, we added 3.2 million hectares to this ambition, resulting in a total surface of 6.7 million hectares treated with our Chr. Hansen products.

Secondly, we aim to develop 6 products with health benefits by our fiscal year 2021/'22. Last year, we launched our new children probiotic range for drinking yogurt, ProKids, bringing the cumulative number of products launched up to 3.

Finally, we committed ourselves to reducing global food waste in yogurt by 1.2 million tons until our fiscal year 2021/'22 through our bioprotection solutions. And in 2017/'18, we reduced yogurt waste by 170,000 tons, leading to accumulative result of 400 tons of yogurt waste saved.

I am really proud of this positive impact we have made so far with regard to these targets. And with these, I would like to move on to the next slide on the financials.

Our largest region -- Europe, Middle East and Africa, delivered a solid growth of 8 percent for the fiscal year, driven by Food Cultures & Enzymes, Animal Health and, to a lesser extent, Natural Colors. While Human Health reported declining sales due to customer destocking in infant formula. Organic growth in Q4 came in at 9 percent, driven by the same dynamics except for Animal Health that reported flat sales due to timing of orders with distributors.

As expected, North America reported a softer growth of 3 percent in the full year and 2 percent in the fourth quarter. While Food Cultures & Enzymes and Animal Health both delivered both very solid results for the year, it was not enough to offset the organic challenges in the dietary supplement space as well as the stagnation of our Natural Colors business in North America.

Q4 was comparable, except for Natural Colors, that reported a slight decline in revenue compared to the prior year. On a more positive note, we have seen the sales deterioration in Human Health to turn out less pronounced in Q4 compared to the full year. And for the next year, we expect an improvement.

More dynamic sales momentum came from Asia Pacific and Latin America that posted organic growth of 16 percent and 19 percent, respectively, for the full year. Whilst Asia Pacific reported particular strong momentum in Health & Nutrition and Natural Colors, Latin America showed stronger growth in Food Cultures & Enzymes, animal and Plant Health. The complementary regional picture is a very nice illustration of our diversified portfolio.

Looking at Q4, growth in Food Cultures & Enzymes and Natural Colors in Asia Pacific was a little softer compared to the full year, leading to organic growth of 13 percent, while we saw a pickup in Natural Colors in Latin America, resulting in 26 percent organic growth for the quarter. That said, please note that about half of our organic growth that we have seen in Latin America, both for the fourth quarter and full year, can be attributed to the euro pricing model.

And with this, I would like now to hand it over to Søren to walk you through the business area financials.

Søren Westh Lonning: Thank you, Mauricio, and a warm welcome also from my side to everyone listening in today. Please move to the next page, Page 8.

As already stated by Mauricio, Food Cultures & Enzymes delivered a strong set of results in FY '18. Organic growth came in at 12 percent, with 8 percent coming from volume and 4 percent from price, both for the full year and for Q4.

And let me put these numbers into perspective. Our growth model for Food Cultures & Enzymes stipulates around 6 percent to 7 percent volume growth and around 1 percent from pricing in a normal currency environment. This means that the 8 percent volume growth seen in F '18 is a very solid result, slightly above our long-term ambition.

The 4 percent price component, on the other hand, reflects the significant currency headwinds that we have seen in some of our growth markets. And as you know, we apply euro price list in several of those. So this number really is proof of our ability to safeguard our top line, and we will pick this up again in a few minutes when we talk about the guidance for the next year.

But coming back to the Food Cultures & Enzymes performance last year. The main contributors for the very solid volume growth that we saw in Q4 and the full year were our cheese, fermented milk, meat and enzymes products, not to forget bioprotection, our fastest-growing food category in Food Cultures & Enzymes, with 35 percent organic growth for the year.

Looking at profitability, the EBIT margin for the year came in at 34.3 percent, down 20 basis points, mainly due to substantial currency headwinds that more than offset the positive margin contribution from our Copenhagen capacity expansion.

In Q4, this contribution was very visible with the margin increasing year-on-year by 2.3 percentage point. However, please note that not all of this was driven by the capacity expansion, and that Q4 last year was also negatively impacted by extraordinary costs ahead of the ramp-up.

You can assume that between 50 and 100 basis points of the margin improvement was related to the capacity expansion, and that we expect the remainder of the roughly 200 basis points to materialize over the coming years.

Moving on to Health & Nutrition on the next page. We saw a very solid performance, with strong contributions from Animal Health and Plant Health, leading to organic growth of 8 percent for the full year and 10 percent for the fourth quarter.

The results were below the historical average for Health & Nutrition due to Human Health, where we saw more mixed picture in FY '18. Whilst our dietary supplements and infant formula businesses showed a very strong momentum in APAC, it was not enough to offset the weakness in dietary supplements in North America and in infant formula in EMEA, which led to mid-single-digit growth for the full year. However, we were pleased to see an improving trend in Q4.

Animal Health, on the other hand, realized strong growth in FY '18, but very strong momentum in silage and solid momentum in swine and poultry, whilst cattle declined due to difficult market conditions for dairy farmers in the U.S. The dynamics were similar in Q4 except for the already mentioned unfavorable timing in Animal Health in EMEA in Q4.

Let me emphasize that although we face headwinds in individual product categories, we still managed to deliver double-digit growth in Animal Health for the full year and in Q4, which is proof of our strong product portfolio and the value proposition we bring to our customers.

Thirdly, our Plant Health lighthouse, which is still primarily operating in Brazil, the largest sugarcane market in the world, benefited strongly from the recently launched products, Quartzo and Presence, in both Q4 and for the full year.

Turning to earnings for Health & Nutrition, the EBIT margin improved by 1.8 percentage points in FY '18, driven by a positive product mix in Human

Health, lower scrap as well as synergies from our 2 last acquisitions, all of which more than compensated for a very substantial adverse currency impact.

Looking at Q4, we also saw a sizable margin expansion from 33.6 percent to 35.7 percent due to a favorite product mix, as well as the absence of last year's impairment, which more than offset smaller currency headwinds and costs related to our Nature's no. 1 initiatives.

Coming to our Natural Colors division on Slide 10. I am happy to report that momentum improved in the second half of the year, resulting in 6 percent organic growth for the quarter and 5 percent for the full year. Volume growth was 5 percent in Q4 and 2 percent in the full year, with strong contribution from our coloring foodstuff product range, FruitMax, and good performance in Asia Pacific and EMEA.

In terms of application, we're seeing strong momentum in ice cream and solid growth in confectionary and beverage in Q4, and strong momentum in ice cream for the full year.

The EBIT margin increased by 0.9 percentage point year-on-year due to currency, a negative impact from raw material prices on inventory in the first half of the year and one-off costs related to the management change. However, in Q4, we saw an improvement of 100 basis points driven by margin management initiatives, such as the SKU reduction program.

To look at the group KPIs, please turn to the next page, Page 11. As you can see in the bridge in the bottom left corner, organic growth for the group came in at 9 percent for FY '18, with a volume/mix component of 7 percent and a 2 percent price component, largely driven by our euro price list. The currency impact on top line was minus 6 percent, resulting in reported euro growth of 3 percent.

With regards to profitability drivers, gross margin improved by 30 basis point year-on-year due to a favorable product mix in Health & Nutrition, while operating expenses totaled EUR 280 million, equal to 25.6 percent of revenue, which was on par with the previous year.

Group EBIT margin was 29.2 percent, reflecting an unfavorable currency impact of more than 50 basis points, mainly due to the weakened U.S. dollar. In Q4, the EBIT margin was 33.8 percent, with the currency effect a lot less pronounced.

Our net financial items were further negatively impacted by currency, as recent depreciation in countries, such as Turkey and Argentina, have led to unrealized currency losses. However, net interest costs were fairly stable compared to last year.

Please turn to Slide 12 for the cash flow, and we can keep this very short. Operating cash flow increased by 6 percent in FY '18 to EUR 302 million, mainly due to improved EBIT and, again, here we've seen an adverse currency impact on EBIT of around EUR 20 million. Similar, the change in VAT tax credits in Denmark impacted negatively.

Operational investing cash flow was slightly higher than last year despite a small drop in CapEx as a percent of sales to 9.8 percent. This resulted in a free cash flow before specialized items and acquisition of EUR 196 million for the full year, EUR 8 million higher than last year.

Let's now turn to the outlook for FY '19 on the next slide, Slide 13. 2017/'18 was a good year for Chr. Hansen, and we expect the solid momentum to continue during the next 12 months.

Looking at FY '19, we do expect organic growth for the Q to be in the range of 9 percent to 11 percent as we expect our euro price list model to continue to impact organic growth favorably, mainly in Food Cultures & Enzymes where we see growth above the long-term ambition as a consequence.

Health & Nutrition is expected to grow organically at 10 percent or above. And for Natural Colors, we expect organic growth to be in the range of 6 percent to 10 percent, with the highest momentum in the second half of the year.

Please note that the Hundsbichler acquisition will not have an impact on organic growth but will, obviously, be visible in the cash flow from acquisition with about EUR 10 million to EUR 15 million.

Looking at profitability, the EBIT margin before special items is expected to be around 29.5 percent, with a positive contribution from increased utilization of production capacity in Food Cultures & Enzymes that will partly be offset by increased investments into our lighthouse project and other strategic priorities.

Lastly, free cash flow before acquisition, divestments and special items, is expected to stay at a similar level to FY '18, driven by higher CapEx expanding and the absent acquisition-driven tax benefits.

Please also note that the free cash flow guidance assumes a successful sales and leaseback of the company's main facility in Horsholm in Q4, which, as communicated in April/June in the Capital Market Day, will be used to finance the peak capital investment level.

Because CapEx is a key part of our financial guidance for next year and because we will invest significant resources during the strategic period, let me do a quick recap of our investment pipeline on the next slide.

During the strategy period that runs until 2022, we expect to spend an average 10 percent of net revenue on investments compared to 9 percent over the previous 5 years. CapEx will be front-loaded as we continue to work on several midsized projects next year, with total net CapEx spending expected to be in the range of EUR 110 million to EUR 130 million.

Amongst other, the high CapEx level next year will serve to complete the construction of our new packing facilities for freeze-dried and powder products for Food Cultures & Enzymes and Health & Nutrition.

Another major investment that we have already announced is this new state-of-the-art site for Natural Colors in Milwaukee. This will hold everything from production to R&D, application and quality assurance labs, a pilot plant, a dedicated warehouse as well as sales and marketing and other business support function. It is the largest single investment in Natural Colors for many years and a clear proof of our commitment to our color business.

The plant will be a key catalyst for strengthening our market position in North America from '20 and onwards. In addition, we have also communicated that we will upgrade Natural Colors' main R&D center in Montpellier, completion is expected for FY '20 as well.

Beyond FY '20, we also have plans to further expand our production setup for Health & Nutrition with additional capacity. We will invest in upgrading our R&D facilities in Denmark. And by the end of the strategy period, we will also look into further expanding our Food Cultures & Enzymes' dairy capabilities.

And with this, I would like now to hand over back to Mauricio, please.

Mauricio Graber: Thank you, Søren. As you can see, there are many projects lined up that will support Chr. Hansen's long-term organic growth and our Nature's no. 1 journey, and I'm really excited about each of these projects that Søren just mentioned.

That said, it's very important to me to reassure you that we will continue to operate and invest with the same discipline that we have shown in the past, delivering strong returns on invested capital for our shareholders.

Also, I would like to emphasize that our capital allocation principles remain unchanged. We will continue to prioritize organic growth while keeping an eye open for bolt-on acquisitions, specifically in the fast-moving space of Health & Nutrition. We plan to continue to pay an ordinary dividend in the range of 40 percent to 60 percent of net income and distribute excess cash to shareholders in the absence of M&A, while maintaining our leverage in line with a solid investment-grade profile.

With this, let me wrap up before we open up for Q&A. 2017/'18 was another very successful year for Chr. Hansen. We reached our financial target despite currency headwinds impacting both revenue and earnings, with strong dynamics in Food Cultures & Enzymes and solid contributions from our

Health & Nutrition and Natural Color businesses. We have made also very good progress on our strategic agenda, and our 3 lighthouses of bioprotection, Plant Health and human microbiome continue to advance.

We will continue to execute our Nature's no. 1 strategy with the same engagement, passion that we have demonstrated in the past. I've always admired Chr. Hansen, and after my first 120 days, I'm even more impressed by the people and the potential of this company that is based on science and innovation capabilities, and I am so proud to be leading this great team.

Thank you very much for listening. And with this, I would like now to go over to the Q&A. Operator, could you please open the line for the first question? Thank you.

Operator: Thank you. As a reminder, if you wish to ask a question, please press "star" and "one" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the "pound" key.

The first question comes from the line of Jonas Guldborg. Please ask your question.

Jonas Guldborg Hansen: This is Jonas from Danske Bank. First of all, I would like you to comment on bioprotection growth, 35 percent for the current financial year and that means that Q4 was lower, of course. So what should we expect for the next financial year? That would be my first question.

And then the second question is on Natural Colors. Could we assume now that the streamlining of the portfolio is brought to an end, and that we should see this -- the EBIT margin continue to grow into next year?

Mauricio Graber: Just on bioprotection, to get started, we saw still a very great momentum on Q4. And as I mentioned during the call briefly, particularly important is that 75 percent of the growth that we saw came in from our second-generation bioprotection. Søren, do you want to comment anything in addition to that?

Søren Westh Lonning: Yes. I would just say that we don't give specific guidance on bioprotection for the coming year. I mean, we did put in the long-term ambition to hit EUR 200 million in '25, and if you calculate backwards, you can sort of make the math on what we need to do on an annual basis. So the first half year of bioprotection this year reflected that we have some major wins in the previous years that draw up close to 45 percent in the first half of the year. We saw an acceleration in Q4 compared to Q3, and we believe that we will continue to see strong growth in the coming year.

In terms of the Natural Colors question, we are done with the large streamlining of our SKU reduction, so that should be getting out of the books by now. We will continue to monitor for further optimization going forward, but that would be more in a normal business operation way, so that major exercise is behind us now.

Jonas Guldborg Hansen: OK. And then maybe then just a follow-up to bioprotection. Could -- or will you give a split on how much is second-generation versus first-generation bioprotection products now?

Søren Westh Lonning: No, but if you look to the absolute sales numbers, the first generation is still by far the largest segment. But reflecting on the fact that we talked too earlier that the growth that we saw in Q4, 75 percent was driven by second-generation in absolute terms. That's a very solid testimony, too, that there is a good traction with our new product range. And that's really -- would be a key growth engine going forward.

Mauricio Graber: Yes. And I would just remind there that the second-generation, I think, will be particularly interesting in some of the developing markets in Latin America and Asia Pacific because of the value it brings to a less-available supply chain, gold supply chain.

Operator: The next question comes from the line of Søren Samsoe.

Søren Samsoe: It's Søren here. First question on Health & Nutrition. Will they become a little bit on the dietary supplements business in North America, whether these issues you had in the beginning of the year, if they're behind us or if you still see risk that this could come back and maybe dilute your margins and maybe even your growth long term? And second question is on the currency adjustment you make by the end year. If you could just explain in more detail how this actually works with the movement in currencies and the euro-based pricing?

Mauricio Graber: So I'll take the first one on the Health & Nutrition on Human Health supplements and then pass it to Søren. I would say, overall, what we saw already in Q4 was a slight improvement in the trend. We believe that most of the inventory situations related to the North American dietary supplement are behind us, and we are optimistic about the growth potential for the dietary supplement market for us in North America next year.

Søren Westh Lonning: And in terms of the currency, there's really 2 elements in here. When it comes to the euro-based pricing, we have seen -- and particularly Argentina and Turkey, currency rates depreciating quite substantially and that is playing -- having an impact both in the Q4 that we have just reported but also when we look forward. Now when we see a large depreciation in some of these economies, it reflects that there are some economic uncertainty, political and economic uncertainty. And it also means that there can be some effects on general consumptions due to the economic situation in the company -- in the countries. So with that, we get some support from the pricing component, but there may also be a slightly adverse effect on the volume due to the market growth in these countries. In addition to the euro pricing on our top line, we did see, in FY '18, a hit on our net financial items due to currency. And these are the same currency -- same countries, the same currencies that are impacting. The impact that we've seen here is really, you can say, we have intercompany loans between our Danish affiliates and the -- some of these affiliates in our growing markets. And from an accounting point of view, there will be a negative impact on financial items on intercompany loans. We are looking into how we can optimize this going forward, so we will have less volatility in this line. And hopefully, we'll be able to manage it in a way so we will report less of these unrealized currency losses on our net financial items list. Did that answer your question on currency, Søren?

Søren Samsoe: Well, almost. But is it because you have -- I mean, I guess this is only a balance sheet issue, and is it because you have the local loans in euros? Or...

Søren Westh Lonning: Yes, there is euro loans between the Danish main affiliate and the local affiliates. And when the currency hits them, there is a negative impact from that. Now the size of this can be influenced by multiple ways. We can look to how can we reduce the net working capital and other components in there. We can also look into what is the mix between equity and loans in a given country, and that will have a different accounting impact also. So it's a fairly technical field and I feel that we have some good opportunities to reduce that impact moving forward.

Søren Samsoe: But why don't you have that -- those loans in -- maybe a stupid question, but why don't you have those loans in local currency? Is it only because of the euro-based model or this has nothing to do with that?

Søren Westh Lonning: I don't think it has something to do with that, Søren, to be honest, although I will not -- maybe it's a topic that we can look into and get back to you on. I don't think it's related. I do believe that, that is just -- I think it's normal practice that when we have a -- the parent company in Denmark, where -- and we report on a euro basis, that the intercompany loans are also made in euro. But let us check up on the details of that and get back to you on that specific point. We don't see a particular correlation between the 2.

Operator: The next question comes from the line of Annette Lykke.

Annette Lykke: My first question will be on Natural Colors. It seems that it's still on the food coloring stuff that you are growing mostly. Can you share with us a bit how you see the conversion rate into Naturals Colors in food and (beverage), which previously has been a -- in some -- you've had some strong expectation for that? So please guide us on how we should see growth also looking forward for the Natural Color division. And then on -- if you are willing to share this more on bioprotection in emerging markets, is it new wins in, for example, the change market? Or are we mainly in (inaudible) when it comes to the solid block and signature block?

Mauricio Graber: So first on Natural Colors, what we have seen is continued interest by all food and beverage company in relation to the conversion to the natural colors. We see a lot of new product launches coming in with Natural Colors, and that is a very positive trend. We also see more Natural Colors products being launched in developing markets, namely Asia and Latin America. Actually, our color business had a very good dynamic year in Asia. As it relates to North America, the lower growth delivered during the year is partly because of delayed conversions of large brands. And we don't know about the momentum that, that will take place. That's why when you look at our guidance for next year on Natural Colors, we have said 6 percent to 10 percent to give us a little bit more room depending on the speed and scope of these conversions. But for sure, the interest is there. There's strong demand from consumers, from brand owners and from regulators to continue to see the transition to Natural Colors in coloring from foodstuff, and that I think, as industry leaders in Natural Colors, we're well positioned to do that. On bioprotection, I think we see growth in bioprotection in dairy and fermented meat across the globe. We see that in Europe, in North America, for sure in Latin America, but also quite dynamic in Asia. Particularly in China, we had some sizable growth and movement with bioprotection. Søren, anything you want to add to that?

Søren Westh Lonning: I think the key point is that we see both substantial growth contribution and a very solid pipe in all our 4 regions. So it really talks to the broad interest in these concepts and the solidity of the growth.

Annette Lykke: Yes, but Søren, to refer to your EUR 200 million target by 2025, isn't it fair to say that to reset, you need to have a quite substantial growth in China?

Søren Westh Lonning: We'll need to succeed with a lot of things to get to the EUR 200 million. It's an ambitious target. It will require also success in China, and we are selling the product in China, so we have proof that it works there and it's being accepted. But there's also things that we need to further develop in order to exactly hit the optimal spot for the Chinese market. I would say that we need to succeed in all regions, we need to succeed in dairy and meat, and we also need to succeed in some of the new product categories by '25 to deliver on the EUR 200 million target.

Operator: The next question comes from the line of Heidi Vesterinen.

Heidi Maria Vesterinen: So 3 questions, please. Coming back to the earlier question on synthetic colors in North America, I thought I had read something about the FDA banning certain colors. Is this correct, and if so, could you elaborate on it? When is it from and so on? And do you think, if this is true, it could stimulate the conversion into natural colors accelerated somehow? Or will manufacturers just use a different type of synthetic color that is still allowed? And then the second question, do you have an update on tariffs? I think you had talked about this as being a potential area of uncertainty. What do we know so far and are you no longer concerned about all the discussions on tariffs on commodities? And then the last question, maybe one for Søren, what is your opinion on hyperinflation accounting, please, as we're seeing a lot of customers move to this? And this is not relevant for you, because your euro-based pricing mechanism, it's not quite leading to inflation? Or is it relevant to you?

Mauricio Graber: So Heidi, I will take the first question related to North America. I am not familiar. I think, we're not familiar with any specific FDA regulation. I think there has nothing that we have seen concretely. But what we continue to see is strong advocacy and science activities that support the underlying framework for Natural Colors as the most viable solution going forward for coloring foods and beverages. On dairy side, I don't think we have identified anything specific other than the overall environment that we see, let's say, politically and more trade and tariff wars between large economies. With that, I will pass it to Søren to comment on tariffs and hyperinflation.

Søren Westh Lonning: Yes. And when it comes to tariffs, I mean, the key challenge that we've seen at this point in time has been on the x space between the U.S. and other countries. Now there seems to be some resolution in -- when it comes to the North American trade association. But there are other areas where this can influence the -- it could influence our sales in North America for Animal Health. But it's not -- it's still too early to quantify that there will be an impact. And so far, we've delivered quite well in North America. You should note that we, in the outlook statement, have actually added a new sentence in our assumption component that speak to that we generally -- although we don't see a specific thing that impact us now, we generally see a higher uncertainty politically and economically due to, among other things, these tariff discussions that is ongoing. And what we're seeing here is that we are not seeing something that will impact we -- as of now, that should impact our guidance, but the risk profile as we see it has gone up. So I think it's more (flacking) that the risk profile with the current dialogues that is ongoing is more difficult to predict. When it comes to hyperinflation, it is something that we will review in FY '19 whether any measures need to be taken. I don't have a fair amount on that at this point in time.

Heidi Maria Vesterinen: So on that point, you would review at the full year '19 results, is that what you mean, for hyperinflation?

Mauricio Graber: We will review whether it's something that will influence our reporting in '19, the very high inflation that we see in certain markets, but we will -- that dialogue that we -- that is ongoing in which we hadn't concluded on at this point in time.

Operator: The next question comes from the line of Ben Gorman.

Ben Gorman: Just a few. Specifically on China, actually, for me. In terms of the bioprotection growth, you mentioned, obviously, you're doing reasonably well there now in China, and this seems to be a change from what you talked about before. So can you just quantify, regionally, is this particularly in the larger-consuming regions in the East? Or is it actually helping to penetrate some of the more inner regions of China given the ability to tackle the supply chain issue? And that's the first one. And then secondly, on China as well in terms of infant formula. It appears, obviously, you have very, very tough comp and a very good delivery in Health & Nutrition this quarter. You said solid growth in infant formula. And can you quantify whether this was a slowdown versus last year in Chinese infant formula? What you're seeing in the market there in terms of overall volume, et cetera? And then just a final one on the (Food Cultures) business as well. Do you think -- you mentioned a little bit in terms of moderating growth in China, that being a bit of a risk? Is that because you're getting to a point of penetration in the country now on ambient yogurts? Where it's -- is it sort of across the whole nation and actually maturing? Or is this actually not the risk you thought it was before?

Mauricio Graber: So let me give you some perspectives, Ben, and Søren will complement. So first of all, in China and bioprotection -- you see the promise of bioprotection, I think, is just extremely powerful. We're helping reduce food waste by adding good bacteria that fights pathogens in products. And the progress of that is just extremely satisfying to me and the organization. But you have to realize it's a slightly different sale, where you -- we have to work with customers to understand the benefit that these add-on to the products will bring in relation to the products. So I think in China, we're seeing good acceptance of that as we're doing across all the other regions. And I think for a business that still represents around 7 percent, we will not start slicing and dicing that into smaller pieces. As it relates to infant formula, in my last visit to China, I was quite encouraged to see I think any uncertainty that was there on regulation is now out. There's a very clear regulation for infant formula in China. It has benefited the most established brands, and we have seen our partnerships with large global customers. And with large local Chinese customer strengthen our value proposition into the category that is having a very healthy growth. And lastly, to China penetration, I think we have mentioned that penetration of ambient yogurt was around 30 percent, but still well below the standards of Western Europe and the U.S. So we've seen capability of that to continue to expand to second and third tier cities, and I think there's still room to grow when you look at our overall portfolio in China in Food Cultures & Enzymes, bioprotection, Health & Nutrition and Natural Colors.

Søren Westh Lonning: Yes, maybe a few additional comments. If you look to -- at protection in China, I think it's too early to say something about a regional trend. So it's still early days in China with bioprotection. When it comes to the infant formula, I would say that we have had a very, very strong growth in '18 in Asia Pacific and China, specifically in infant formula. Part of that reflects some of the clarity comment now, and we also expect strong growth when it comes to '19. But obviously, we had a more normalized baseline after the clarity was achieved. And then, finally, when it comes to the startup culture, I think we continue to expect very solid growth going forward in China, also in Food Cultures & Enzymes. But what we also said, and we've said it earlier, the extremely high growth rates that we saw some years ago, we don't expect to come back at that very, very high level. So we do have a quite sizable market share in China, so it's really about maintaining that and growing with new, innovative concepts in the market, like bioprotection as an example.

Operator: Your next question comes from the line of Anton Brink.

Anton Brink: Can you remind me of the base number for the 10 percent free cash flow CAGR ambition towards 2022? And could you give us some color where the cash flow outpacing sales growth should come from after next fiscal year?

And then secondly, could you be a bit more specific on the P&L impact of the sale-on-leaseback structure?

And then lastly, are you seeing any effects of weak pharma profitability in the U.S.? Animal Health performance seems very strong nevertheless, so I would be interested to get a bit of a comparison of the current situation versus the situation back in 2015/'16.

Søren Westh Lonning: Yes. I think your first question as to what our baselines for the free cash flow guidance of 10 percent, and that is FY '17, that was the last reported numbers that we had when we had the Capital Market Day, so that is the baseline. When it comes to the P&L impact on the sale and leaseback, I mean, obviously, we will have a slightly higher cost in the EBIT from the sale and leaseback. It's not a very large number, but we will be paying a lease -- a rent going forward, which we haven't done so far. But on the other hand, we are freeing up a quite nice chunk of cash that we can use to fund the expansion in our business. So a slightly lower EBIT from making that, but not something that will impact our long-term guidance in any way. That is part of the assumption that we have put out there.

And then when it comes to the weak pharma economies in North America, I would say that it is something that is impacting particularly some of our segments in North America. And we've been able, so far, to grow through some good project wins, et cetera, but it is impacting. Particularly in the cattle segment and in the dairy cattle segment, it is impacting the pharma economy. So we are watching the North American market quite carefully.

I would say that outside North America, here we -- the growth journey that we are on is really about strengthening our go-to-market and with a relatively smaller market position growing that. So here, we don't see the same impact, here we see a lot of opportunity to go after. So we do believe that it's a little bit mixed picture when it comes to our Animal Health business, be it North America or the other 3 regions.

Mauricio Graber: And I think the only part I would add to that, Anton, is if you look to the contrary also on North America, for example, to the poultry segment, there continues to be tremendous consumer awareness and tremendous pressure to continue to drive our probiotic solutions as compared to the high usage of antibiotics. So -- and we have seen tremendous interest for that as well outside the U.S. That's why, as you mentioned, the overall performance of Animal Health was quite strong, and we're very happy with it for the year.

Operator: Thank you. Dear participants, once again, if you wish to ask a question, please press "star" and "one" on your telephone keypad.

Dear speakers, there are no further questions at this time. Please continue.

Mauricio Graber: Thank you very much. I think with this, we would like to thank you for your participation today on the release of our results, and wish everybody a good day ahead. Thank you very much.

Søren Westh Lonning: Thank you.

Operator: That does conclude our conference for today. Thank you for participating, you may all disconnect. Have a nice day.

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