Chr. Hansen Holding
Moderator: Martin Riise
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OPERATOR: This is Conference # 6685598.

Operator: Thank you for standing by, and welcome to the presentation of Chr. Hansen's results for Q1 2018/'19.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-session at which time if you wish to ask a question you will need to press star one on your telephone.

I must advise you that this conference is being recorded.

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

Mauricio Graber: Good morning, everybody, and welcome to today's conference call on Chr. Hansen's Q1 results.

First of all, our CFO, Søren Westh Lonning; our IR team; and I would like to wish everybody a happy New Year, and we hope you had a great start into 2019.

As usual, we will do a short presentation before moving on to Q&A. Before we get started, please take notice of the safe harbor statement on the next page. Thank you.

Let's continue on to Page 3, please. Chr. Hansen had a solid start to the year, fully in line with our expectations and on track to deliver on the ambitious financial targets we have set out for the 2018/'19 fiscal year. Group organic growth for the period September to November 2018 came in at 10 percent with good contribution from all three business areas and a particularly strong performance from Health & Nutrition. The EBIT margin before special items was 26.3 percent, up 0.9 percent compared to the prior year period, driven by Health & Nutrition and Natural Colors.

I would like to highlight that the EBIT margin for Food Cultures & Enzymes was positively impacted by the scale-up of the Avedøre facility and ended up on par with last year as we continue to invest in the strategic priorities, such as bioprotection and digital offering for our customers.

Our third key metrics, free cash flow before special items and acquisitions, was minus EUR 32.5 million in Q1. This was mainly driven by the higher tax payments due to the absence of acquisition-related benefits that we had last year.

Let's continue on Slide 4 for our progress and update on our strategy. To further advance our Nature’s No. 1 path, we have defined focus areas for the current financial year to fully leverage the potential of our Food Cultures & Enzyme business, advance our Health & Nutrition platform and deliver value creation in Natural Colors.

Let me start first with Food Cultures & Enzymes. The ramp-up of our Avedøre capacity is on track and remains a key priority for the year. We have seen the first productivity gains come through already and expect further margin offset to materialize over the next years. Furthermore, there is a lot of work going on in the development of new products, adjacencies as well as further advancing our bioprotection lighthouse.

In Health & Nutrition, the Plant Health team continues to work full speed with our partner, FMC, to get the necessary state approvals in the U.S. to introduce our bionematicides, Quartzo and Presence, to the local market. At the same time, we are running tests across different raw crops with very encouraging results.

In Animal Health, the focus this year is on onboarding new sales staff to strengthen our route-to-market outside of North America.

And in Human Health, we continue to work with our customers and key opinion leaders on educating end consumers on the functional benefits of probiotics, on explaining to them that it's not the sheer number of probiotics in a dietary supplement that is relevant but rather the strain type and the supporting clinical documentation that makes the difference.

Lastly, in Natural Colors, we have been very active during the first quarter in expanding our product portfolio in coloring foodstuffs with the launch of our new FruitMax reds, a minimally processed red vegetable juice with very vibrant coloring benefits. In addition, the U.S. team is making good progress in the planning for our new facility. All in all, a very productive and strong results for the first quarter to start a strong start of the year.

Let me move on to page – to the following page to have a look at our regional performance. We saw the momentum from the fourth quarter continuing to Q1 with EMEA, APAC and LATAM driving growth, while North America showed a slight improvement.

Starting with Europe, Middle East and Africa. The region delivered a strong growth of 8 percent. The result was driven by a strong performance in Human and Animal Health, with solid contributions from Food Cultures & Enzymes and Natural Colors.

North America reported 4 percent organic growth with strong momentum in Food Cultures & Enzymes and Natural Colors, while Health & Nutrition faced a more challenging quarter, particularly in Animal Health, where the timing of orders in silage and poor dairy farmer economics led to slightly declining sales. But we expect a recovery and normalization of the order patterns during the course of the year.

Human Health had a very good quarter in infant formula. We were pleased to receive new orders also from our dietary supplement customers that faced destocking last year. Søren will comment a little bit more on the market dynamics in dietary supplements that led to an overall stable result for Human Health in Q1.

Moving on to Asia Pacific. We saw solid growth of 9 percent with strong dynamics in Human Health, not least, in infant formula and solid growth in Natural Colors, while Food Cultures & Enzymes slightly impacted by timing of orders and lower market growth. That said, we continue to see a lot of interest from Asian consumers in probiotics and a lot of business opportunities for us to work with our customers to bring new products to market.

Latin America, once again, produced very strong organic growth of 31 percent, driven by all business areas except Natural Colors that faced some raw material headwinds in pricing pressure from local competitors. Euro pricing accounted for approximately half of the organic growth in the region.

Let me take this opportunity to explain this a little bit more in detail. As most of you know, Chr. Hansen operates with a euro price list model to safeguard our bottom line in times of volatile emerging market exchange rates.

Invoicing rates actually take place in local currency but based on euro-denominated price list, which means that if a currency depreciates against the euro, prices in local currencies will automatically be increased. It's an alternative to regulate local prices for inflation, a way to protect ourselves in euro that is our reporting currency. And yes, it has a positive impact on our organic growth.

Being able to work with euro price list model is a clear expression in my view of the value proposition we bring to the market and our pricing power. We believe that it's the most effective way to adjust prices for FX changes. And in contrast to inflation-based pricing and/or other individual negotiation of local contracts, we have an automated mechanism, an immediate reflection in organic growth and no margin dilution. By applying euro price list, less than half of our business – of our earnings are impacted by FX fluctuation.

Some of you maybe concerned that we risk losing volume growth in – if local prices are automatically increased. Our view, though, is that the benefits of operating with euro price list clearly outweighs the potential negative impacts.

With this, I would like to hand over to Søren for a deep dive into the business areas and further explanation of our group financials.

Søren Westh Lonning: Thank you, Mauricio. Food Cultures & Enzymes deliver a solid start to the year with 10 percent organic growth in Q1.

If we look at the product segments, cheese, meat and bioprotection showed strong growth during the first quarter, whilst enzymes and fermented milk reported solid growth, and probiotics were on par with last year.

As reflected in our Food Cultures & Enzymes guidance for the year, we saw a sizable contribution from pricing in Q1 related to euro pricing but also a solid volume growth. Volumes were a notch below our long-term growth model. However, this is really related to timing of orders with certain customers and a strong comparable from last year.

I would like to emphasize that we are not seeing changes to the underlying business drivers and feel confident about the long-term growth potential of Food Cultures & Enzymes.

Growth in our bioprotection lighthouse came down in Q1 to 15 percent on a very demanding prior year comparable. In addition, we had a few one-offs that affected sales in the first quarter.

One of our largest customers, for example, had an issue in their production and they decided to temporarily stop the usage of bioprotection to rule out that the issue was related to our bioprotective cultures. This customer is now back using bio-p, so this was only a temporary impact.

Excluding these customer-specific incidents, bioprotection continued to develop very well. Regionally, EMEA was the strongest contributor, driven by dairy and meat. And we also saw very good dynamics in LATAM and APAC from the launch of our second generation, albeit from a low base. We have the full pipeline of both customer sales projects and future product development projects, and we continue to be on track to deliver on the EUR 200 million revenue target that we have set for our financial year '25.

If we look at profitability, Food Cultures & Enzyme posted an EBIT margin of 31.7 percent, which was on par with last year.

Scalability benefits in production, not least from our capacity expansion in Copenhagen, of more than 100 basis points were offset by investments in bioprotection and digitalization as well as an increase in customer-facing activities. And this is why we have not seen a margin improvement this quarter. As Mauricio mentioned earlier, we will continue to realize scalability benefits in the coming years, and we fill – as we fill the capacity in our Copenhagen site.

Moving on to Health & Nutrition on Page 7. We have seen a very strong first quarter with 17 percent organic growth, driven by continued momentum in Plant Health and a strong recovery of Human Health, whilst Animal was soft in Q1. In Human Health, we posted very strong growth in infant formula across all regions as well as strong growth in dietary supplements in Asia Pacific.

In the North American market for dietary supplements, we continued to see the online channel taking market share from brick-and-mortar with the overall market growing moderately. Our sales development was slightly negative as some of our main customers were challenged a little bit in this environment.

Moving on to Animal Health. We reported a very strong result in swine but faced headwinds in cattle and silage in North America, as already mentioned by Mauricio, leading to a decline in revenue for Q1. The market conditions for cattle farmers in North America expected to improve during the year. And in silage, it was simply a matter of timing of orders, and we expect it to normalize in Q2.

Lastly, Plant Health continued to grow strongly in Latin America, albeit from a modest base. As of today, it's still less than 10 percent of our Health & Nutrition business.

Turning to earnings. The EBIT margin for Health & Nutrition improved to 25.4 percent, equal to a 2.2 percentage point improvement compared to last year. The improvement was driven by the strong volume growth as well as timing of production cost, partly offset by strategic investments in Animal and Plant Health.

Coming to our Natural Colors division on Slide 8. We were pleased to see a continued momentum with 6 percent organic growth in Q1. The coloring foodstuff segment was, once again, the key growth driver of this division.

Declining carmine and annatto prices, on the other hand, negatively impacted organic growth, and we expect to also see an impact over the next quarters, particularly in Latin America, where we have a relatively larger annatto and carmine business.

The EBIT margin in Q1 was 10.9 percent, 2.5 percentage points higher than the prior year, mainly caused by operating efficiencies and also a moderate comparable last year.

Moving on to the group financial. Please turn to Page 9. As you can see in the bridge in the bottom left corner, organic growth for the group came in at 10 percent with a volume/mix component of 7 percent and a 3 percent price component, largely driven by euro price list.

The currency impact on the top line was minus 4 percent, resulting in reported euro growth of 6 percent. The impact from the Hundsbichler acquisition on organic growth was immaterial in Q1.

With regards to profitability drivers, the gross margin improved by 2.4 percentage point, driven by all three business areas, whilst operational expenses increased by 12 percent, mainly due to higher sales and marketing activities and investments in Nature’s No. 1 initiatives.

In sum, this led to a group EBIT margin before special items of 26.3 percent, up 0.9 percentage point. Currency had an immaterial impact, and for the year, we don't expect this effect to be sizable.

Lastly, in connection with the Hundsbichler acquisition, we booked special items of EUR 0.5 million (sic) (EUR 1 million), leading to a group EBIT margin of 26.5 percent.

Please turn to Slide 10 for the cash flow. Free cash flow before special items and acquisition amounted to minus EUR 32.5 million in Q1, which is mainly a reflection of higher taxes paid due to the absence of acquisition-related benefits and increased CapEx spending related to the announced expansion program.

The cash flow used for operational investing activities increased from 9 percent to 11 percent of revenue, in line with the communicated CapEx budget for the year of EUR 110 million to EUR 130 million net of sales and sale and leaseback activities.

And to briefly recap, the main investment priorities for this year are the new freeze-dried and powdered packaging facility for Food Cultures & Enzymes and Health & Nutrition as well as the upgrade of the R&D facility in Montpelier and the new U.S. facility for Natural Colors. All of these projects are progressing according to plan.

Coming to the guidance on the next page, Page 11. We maintain the overall outlook for the group for FY '19. We do expect organic growth for the group to be in the range of 9 percent to 11 percent as we anticipate higher-than-normal impact from euro pricing, mainly in Food Cultures & Enzymes with growth above the long-term ambition.

Health & Nutrition is expected to grow organically at 10 percent or above, while we've, for Natural Colors, narrowed the guidance range to 6 percent to 9 percent from the previously 6 percent to 10 percent. And this is in the light of declining raw material prices as already mentioned.

Looking at profitability. The EBIT margin before special items is still expected to be around 29.5 percent, supported by scalability benefits from the expansion in our Copenhagen facility, which will partly be offset by investment into our lighthouses and other Nature’s No. 1 initiatives.

When it comes to currencies for the full year, we are expecting a euro growth, which will be roughly 1 percentage point lower than the guided organic growth of 9 percent to 11 percent. This is driven by lower emerging market currency, offset by a slightly stronger U.S. dollars compared to the euro.

On EBIT, we are expecting a modest currency impact because the stronger U.S. dollar will be largely offset by a weaker Chinese currency as well as a few other currencies. Notice that emerging markets' currencies, only to a smaller degree, affect our earnings, pointing back to the effectiveness of using euro-based pricing in these markets.

Free cash flow before acquisition, divestments and special items is expected to stay at a level similar to FY '18, driven by higher CapEx spending and the absence of acquisition-driven tax benefits. Please remember also that the free cash flow guidance assumes a successful sale and leaseback of the company's main facility in Hørsholm in Q4.

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

Mauricio Graber: Thank you, Søren. Before we wrap up, and beyond the strong financial results we have reported for Q1, I would like to take the opportunity to talk a little bit about Chr. Hansen's unique position when it comes to sustainable development and explain why we have added a backline sustainability when we did a review of our Nature's No. 1 strategy last April.

As you know, 82 percent of our revenue contributes to the UN Global Goals, and our three strategic lighthouses, of Plant Health, human microbiome and bioprotection, align with three UN goals, where we believe we can add most value: Social Development Goal #2, that's about ending hunger and promoting sustainable agriculture; Social Development Goal #3 about ensuring healthy lives and promoting well-being; and Social Development Goal #12 about enabling sustainable consumption and production patterns.

We have many products that support those goals and that help manufacturers increase productivity and offer products to consumers, be it by reducing salt in cheese with our SaltLite cultures; or sugar in yogurt with our NOLA Fit enzyme; by replacing antibiotic and pesticides with our probiotic for animal feed, silage and crop protection; or by developing the next generation of microbes for better human health.

Consumers increasingly call for clean label, antibiotic-free alternatives and less food waste. And our R&D team at Chr. Hansen is constantly working on new solutions, with which we can help our customers, address this market needs and stick out from competition.

We have a promising pipeline of new products to bring to market over the next years, close ties with our customers and a strong financial backbone, all of which allows us to continue to invest and innovate close to market and society needs.

We have a team of over 3,000 people that are inspired by our purpose to work for a better planet and address some of the world largest challenges through developing natural, microbial solutions. And I very much look forward to continue to lead the team on this journey.

Thank you for listening, and we look forward to discussing your questions now. Operator, please open the line for questions. Thank you.

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

Your first question comes from the line of Lars Topholm.

Lars Topholm: Yes. A couple of questions on my side. Mostly I wonder a little bit about the margins in Food Cultures & Enzymes, where it seems that your gross margin expansion is offset by other things.

So maybe, you can comment in a little bit more detail on exactly what those things are but maybe also, how you see the margin progression over the coming quarters? And related to the same, I would also like to know if there are any margin impacts from mix, i.e., if cheese grows the strongest, how does that affect divisional margins?

And if probiotics are flat, I assume that means it's a smaller proportion of total revenue. Does that hurt margins? And then, if I may, in Health & Nutrition, are there any one-offs in the very strong growth for Human Health, please? I think that is all for now.

Søren Westh Lonning: OK. Thank you, Lars. Let me try to address your – at least, your first question. When it comes to the margin development in Food Cultures & Enzymes, we had a very nice development on the gross margin linking back to the – realizing the scalability benefits of our regionally inaugurated plants in our Copenhagen facility. And combined together with a few other efficiencies, this was actually above 100 basis point improvement in the margin.

Now of course, we'll – are offsetting that in this particular quarter. It's primarily driven by some specific initiatives that we are investing in. And given that the euro growth in Food Cultures & Enzymes was not so large this quarter, and many of those investments are done in euro-denominated countries, that had an impact. In addition, there were some one-off timing things also impacting it, which, combined, meant that it was a stable development in Q1.

When we look forward for the remainder of the year, we expect the strong gross margin development to continue. And bear in mind that we only started depreciating on the facility during Q1 last year, meaning that the baseline on that part would be more favorable going forward from here.

We also believe that (inaudible) we'll continue to invest in the business, but some of the timing elements that hit us in Q1 will not repeat. And thus, we are not guiding on a specific EBIT level for – at the divisional level, but I think it's fair to assume that we expect to see a very solid development when we look forward in Food Cultures & Enzymes.

Lars Topholm: So without guiding on it, Søren – without guiding on it, you would say we should expect higher margins in the coming quarters?

Søren Westh Lonning: I would say that, that's a fair assumption. I would also, to your comment – question regarding mix, I would say that mix didn't particularly help us this quarter. You're absolutely right that the probiotic was flat.

And also enzymes, some of the enzymes that we have a less margin on was actually quite strong. And that combined with bio-p growing around 15 percent means that the mix were marginally negative in this particular quarter. That's not a trend that we foresee in the long term.

When it comes to Health & Nutrition, I would – you can say it was – I would more put it in the way that the – you should always be a little bit careful when assessing the Health & Nutrition business on a single quarter, given that they are – it's a smaller business, they are more volatility inherent compared to Food Cultures & Enzymes. So I would generally caution to extrapolate a single quarter growth.

That being said, we are very pleased with the momentum that we see. Plant Health was very strong, but it's also reflecting that the baseline was very modest. Human Health was very strong, reflecting structurally very strong growth in Asia Pacific. But also, here, I mean, timing can play a role.

On the other hand, we do believe that timing was negative. Timing was negative in our Animal Health business on the silage side. So we will have some ins and out, but I would caution to overall project based on a single quarter.

Lars Topholm: That sounds right. If I may, I also have a household question. How much for special items should be assume for the coming quarters?

Søren Westh Lonning: You should assume between EUR 1 million to EUR 2 million of special items for the full year. That's the best guidance I can give you.

Operator: Your next question comes from the line of Michael Rasmussen.

Michael K. Vitfell-Rasmussen: If we can dive a little bit into Human Health in the U.S. more specifically, obviously, you had a little bit of impact last year. How do you see these inventory reductions? Is this all out of your books right now? And is the business kind of well fitted for servicing the online growth in Human Health, as I understand it's one of the drivers in the U.S. markets?

Coming back to probiotics, kind of, more on a general theme. I remember that back in the days, we used to talk quite a lot about clinical trials and so forth. And I do recall you did some work with the IPA, the International Probiotics Association. Could you give us an update? Is this completely off the books right now? Or is this something that you are actually spending a bit of time on kind of on the probiotic side?

Mauricio Graber: (Marcus), this is Mauricio. I'll give a few overview moments and then pass it on to Søren. I would say on the global probiotics market, as a leader in the industry, I think we have a responsibility to continue to work both in science and in advocacy to make sure that this remains a strong category.

And that means continue to work with the regulatory authorities and consumers, as I mentioned earlier, to make sure that our strong framework based on science and with a good regulatory framework that enables the global growth of the category.

So we'll continue to do that and to move our microbiome lighthouse in the key initiatives that we have already communicated for specific, targeted benefits, but we are not in any other clinical trials that we have not commented.

As it relates to the U.S.-specific probiotic market, we continue to see that as a growth category. It's probably growing at a less accelerated pace than it was before. I think we have commented on that already. But it still remains a growth category with sort of this multichannel between online and retail.

Before passing on to Søren, I think the only thing we commented was that, yes, the inventory to a large – the inventory situation of last year is pretty much out of our system, where we have begun to receive orders from the customers that have had destocking issue last year. Søren, any additional comment?

Søren Westh Lonning: Just wanted to point it out that the customers that were affecting these inventories impacts last year are actually growing well for us in North America in Q1. Then we have a few other customers who are struggling a bit in the environment that we see over there, and that's sort of pulling it, the overall number, down to a slight decline.

I think you should also note here that we are selling our probiotics, but also for certain large customers, we offer to do sort of the full value chain into a finalized product. And the area where we had lost a little bit of business in that step, it's a step that doesn't command a large premium, so we are not overly concerned.

It does affect our top line, of course, but it's also reflecting that the margin progression in Health & Nutrition is actually quite strong because we – you can say that impact is more top line than it is a bottom line impact. So those were a few extra comments, Michael.

Michael K. Vitfell-Rasmussen: And also a household question from my side. Can you please comment a little bit about the development in Q2 to date on the carmine and the annatto prices, please?

Søren Westh Lonning: Yes, I mean, what we can say it has moved down. So we haven't seen new changes in the raw material prices, but of course, there is a certain (inaudible) timing before it hits our selling prices, right, because we had a mix of (inaudible) with customers. So it's clear that the impact that we have seen on the – from the raw materials will gradually impact organic growth.

And we've seen an impact in Q1, and that will also be the case in the coming year. And that's the reason why we have taken down the guidance range a notch for Natural Colors. But overall, you can say that the core pigment has been stable since, you can say, sort of – towards the second half of Q1, yes.

Michael K. Vitfell-Rasmussen: So when you say moved down, has that moved down on a year-on-year basis or moved down from the end of Q1?

Søren Westh Lonning: No, it's been – you can say that the raw material prices has been stable since the end of Q1, but it's clearly lower than last year. What has changed since we came with the guidance is that it has actually moved down a bit, and then there is, in some ways, a delayed effect before it hits our sales prices also.

Operator: Your next question comes from the line of Jonas Guldborg.

Jonas Guldborg Hansen: Jonas here. I have one question on Plant Health. You say it's growing significantly but from a modest base. Maybe, you could put a bit more color on it. For instance, how much of the 17 percent organic growth is coming from Plant Health? And then also a few comments around this, the time line for the state approvals in the U.S.? That would be my first question.

And my second question is on Health & Nutrition and this timing of production costs. How much has that actually benefited the margin in Q1? And just to understand how much of it we should see as a negative impact for the coming quarters. And then finally, on the cash flow and on the taxes, which cash tax rate should we expect for the full year, i.e. are there any further tax benefits impacting the coming quarters?

Mauricio Graber: Thank you. So I would say on the question about the U.S., what we have mentioned is that we expect to be in the market in calendar year 2019. It's difficult to predict more than that at this point because of the timing of the approvals in the U.S. state legislations. But our marketing plan is to be in the market in calendar year '19.

With that, Søren, I will pass it to you. I would just say Plant Health, we have said, is around 10 percent of our Health & Nutrition business. And Søren, you can answer the rest of the questions.

Søren Westh Lonning: Yes. You can say that in Health & Nutrition, a sizable part of the gross margin improvement was driven by timing. So part of the timing is related to what the baseline looked last year. Part of the timing is related to some – we are building up some inventories for – ahead of the silage season, et cetera. So I wouldn't say that it necessarily comes back negatively the rest of the year.

What I would say is that in Health & Nutrition, it is the – an area where we saw quite a nice margin uptick last year. And we are really – that the strategy we have for Health & Nutrition is more about maintaining a healthy margin development while (really) making the investments that position us very well for the future. So I would caution you to sort of take the 2.2 percent margin expansion here and extrapolate that for the year. That will be – that will not be the guidance I would give you.

On the cash flow side. I would say that the – overall, we expect a tax rate that will, overall, be stable compared to last year. We don't see major changes to that part. On the paid tax side, you can say that given that we pay the majority of our taxes in Denmark, and we have – most of that is done in November, then we're actually paying more than half, closer to 2/3, of our taxes in Q1.

So it means that the negative impact from taxes due to the acquisition benefits and all that, they are – they're hitting us in Q1 to a very large extent. So it means that when you look – project forward, I mean, you should assume that we have taken basically the hit from that in the first quarter.

Jonas Guldborg Hansen: Perfect. Very clear. Just one follow-up. Did you say that Plant Health is now around 10 percent of revenue in Health & Nutrition?

Søren Westh Lonning: I think the comment here is that on annual basis, and bear in mind, there is seasonality with crop season and all that. On an annual basis, it's less than 10 percent, but it was very strong in the quarter that we have just closed. So here, the numbers will be higher overall.

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

Annette Lykke: First of all, could you potentially share a little bit more color on this temporary stock in using bioprotective among one of your clients? It would be nice to have a little bit on timing on this as well as, maybe, how important it was in terms of growth.

And moreover, you also had a very decent 45 percent growth in Q2 last year. Should we expect the bioprotection growth to be in the same level for this second quarter? This is my first two questions.

Mauricio Graber: Yes, I would say, generally, we – the impact that we saw in Q1 was related to a few specific customers in a certain geography. There's nothing – there's no trend. There's nothing that ties these together, so it's really two single incidents. They had a quite sizable impact on our growth because it was some of our very largest customers. Both are now back buying as normal. So I mean, the effect was primarily at Q1.

There will also be a little bit of effect in the beginning of Q2, but we do expect growth to pick up as we look forward. I mean, it's – we're not guiding on bioprotection as such, but we – to hit our long-term target, we need to deliver more than around 15 percent organic growth. And that's also what we will strive to do this year despite this temporary headwind.

So that was a little bit to, you can say, what drove this. And it – you have to bear in mind that bioprotection, first of all, the size of it, we are – still somewhat higher volatility to single wins and single customers than the rest of the business.

And secondly, it is a product which you can choose not to use and then still produce your products, right, and that can also drive a little bit more volatility. It can also accelerate things, but in this case, it was a volatility to the negative side.

When we look forward, we are still very pleased with what we see on bioprotection. We see a strong pipeline of sales projects with customers that support growth going forward in the short-to-medium term. And we do see a strong portfolio of product upgrades and potentially also new generations, et cetera, that will stimulate growth in the mid to long term.

So we're still very optimistic despite this, you can say, temporary headwind we saw in bioprotection.

Annette Lykke: Can you just confirm – sorry, don't misunderstand this, that when you referred to some delayed orders in the APAC regions, are these bioprotection orders?

Mauricio Graber: No, that's actually not related. Bioprotection was not in – was not related to the APAC region. Here, it's more a question about some timing with orders to distributors. We are relying in Asia Pacific more on distributors than we are in North America and EMEA, as an example. And it means that the timing of some of these orders, they can influence the sales pattern. So that's more what I'm alluding to here than it is the bioprotection part.

Annette Lykke: Then on China, you state – I guess you say APAC, but I think you mean China as well, that the market growth is slightly lower than it used to be in other divisions, maybe plus 15 percent but more high single-digit growth. My question here is how important are China to your yogurt DVS sales? China is now a bigger yogurt market than, for example, U.S. Is it also for Chr. Hansen?

Søren Westh Lonning: So we continue to make good progress in our market share in China in working with the large Chinese customers. And what we have seen is that, obviously, our fresh dairy or yogurt has reached a good market share in the large Chinese cities.

Having said that, we continue to see expansion and growth opportunity geography – in the large geography of China. And we also continue to see the expansion of new categories. I am quite optimistic on my visits to China that we will see growth in other categories, bioprotection and as well in Health & Nutrition. And we will eventually also continue to work with our customers to develop the cheese category in China.

Mauricio Graber: And maybe, allow me one specific comment to your question, Annette. We have stated earlier that the Chinese market is the largest yogurt market in the world. And we have also communicated that we have, at least, a market share that is equal to our global market share. So I think even those two, it's very fair assumption to believe it is the most important market for us.

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

Anton Brink: I have two questions. This one is a bit of a combined one, which relates to the longer-term growth opportunity in U.S. cheese. You mentioned I think in your reporting as an important growth driver. Well, the inventory levels are sky-high right now. And I think communication and press releases on potential growth slowing there are increasing.

So I'm wondering how do you look at the medium opportunity in this market? And then a similar question applies to the skimmed milk powder inventories coming down in the EU, which should somewhat reduce the relative valorization of cheese production in the EU. Do you see that as a potential risk?

Mauricio Graber: So Anton, I will comment on the conversions and pass it on to Søren for the inventories. I would say what I continue to see in our commercial execution is a very strong dynamic and collaboration with the customers on the conversion opportunities in fresh dairy and in cheese.

Particularly, in North America, despite the comments of the inventory, what we see is in cheese categories like pasta filata and the use of cheese in prepared dishes like pizza continues to grow, and it continues to grow globally. And some of the U.S. cheese customers have a very large play on that.

So our commercial excellence team continues to be at work with great focus on the conversions. And I have a high level of confidence that we will continue to see a good level of conversions according to our Nature's No. 1 strategy for cheese and fresh dairy. Søren, on to you for the – for inventory.

Søren Westh Lonning: Yes. You're absolutely right that the cheese inventories are at a very high level at the moment in the U.S. But I think it's important to bear in mind that the global consumption is around 2 percent. Sorry, the growth in global consumption is rather 2 percent. So – and we really think of it, given that we have a very strong share across the world, this market and this growth needs to be served through the sources that exist.

So it may be that we will see a slight decline in the market growth in cheese in North America, but we do expect other regions also to perform well. And as Mauricio outlined, market growth is one component of our growth model. It's really comprising of many different layers. And one of the challenges that the U.S. industry is facing is they are looking to how they can differentiate their products more and better (inaudible) their offering.

And this is where a player like Chr. Hansen really has some opportunities to come in and assist customers on that journey. So I think, yes, cheese inventories are important. But I mean, we are – that can be a short-term effect, but we are not structurally worried about this when we look forward.

Anton Brink: OK, clear. And the second question related to the skimmed milk powder inventories coming down in Europe, which should, in the end, have an impact on the relative valorization of cheese production in Europe. I think in the statement you mentioned that cheese production is still the most attractive option for dairy manufacturers. Do you see that having a negative impact potentially?

Søren Westh Lonning: I think we go – we come back a little bit to the fundamental drivers. So yes, we could see some temporary, you can say, impacts on inventory that we will need to find a way of managing one way or the other. But structurally, the cheese category, the cheese consumption is to this tune of 2 percent.

And when we look back in history, it has been very, very steady, solid growth that we have seen in this category. That market needs to be served one way or the other. It may be that there will be this temporary inventory reduction impact, but we are not beyond sort of a temporary potential effect that we will, of course, try to mitigate. We are not concerned.

Anton Brink: OK, clear. Last question from my side relates to euro-based pricing mechanism. Because I'm wondering in the scenario, because part of the organic growth guidance for '18/'19 is stating that your best pricing mechanism will have a clear positive impact, would we see Brazil, for example, improving? So what happens is if we see emerging market currencies improving versus the euro, could that also negatively impact your organic growth in that sense?

Søren Westh Lonning: Yes, I mean, it can. And I think if you would look historically, that has happened. What – I would complement your question, if I would say, usually, when that happens is under conditions of a strengthening local economy, and we have usually seen then volumes grow higher and overcompensate for any currency impact.

So I think stronger economies with a stronger currency result on underlying better commercial conditions from our customers and more consumer confidence.

Mauricio Graber: Yes. And then I – if I maybe add a historical perspective. In the 11 years that I've been with Chr. Hansen, we have had one year where the euro prices have worked against us. Overall, it has been flat. But it's just been one single year, and that dates back to 2008/'09, and it – with the movements that we saw in Eastern Europe, in the currencies back then.

So we cannot rule out that it can influence. It will not impact, again, our euro projections as such. But the likelihood of sort of all currencies moving in that direction based on, historically, traction is relatively limited.

Operator: Your next question comes from the line of Fulvio Cazzol.

Fulvio Cazzol: My question focuses on the growth components for the cultures and the enzyme division. So clearly, we have seen volume mix slowing as pricing, euro pricing, has been implemented. I was just wondering if you can just elaborate a little bit on what happens to your customers when you do put up local currency pricing?

Do they just simply slow down production? Do they wait to buy the products from you when the pricing becomes more attractive? Do they switch to other suppliers that may offer lower prices on some materials? Can you just, maybe, explain to us the pricing dynamics and what effects – what drives the effect on volumes generally, please? That would be interesting.

Mauricio Graber: Sure. We're happy to provide some color into that. And I would just say the following. Overall, when you take a customer view into this type of currency situations, it's, first of all, the products that we provide, and when I talk about the technology and the pricing power, they usually represent a very low percentage of the customer product cost and has a very high influence on their texture, flavor and overall profile of the product, particularly in cheese and in fresh dairy. So it's one of the ingredients that would be technically very difficult to change for the customers.

Now in those type of situations, the customers face challenges with their formulation across many ingredients, not only Food Cultures & Enzymes. So I think if I look at what customers would do, they would usually work with their product offering, size, packaging and many elements. But I would say, we are, in a way, well protected with our Food Cultures & Enzymes because of the technical expertise and value that we bring to their products.

Søren, I'm not sure if you want to further elaborate.

Søren Westh Lonning: Yes. I think – generally, I would say the – more than the specific customer incidents – because, of course, it requires something to maintain euro prices in these economies, but historically, we have handled that with a very high level of success because of the value that we bring.

So more than the specific customer dynamic, it's more, you could say, what has been – what is more impacting the growth is the depreciating currencies, the reflection of an economy that is not functioning maybe to the extent that is really needed to support a very strong development within these categories.

So I would say that's a more important description than the – what the actual losses we have on the customer side. We had historically had a few incidents where we have lost customers as a consequence of that. But we also have a very strong track record and then later coming back with better offering in terms of products that can help drive cost efficiencies, et cetera, and help the customers that way. So that's what I would say.

Mauricio Graber: Yes, our level of customer retention is very high.

Fulvio Cazzol: Understood. So just to clarify, so it's more macro-driven. So even if you didn't take up pricing, your volume mix might have been similar in any case. So you're being, let's say, opportunistic in order to preserve organic growth. And then I guess your answers imply that you haven't lost any significant customers in Q1?

Mauricio Graber: Fulvio, those are – they are takeaways, Fulvio.

Fulvio Cazzol: Great. And given that you have good visibility or that you have shown good visibility in the past for your Cultures & Enzyme division, should we expect the pricing volume dynamics to change meaningfully in the coming quarters?

Søren Westh Lonning: Yes, you can – the method you can basically do is to take the currency rate as they are now and then compare the pesos, the rial, the ruble, all these and how they developed last year because that's the best guidance we can give you. And basically, several of these currency were depreciating during last year.

And the (inaudible) have less been, you can say, this financial year (for) – but more sort of we had a different level compared to what we were at the same time last year. And that means that the effect will wear off as we continue into the year and will gradually be smaller and smaller than euro price list effect. It is really skewed to the first half of the year.

Operator: Your next question comes from the line of Søren Samsøe.

Søren Samsøe: First question, just coming back to the timing effects in Food Cultures & Enzymes. If you could just quantify these? Are they less than 1 percentage point of growth in Food Cultures & Enzymes? And also, are they also impacting the margin negatively?

And then my second session is on Health & Nutrition. The strong growth you see in infant formula, is that broad-based among customers? Or can we expect that to continue the rest of the year?

Søren Westh Lonning: Let me address your first question, which relates to the timing of volume. I think the way I will answer this is that we have, we have a long-term ambition to grow 7 percent to 8 percent in Food Cultures & Enzymes with roughly 1 percentage point component from price. Now that leaves 6 percent to 7 percent from volume. And what we have given for guidance for Food Cultures & Enzymes for this year is that, that holds with the exception that euro prices will be larger.

So I mean, that gives you a little bit of flavor to the size of the temporary effect that we are quite – we are not changing the guidance for Food Cultures & Enzymes, and hence, we are also confirming that volume will pick up in the remainder of the year to the level indicated here as we – as I just said.

Obviously, lower volume means lower growth. And when we have a euro growth on the top line and 4 percent in Food Cultures & Enzymes, and we have, you can say, a quite sizable part of our cost base post production but also, especially R&D and our main office and so on, then naturally, there is a negative impact, you can say, from that combination.

That being said, as discussed earlier with Lars Topholm, we have so strong drivers for profitability in our business, and in particular Food Cultures & Enzymes with our reach and expansion, so we are quite confident in the profitability outlook for Food Cultures & Enzymes.

Then you had a question regarding the infant part, and here, I would say that it is actually broadly based. We grow in the infant category in all our four regions. And in particular, in Asia Pacific, we're also growing well in many different markets within that region. Obviously, China is a very important component. And here, we are growing well with several customers.

So it's not linked to a single customer in that market either although, of course, as you drill down from overall regional country specific, then you become more reliant on customers. But overall, I would say infant is performing very well across the board right now.

Mauricio Graber: To add a few comments to that, Søren, on infant formula. In China, we'll continue to benefit as well from the stricter regulatory framework, where the larger brands are growing. And we are a clear strong supplier to those strong brands.

And also, what we have seen around Asia is that infant formula and the continuing use of what is called growing-up milks continue to be a very strong and growing category. And we're moving off the ladder in all type of formulas from infant formula to growing-up milks to adult formulas with our probiotics and Food Cultures & Enzymes.

And just to your question on Food Cultures & Enzymes to complement a bit what Søren said, we see, I would say, very good and strong trading conditions when I look at our performance in Food Cultures & Enzymes. So quite strong confidence on the volume and the pricing dynamics in our core business.

Søren Samsøe: OK. That's helpful. And then the last, just last question on Natural Colors. I seem to recall you said in the conference call last time that the growth in Natural Colors this year would be back-end loaded. Can you confirm that, that is still the case?

Søren Westh Lonning: That's still our expectation that there will be some back-end loading. And I think that's also reflected by the fact that we delivered a 6 percent organic growth in Q1, and we have a guidance for this area of 6 percent to 9 percent. So that means that we do expect some acceleration in the second half of the year for Natural Colors based on our current outlooks for the business.

Mauricio Graber: Thank you, Søren. I think we are already slightly over time, so we will have to close the meeting now. If there are (any ones) who have questions that have not had a chance to address them here in this meeting, I can only encourage you to contact our Investor Relations team, Martin and Annika, for further comments and answers to the questions.

Thank you very much, and now I hand over to the operator.

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all now disconnect.

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