

**CHR. HANSEN HOLDING A/S**

**Moderator: Mauricio Graber**  
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**9:00 a.m. GMT**

OPERATOR: This is Conference #: 7875959.

Operator: Thank you for standing by, and welcome to the presentation of Chr. Hansen results for Q4 2019/'20. (Operator Instructions) I must advise you that this conference is being recorded today.

And I would now like to hand over the conference to your speaker today, Chr. Hansen CEO, Mauricio Graber.

Mauricio Graber: Good morning, everybody, and welcome to today's conference call on Chr. Hansen's full year 2019/'20 results. I am here with our CFO, Søren Westh Lonning, and the IR team. And as always, we will start the call with a presentation, which this time will be a bit more comprehensive. So we have time – so we have a lot to cover with the recently announced portfolio changes, but there will be plenty of time for question and answers afterwards.

Before we continue, please take notice of the safe harbor statement on Slide 2. Thank you.

Let's turn, please, to Slide 3. 2019/'20 was a defining and eventful year for Chr. Hansen. And with the recently announced portfolio changes, we have taken a big step forward on our journey as a differentiated microbial and fermentation company that pioneers innovative solutions to grow a better world, naturally.

I am very pleased with the progress that we have made on all 4 elements of our 2025 strategy that was presented at the Capital Markets Day in August: reinvesting in our core business of Food Cultures & Enzymes, Animal Health and Human Health; leveraging the microbial platform to grow our lighthouses of bioprotection, plant health, Bacthera for live biotherapeutics and our 2 new

additions, fermented plant bases and HMOs for human milk oligosaccharides; extending our technology platform via M&A and partnerships; and lastly, the strategic review of our nonmicrobial assets, which has been concluded with the announced divestment of Natural Colors to EQT.

Let me elaborate a bit more on the next slide, Slide 4, please. With the portfolio changes that we have announced over the last 6 months, we are further sharpening Chr. Hansen's profile as a microbial and fermentation leader. In sum, we have acquired assets with a combined transaction value of EUR 970 million to strengthen the microbial and fermentation technology platforms while divesting Natural Colors for a transaction value of EUR 800 million.

As I have said many times in the past, Natural Colors is a great business with attractive fundamentals. However, as it does not share the technology platform with the rest of the Chr. Hansen Group, synergies are very limited. And therefore, I am very pleased that with EQT, we have found a great new home for our Natural Color business. I am sure that as an independent company, Natural Colors will be able to continue its strong track record, and I look forward to following the achievement of this great team over the years to come.

The recent acquisitions on the other side, I believe, will be great enablers for Chr. Hansen future growth and margin expansion trajectory, let me repeat, future growth and margin expansion trajectory, while contributing to our mission of pioneering microbial science to improve food and health for a sustainable future.

With HSO Health Care and UAS Labs, we are truly strengthening our Human Health business and expanding our product offering and manufacturing capabilities to what we would consider second to none in the industry. The integration is well on track and expected to be completed by the end of our fiscal year 2021. Over the next 12 months, the focus will be on integrating the 2 production sites from UAS Labs while aligning our commercial strategies and our go-to-market approach.

With the acquisition of Jennewein, which is expected to close shortly, by the way, we are moving into the fast-growing HMO market as one of the leading players with an unrivaled product portfolio and highly cost competitive IP protected production process. The HMO lighthouse will be managed as a stand-alone value chain with separated management team under the Health & Nutrition business area. And the #1 priority for this team will be the successful commercialization of HMOs to key customers while establishing the new manufacturing facility in Kalundborg, Denmark over the next years.

Combined, the acquisitions are expected to contribute EUR 130 million to EUR 140 million of revenues and around EUR 30 million EBITDA in our financial year 2021. Søren will comment more in detail on the financial implications, but we strongly believe that the acquisitions and the investment that we intend to do mainly in the HMO part will be highly value-creating in the long term, but we also have to accept short-term temporary headwinds to our EBIT margin due to the higher depreciation level.

With these remarks, let me move to the next slide, Slide 5, to look at the financial performance during the quarter and full year 2019/'20. In light of the global pandemic, I am very pleased to report that Chr. Hansen delivered on its guidance, demonstrating resilience and strength during this challenging year.

The group organic growth came in, in the midpoint of our range with 5 percent for the full year. Group EBIT margin before special items was 29.9 percent, slightly higher than our guidance mainly because of prudent cost management and COVID-19-related lower expenses. Lastly, free cash flow before acquisitions and special items was EUR 245 million and thus came in strongly within our more than EUR 200 million guidance because we have seen some COVID-19-related delays in our CapEx projects.

If we look at the fourth quarter stand-alone, and here, I will focus my comments on the microbial platform that is reported as continuing operations in the annual report, organic growth was 9 percent, with Food Cultures & Enzymes delivering 5 percent organic growth and Health & Nutrition growing 18 percent on the back of very strong demand for our probiotic supplements and with Plant Health contributing to growth again.

If we look at the absolute revenues in euro terms, though, the increase was only 3 percent as currencies had a negative impact of 6 percent, which will also accompany us over the coming quarters as the U.S. dollar and other core currencies have devaluated substantially against the euro. The EBIT margin before special items in the fourth quarter was impacted by the above-mentioned drivers, which were partly offset by currencies, leading to a 38.4 percent margin for the quarter compared to 37.9 percent last year.

If we look at the regional performance, please turn to Slide 6. And here, again, we are looking at the numbers for the microbial platform, we see all regions contributing to grow organic growth. Europe, Middle East and Africa reported 3 percent organic growth in Q4 and for the full year. In the fourth quarter, Food Cultures & Enzymes delivered good growth despite the combined – the continued weakness in the Middle East, while Health & Nutrition delivered solid growth led by Animal Health.

In North America, we saw a deceleration in organic growth in Q4, leading to 1 percent for the quarter and 4 percent for the full year. This is mainly explained by slowing growth in our Animal Health business, which was negatively impacted by the COVID-19 pandemic, while Human Health continued its strong growth performance in dietary supplements. Food Cultures & Enzymes delivered a slight growth in the fourth quarter with better-than-expected momentum in cheese, while our wine business was impacted by a difficult harvest year and the softness in probiotic yogurts continued.

Looking at Latin America, we have seen an acceleration in organic growth, with 47 percent organic growth in Q4 and 24 percent for the full year. The contribution from euro pricing was approximately half of the growth. The main drivers for the higher growth in Q4 was our Plant Health business, which, as expected, delivered a very substantial part of its annual revenues in Q4. While in Food Cultures & Enzymes, we continue to see very good uptake of our chief solutions such as CHY-MAX Supreme.

Lastly, looking at Asia Pacific, we posted strong organic growth of 10 percent in Q4, which led to 6 percent for the year, with Human Health being the key

growth driver. Food Cultures & Enzymes revenues, on the other side, were down compared to last year as a result of the global pandemic, particularly in countries like China and India. In China, ambient yogurt production levels continue to be below normal, and the premium segment remains impacted by consumers down trading.

To elaborate a bit more on the COVID-19 impacts during Q4, please turn to the next slide, Slide 7. Similar to last quarter, we tried to illustrate the different moving parts here on this slide, but please only take the arrows as directional indications of the COVID-19 impacts.

While in Q3, we reported a positive net impact for Chr. Hansen on group level, in part driven by consumer pantry loading and customers building up additional safety inventories, we have seen these effects largely reversed in Q4. In addition, regional lockdowns and travel restrictions continue to have a negative impact on our ability to engage with customers face-to-face even though the number of digital interactions has been very strong.

If we look at our 2 segments, Food Cultures & Enzymes was clearly more impacted than our Health & Nutrition business as dairy end markets remain subdued in Q4, particularly in emerging markets. In our Animal Health and Plant Health business, we have not seen a substantial negative hit, other than for Cattle in North America, but we have some concerns about the slower trial activity with some customers and delayed product registrations due to COVID-19, which could affect next year performance.

On the positive side, our Human Health business delivered another record quarter. We continued strong growth, particularly in markets with well-developed e-commerce channels like the U.S. and Asia.

If we look at the overall commercial pipeline, we made solid progress on advancing projects with customers in Q4, but we also have to acknowledge that travel restrictions and limited access do impact our ability to run trials, close projects and sell new innovations. That said, we expect travel activity to normalize again during the course of the coming year when, hopefully, COVID-19 situation is brought more under control.

With this, I would like now to hand over to Søren for the segment review, group financials and guidance for next year.

Søren Westh Lonning: Thank you, Mauricio, and welcome also from my side.

Please move to Slide 8. Food Cultures & Enzymes grew 5 percent organically in Q4, leading to 5 percent organic growth for the year. Organic growth in Q4 was driven by a meaningful contribution from euro pricing, while volumes were flat as growth in cheese, bioprotection and enzymes was offset by muted fermented milk sales as well as decline in probiotics and wine.

As Mauricio already said, volumes were particularly hit in emerging markets like China, India and Middle East. Outside these 3 territories, organic growth in the quarter was high single digit, just shy of 10 percent and, hence, delivered both solid volume growth and euro pricing.

On a positive note, I'm very pleased to see that our projects with customers in the fermented plant base space advanced very well despite the COVID-19 challenges and that we were able to double our business in FY '20, albeit from a low base.

Looking at profitability. The EBIT margin for Food Cultures & Enzymes increased 40 basis points to 38.4 percent in Q4, driven by a positive one-off from a VAT dispute in Brazil, lower expenses due to COVID-19 and operational efficiency that were partly offset by higher freight costs, unfavorable product mix and a negative impact from currencies.

Please move to the next slide, Slide 9. In Health & Nutrition, growth in Q4 was driven by continued very strong momentum in Human Health and an expected strong contribution from Plant Health, while momentum in Animal Health was slower because of COVID-19-related disruptions in North America. Overall, this led to an 18 percent organic growth in Q4 and 9 percent for the full year. The very strong performance in Human Health was driven by dietary supplements, while infant formula had a high comparable due to

timing of orders from new product launches last year, and we also saw some destocking here related to COVID-19.

In Animal Health, growth was broadly anchored across species with a very good momentum in our new category of pet food, while regionally, North America declined and the rest of the world reported very strong growth. However, the outbreak of African swine fever in Europe and COVID-19-related negative effects are a concern going forward and here particularly for the first half of FY '20. Lastly, Plant Health reported very strong growth, as expected, as the business recorded the majority of its revenue this year in Q4 after a soft start to the year.

Looking at profitability for the Health & Nutrition business, the EBIT margins were 38.3 percent, up 90 basis points in Q4, driven by a single-line consolidation of UAS Labs, cost management initiatives and lower travel and trial expenses that were partly offset by unfavorable currencies and impairment loss of EUR 3 million related to product development in Human Health.

Let's now move to the income statement on the next slide, Slide 10, to look at the different profitability drivers for the continuing business. Please note that Natural Colors in the P&L is accounted for as profit from discontinued operations. The gross margin for the continuing operation decreased by 1.3 percentage points to 60.2 percent in FY '20 as increased freight cost, unfavorable product mix and a negative impact from currencies were only partly offset by scalability benefits and operational efficiencies. Operating expenses, on the other hand, were 1.5 percentage point below last year because of lower spending in various cost categories due to COVID-19.

The other operating income of EUR 8 million relates to the UAS Labs acquisition that was consolidated as a single-line item as well as a favorable ruling on the already mentioned VAT case in Brazil. In sum, this resulted in an EBIT margin before special item for the continuing operation, i.e., the microbial platform, of 33.7 percent, which was slightly ahead of last year.

Special items related to the 3 acquisitions amounted to EUR 14 million. Lastly, we also booked a EUR 4 million loss related to our joint venture, Bacthera, which is in line with expectation as the business continues to ramp up.

Please move to the next page, Slide 11, for cash flow and leverage. Free cash flow before acquisitions and special items for the group, including Natural Colors, increased substantially to EUR 245 million. Cash flow from operating activities was EUR 36 million compared to EUR 299 million in 2019. The increase was driven by a positive development in working capital, especially with trade receivables and a temporary governmental liquidity supporting initiatives against COVID-19. The latter was close to EUR 10 million, which will reverse in FY '21.

Cash flow used for operational investing activities was EUR 140 million and thus on par with last year when excluding the inflow from the sale and leaseback of the company's main site in Hørsholm. However, it was lower than anticipated at the start of the year as COVID-19 delayed several CapEx projects during the second half of the year.

Leverage increased as a consequence of the recent acquisitions to 3.1x EBITDA, and we'll see another step-up to between 3.5 to 4x EBITDA in Q1 because of the Jennewein acquisition. However, it is our ambition to bring down leverage again to a level which is in line with an investment-grade credit rating of approximately 2x at the end of the financial year 2021. And the proceed from the Natural Colors divestment will primarily be used for this.

Also note that the Board of Directors had decided not to propose an ordinary dividend, but instead expects to pay out an extraordinary dividend at least in line with a normalized dividend after the Natural Colors divestment has been closed.

With this, I would now like to move on to the guidance for FY '21 on the next slide, Slide 12. The financial year 2021 is going to be a year of transition, given the recent portfolio changes and with relatively high uncertainty

because of the continuing COVID-19 pandemic. Therefore, we take a cautious outlook for the coming year.

We expect group organic growth to be between 5 percent to 8 percent, with the highest contribution from Health & Nutrition. Both Health & Nutrition and Food Cultures & Enzymes are expected to grow solidly and outgrow their respective underlying markets. Given recent currency movements, we also expect a positive contribution from euro pricing of around 2 percent on group level.

The EBIT margin before special items is expected to be in the range of 27 percent to 28 percent. And free cash flow before acquisitions, divestments and special items is expected to be between EUR 120 million and EUR 160 million. And I will elaborate a bit more on both EBIT margin and free cash flow on the next slide.

Please turn to the next slide, Slide 13. Looking at the EBIT margin before special items first, there are a number of moving parts that will impact group profitability next year. First, portfolio changes. Combined, the acquisition of HSO Health Care, UAS Labs and Jennewein and the divestment of Natural Colors are expected to have a small net negative impact on EBIT margin. The portfolio changes are, however, EBITDA margin accretive in the range of 1.5 to 2 percentage points and thus reflects a sizable increase in depreciation and amortization driven by the purchase prices.

If we look at the acquisitions separately, then we expect EBIT margin for HSO Health Care and UAS Labs to gradually increase over the strategy period and reach around 30 percent by FY '25 as we realize cost and revenue synergies from '22 onwards. The same is true for Jennewein, but here, we first need to establish the manufacturing facility in Denmark and gain critical mass. So it will take more time for margins to reach around 30 percent, and thus, we see this to be realized beyond '25, however, with very solid progress by '25.

To give you a point of departure for your models, for FY '21, we expect a net EBIT loss from Jennewein of around EUR 10 million to EUR 15 million, while EBITDA is expected to be around 0. And while the PPA for Jennewein

is still being finalized, we estimate that the depreciation and amortization impact of all 3 acquisitions combined would be around EUR 35 million, which equals around EUR 25 million net extra after the divestment of Natural Colors.

The EUR 25 million extra roughly corresponds to the combined D&A on the purchase prices for the 3 acquisitions. The sizable impact on depreciation from the acquisition also means that EBITDA margin for FY '21 is expected to be on par with last year, including the Natural Colors business.

The second driver is currency. Key currencies, such as the U.S. dollar and the Chinese renminbi, have moved meaningfully over the past months, and this not only has an impact on absolute revenues, but also on our EBIT. As currency rate stands to date, we expect up to 1 percentage point negative impact on group EBIT margin. With the portfolio changes, our exposure to the U.S. dollar has increased slightly on both revenues and earnings. For further details, please refer to the sensitivities that we provide by default in all our quarterly reports.

Thirdly, the EBIT margin of the underlying business will also be lower than last year as the 2019/'20 numbers contain some positive one-offs that I highlighted before. And furthermore, we expect to return to normal travel activity and cost levels during '21 and intend to ramp up investments in our key 2025 strategy initiatives, for example, for the new fermented plant bases lighthouse. So in short, we will execute on our strategy and we will resume to traveling in our commercial organization as soon as possible.

Finally, let me emphasize that despite the many moving pieces in our EBIT margin in FY '21, we do remain fully committed to delivering underlying margin expansion by 2025, and the 3 recent acquisitions all strongly supports this.

Moving to the next slide, Slide 14, for some brief comments on CapEx and cash flow. We expect CapEx for '21 to be around EUR 200 million. The step-up is related to the HMO lighthouse and especially the new factory that we will build in Kalundborg over the next couple of years. In total, we will spend

more than EUR 200 million on CapEx for HMOs until 2025, of which less than EUR 100 million will be spent next year, including the purchase of the site.

Excluding the HMO investment, the CapEx-to-sales ratio for the continuing business is expected to be lower than in 2019/'20 and you should expect this trend to continue over the strategy period, as we have said at the Capital Market Day.

Operating cash flow is estimated to be at a similar level to 2019/'20, and this despite a normalization of certain working capital items and higher interest cost, while cash taxes are estimated to be lower than 2020 due to the acquisitions made. So in short, free cash flow would target an increase had it not been for the HMO acquisition.

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

Mauricio Graber: Thank you, Søren. 2019/'20 was a very eventful year, and we ended with the launch of our 2025 strategy that not only sets the framework for the next 5 years, but also for the next financial year. The priorities are very clear.

First, customers. We will continue to collaborate as closely as possible with our customers in this challenging COVID-19 times to help them maneuver the uncertainty and economic headwinds.

Second, innovation. Bringing new innovation to market remains crucial. And here, I am particularly excited about the new product pipeline of our lighthouses bioprotection and fermented plant bases.

Third, operations. We will continue to realize scalability benefits and operational efficiencies as a key lever for this is the integration of our recently announced acquisition businesses, but also continuous improvement in our flagship Copenhagen plant.

Four, people. Our people are Chr. Hansen's largest asset, and employee safety remains the #1 priority during these unprecedented COVID-19 times.

Additionally, the focus for fiscal year '21 will be on successful integration of

the more than 350 new employees from UAS Labs, Jennewein and HSO Health Care.

Lastly, on purpose. The global pandemic has only increased the urgency for more sustainable development. And at Chr. Hansen, we will further drive our sustainability agenda to draw – to grow a better world, naturally.

Please turn to the next slide, Slide 16. We have made good progress on our new sustainability targets that were issued together with the new long-term financial ambition. As part of – as per the end of 2019/20, more than 80 percent of Chr. Hansen revenues contributed to the United Nations Sustainable Development Goals. And we continue to make an impact with our products by increasing the adoption of natural solutions in crop farming, reducing yogurt waste and increasing the number of people that consume our probiotics daily.

We have also joined the Science Based Target initiative this year to support the Paris Agreement. And our global operations team will continue to drive initiatives to deliver on our new environmental targets. Lastly, it goes without saying that we continue to invest in talent management, and we will advance our diversity agenda while making sure Chr. Hansen remains a safe place to work.

With that, let me wrap up. Chr. Hansen delivered a solid set of results during the fiscal year of this global pandemic, growing our business profitably and delivering a strong free cash flow. Trading conditions are expected to remain challenging next year, which is why we take a cautious stance and have chosen a broad guidance range for the year.

Third, on top of that, fiscal year '21 will be a year of transition as we carve out Natural Colors and integrate our recent acquisitions. Additionally, currencies are expected to have a substantial negative impact next year, as Søren already described. Despite these short-term headwinds, let me emphasize that I could not be more excited about the future that lies ahead of Chr. Hansen as a microbial pure-play. And I look forward, together with the leadership team, to put our 2025 strategy to work.

With this, I would like to open up the call for question and answers. Thank you.

Operator: (Operator Instructions) And your first question comes from the line of Jonas Guldborg from Danske Bank.

Jonas Guldborg: A few questions from my side. First of all, if you could elaborate a bit on the commercial project pipeline and its expected impact on organic growth in '21. As I hear you, we are now entering a phase where you expect to see a negative impact. So how much of, you could say, your normal outperformance compared to core end markets will – how much decline will we see here?

Then if you could also tell us how long the PPAs on the acquisitions will run and also give us the impact from the VAT dispute in Brazil on Q4.

Mauricio Graber: Thank you, Jonas. I'll take the first part on the commercial pipeline and pass it on to Søren to comment on the specific of the PPAs and the VAT case in Brazil. So obviously, what we're trying to give you is the perspective on the commercial pipeline as we don't have a crystal ball going into next year.

I think the important dynamics that I mentioned during the call is, first of all, our pipeline is strong and solid, which means that the ways of working with the customers and engaging on the co-creation of solutions that benefit consumers and their brands are ongoing. And I want to give confidence about that.

The number of interactions with customers on what I would call the new normal, which is working at a distance with less physical presence or face-to-face meetings, is also working because we are closing projects and we are winning projects. But we are cautious about the potential impacts of COVID-19. And it doesn't affect all business areas the same.

In Food Cultures & Enzymes, it's more about the ability of being able to close projects by being on-site with some of the customers. In Animal Health, I highlighted the importance of, for example, product registrations that may be delayed because of government delays due to COVID-19. In Human Health,

we continue to see a very high interest of customers launching products that address immunity or other key areas.

So we go into the year with a full pipeline and with optimism about our ability to be able to close those projects with customers that convert into new win revenues for us. Søren, on to you for the other parts.

Søren Westh Lonning: Yes. Regarding the VAT dispute or case in Brazil, bear in mind that this is not a case fully specific to Chr. Hansen, but a ruling at the Supreme Court that influence basically all companies operating in Brazil, in some way, shape or form. And the impact is between EUR 3 million and EUR 3.5 million in the quarter, and it's impacting Food Cultures & Enzymes and Natural Colors. And it is to a level where Food Cultures & Enzymes is the majority, but there is also an impact in Natural Colors in this amount.

When it comes to the PPA and the duration here, it's really a difference between the different types of assets that are being created under the PPA. So there are some that are being depreciated over less than 5 years, some that will be depreciated over 10 and some between 15 and 20, depending on whether it's trademarks, it's IP, it's customer contracts and relations, et cetera. So quite a bit of difference in that link.

And maybe just to put it in perspective, if you look to the PPA that we will be doing here of having to do over the coming years, then we are basically depreciating that over a period of time. Whereas the gain that we will get from Natural Colors, here, we are selling an asset of – for EUR 800 million, and the – you can say there will be a gain, net profit gain of between EUR 700 million and EUR 650 million. That will all hit our net profit in FY '21.

So you sort of – when we divest, it's all coming in a lump sum in net profit in 1 year. And when we make the acquisitions, we are depreciating over a period of time. And I think that's just – when you look to the numbers, we are basically divesting our Natural Color business for more or less what we have to pay net of taxes for the other 3 businesses. And when you look at it, it just hits from an accounting point of view, not cash flow, but from an accounting point of view very differently.

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

Søren Samsøe: Søren here from SEB. Just a couple of questions here. First of all, if you can elaborate on the growth of yogurt in China. It seems like it's been quite weak in Q4. This is something you expect to go into the coming year? Or do you see any positive elements by the end of the quarter?

Secondly, on this Page 9 in your slide, you mentioned an impairment in Health & Nutrition. Maybe you can just elaborate a bit on that.

And then finally, if you could risk a comment on sort of now that what you're saying is that it will take some years before the margin of the acquired units come up to par with the rest of the group, maybe if you could elaborate a little bit on the risk of you not actually reaching that within the period. It's a pretty long period, so that, of course, also increases the risk that you do not reach your targets. So maybe just talk around that a little bit.

Mauricio Graber: Thank you, Søren. Talking about China, so for sure, we have highlighted, and I think Søren mentioned that very clearly, that on Q4, if you would exclude the markets of China, India and the Middle East, the growth for Food Cultures & Enzymes would have been high single digits or close to 10 percent. So obviously, COVID-19 has impacted those markets from a consumer sentiment, consumer behavior and also from an ability to produce and have products available to the consumer at an acceptable cost.

If you think about China, I believe these are the factors affecting the Chinese market. First and foremost, the production of fermented yogurt has not totally normalized in China. And even though you see some of our large Chinese customers reporting solid results, a lot of that may relate to fluid milk where you think we – where you know we play less. So we need to see a normalization of the production of fermented milk in China, yogurts, both ambient and chilled, and we expect that to normalize during the fiscal year '21.

However, you also see a consumer that faces a lot more uncertainty around job security, trade tensions, economic conditions and where disposable income remain more of a challenge, and we have said before that geography is still a premium item in China. So we continue to see some down-trading from chilled – premium chilled to ambient.

Now what's on our agenda is, of course, to innovate and co-create with our Chinese customers to have innovation in ambient so that we see growth and also to bring new solutions that attract consumers into chilled. So I don't want to show overly high optimism, but I am confident that we are working on the right topics on China where this has been, for sure, a challenging year, particularly for Food Cultures & Enzymes.

On the margin, before I pass it to Søren, I just want to highlight, Søren, the following: for sure, there is an EBIT margin impact on the PPA and the acquisitions. But very important that if you look at the EBITDA, and we highlighted that in Søren's presentation, we delivered an EBITDA margin this year of 37 percent, which is roughly where we expect to also be going forward. So I just wanted to highlight that.

Søren, I pass it to you for the impairment and other comments.

Søren Westh Lonning: So we expect an EBITDA level in '21 that is quite close to what we delivered in '20, including the Natural Colors business of around 37 percent.

Now when it comes to the impairment, first, let's take that question, it is around EUR 3 million. And it relates to a development project for developing a new solution in Human Health based on probiotics and where the development and the supporting evidence behind that development did simply not meet the expectations that we had, and we have chosen not to commercialize that.

I mean we – you should be understanding that we are executing quite a lot of innovation projects every year, and we generally have a high success rate. But in this case, it simply didn't meet the end points that we expected, and hence,

we decided not to move forward with it. So that's the impact. And that goes solely into the Health & Nutrition area, and it relates to Human Health.

When it comes to the acquired businesses and the risk of delivering to what we have said here, I would say, when we take the UAS Labs and HSO Health Care and combine that, I would say we have a – these are existing businesses. It's businesses that – where we're operating already today. There are some very clear synergies both on the operational side and on the commercial side and the R&D side. And I would say we have a high confidence that we can deliver here.

Bear in mind that we, when we announced this, said it was sort of being EBITDA neutral to the group. It would have a short-term negative impact in the first year of minus 1 percent when we announced UAS Labs. And of course, when Natural Colors drops out, then the effect becomes somewhat larger, so more to the tune of 1.2 percent, 1.3 percent. So that's it.

But we also said in that announcement that we expect '25 to hit the group level of around 30 percent. And hence, there is a very clear story, and we have a high confidence level around that because it's known to us and we know exactly what to do. Of course, top line development is always – there's always an uncertainty related to that, but no more than what I see in our existing Health & Nutrition business.

When it comes to Jennewein, it's slightly different in the sense that this is more than emerging business. So we are entering into a field that is in its infancy, I think we can say, but where there's been a lot of the very strong IP development and first product development. And the uncertainty here, it's not so much for me, not so much about the end point, but more about the speed by which we will reach it. So will we hit the 30 percent in '26, '27 or '28? It's difficult for me to issue that guarantee based on the fact that it is an emerging technology platform and solution space.

But we are extremely excited about this journey. There are a lot of growth opportunities. We expect the market growth to be around 30 percent plus. And we believe that we will emerge as one of the absolute leading players in this

field. And there will – as we build scale and as we construct the sites that we need to construct in Kalundborg, Denmark, then there is also a very strong margin journey in this area. And we'll make good progress on that until '25. But when exactly we'll hit 30 percent, I mean that's the uncertainty point.

Mauricio Graber: Maybe just to complement 2 additional things, Søren, which make me proud of those 2 acquisitions, one is on UAS Labs, everything that we have seen so far up to the reporting calendar is a very strong performance of UAS Labs and a very strong synergy play with our Human Health business. So it's been very positive, and that gives us confidence as well.

And then I can report to you that even though we will close with Jennewein very shortly, the feedback that I have received as CEO from the leading infant formula customers has been very positive on Chr. Hansen being a future owner of this business and the interest to collaborate on us based on the strength of our science and our understanding of the infant formula business. So even though Søren is right that it's a new and emerging field, it's an area and a customer and an end market that we know and we understand, and it gives me confidence that we will deliver on the growth and exciting synergies of this lighthouse.

Operator: Your next question comes from the line of Lars Topholm from Carnegie.

Lars Topholm: Yes, 3 questions from my side also relating to margins. So if we start with the Q4 margin in Food Culture & Enzymes, which is flattish to slightly up year-on-year, you have explained that this includes UAS Labs only being consolidated on one line, plus the VAT impact from Brazil. So if we assume this EUR 5 million impact, isn't it an underlying margin which is down by around 300 bps to around 35 percent we are seeing? And if so, can you explain what drives that underlying margin's decline, please?

Then question number two, when you explained that HSO and UAS Labs should reach the 30 percent margin level by 2024/'25, is that before or after purchase price allocations? And do you still expect EUR 20 million to EUR 25 million – sorry, EUR 25 million to EUR 30 million in PPA amortization by that stage?

And then a final question, Mauricio, in your introduction, you highlighted that these portfolio changes contributed to growth and to margin trajectory, of course, long term. But you haven't said anything about the growth in the companies you have acquired. So I wonder if you can put some words on the underlying growth in HSO, in UAS Labs and in Jennewein, if not individually, then at least combined. I mean what kind of growth trajectory are we looking at there?

Mauricio Graber: Let me start with that last part of the question, Lars, and then I will pass it to Søren to comment specifically on the Q4 margin for FC&E and the – your questions on the 30 percent by '24/'25.

So I guess your question is connected also to our guidance in our long-term financial ambition, Lars. I would say our long-term financial ambition that we communicated together, that we communicated with the Capital Markets Day in August, I said I think that's the right long-term guidance to serve us well for the 5-year period of mid- to high-single digits in our underlying EBIT margin expansion over the period. So obviously, in the businesses that we acquire, we look for businesses that, a, are aligned with our microbial and fermentation technology platform; provide a space that has IP, high differentiation, high science. And we believe all of those 3 qualify for that.

When we look at UAS Labs and HSO, it would be fair to say that their growth had been higher than our average Human Health growth. And therefore, we expect their growth to be accretive to overall portfolio, plus the synergies of combining the 2 companies. So that's why we mentioned that the acquisition of those 2 businesses will be accretive for our growth.

Now when you look at the business in HMOs and Jennewein, I think we have provided a lot of information. We have mentioned how much the business is today. We have mentioned also what we expect the size of the market to be in 2025, and we have indicated that we expect to have a large share of that business. So obviously, that business will be a business that will expand very fast to reach the EUR 100 million lighthouse during the period. And I hope this provides you a good perspective on how we believe they will be growth

accretive and also reach the EBIT margin of the group, as Søren mentioned during the review. Søren?

Lars Topholm: It certainly does, Mauricio, but just to translate this into black and white statements that even I understand, can you confirm that combined, these 3 should grow in the teens organically if we look at the next couple of years? Is that a fair assumption to make of me?

Søren Westh Lonning: I think when you look at them side-by-side and you weigh them relative to the size they have, with a market growth of 30 percent in Jennewein, we are talking about something where we at least expect to grow over the period and something to that. And that weighs, in the first year, EUR 50 million out of the EUR 130 million to EUR 140 million.

You have the UAS Labs who have grown double digit over the last couple of years and where we continue to see a strong growth potential, which weighed also quite heavily. And then you have the HSO, which – where we expect the market to grow in that subsegment of women's health of around 15 percent, and that's a smaller weight, but it's also double digits. So I think no matter how we do the math, I think it's very fair to assume that over that period, we expect a double-digit growth in the acquired businesses.

And let me try to address the other questions you have. And I will start with number two, and then maybe we need a little bit of clarification on number one. But on the first one, when we refer to where we see the EBIT margin potential by '25 or beyond, that includes the PPA.

So – and that goes for both Jennewein and the UAS, HSO. So when we say that the UAS had a minus 1 percentage point margin reduction in year 1 on EBIT level, that is – and that is larger when we have divested Natural Colors. And if you add the HSO, then combined UAS Labs and HSO may be to the tune of 1.5 percentage point down on EBIT level in FY '21. That is, to a very large extent, driven by the PPA.

When you then – what we guide by '25, that is still including the PPA. So there's no taking that up. The only thing I just want to – and the same goes for

Jennewein. The only thing I want to stress is that the PPA, you can say formally, are still – are not final until 12 months after the acquisition has been done. We don't believe major changes to what we are communicating here. I'm just making the disclaimer that, that is the case and that is how that is normally handled. But we have had multiple auditor firms validate the numbers, so we have a high confidence with them, but they may change marginally over the coming period.

And then let me try to address your first question. And here, just to split a little bit Food Cultures & Enzymes, that's what I understand, your key questions related to really food cultures...

Lars Topholm: Yes, because the majority of your other operating income is in Food Cultures & Enzymes. As I understand, you both have the majority of the Brazilian VAT money and you have UAS Labs consolidated in one line, which, of course, gives a margin boost.

Søren Westh Lonning: Yes. The – just to be clear, that's why I wanted to clarify the Food Cultures & Enzymes. The UAS is moving into Health & Nutrition, so that is not affecting Food Cultures & Enzymes in what is a Health & Nutrition acquisition. And here, you have the dynamics of that, of course, balancing somewhat out with the impairments that we discussed earlier.

But if you look to the margin drivers in Food Culture & Enzymes, it's true that the Brazilian VAT case gives roughly plus 1 percentage point or slightly above 1 percent in the quarter. And there are some effects from lower expenses due to COVID-19, and there are some operational efficiencies.

But when you look to what pulls the other way, we have the higher freight costs, and we transport quite a bit. We are air in Food Cultures & Enzymes because a lot of the goods that we have are frozen stored at minus 55, and they need to hit warehouses around the world either at us or customers quite fast. So that is a clear negative in the quarter.

We have an unfavorable product mix, and that reflects that enzymes have had a very strong year also, specifically in Q4; while probiotics, our highest-

margin category, have had a more tough year. So there is a clear negative impact in product mix this particular year.

And then finally, in Q4, we had a negative impact from currencies to the tune of 0.5 percentage point. And that really reflects that the currency rates started to deteriorate during the Q4. So it was worst in August, and it was much – it was less in June. But on average, it was around 0.5 point down in Food Cultures & Enzymes. So you have some moving pieces, both up and down, that nets out to something that is slightly up in Q4.

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

Heidi Vesterinen: So first one, you talked about destocking by customers in infant formula and FC&E. Is this now behind us as we enter Q1?

And then another one on China. So I noted that there are some Chinese players now developing their own probiotic strain. They may not be as great as yours, given your long experience, but in reality, it's hard for consumers to tell what the difference is. So could emerging competition have played a role in the slowdown that you are seeing in China? And is this a risk that you've been thinking about? Or can you rule it out?

And then the last question, I recently read something about various financial institutions calling for a curb to funding factory farms. Given the recent pandemic and concerns about the animal industry, would a move to reduce factory farming be positive or negative for Chr. Hansen? What is your current exposure, please?

Mauricio Graber: So Heidi, thanks for the questions. I think on destocking, if you remember, in Q3, we mentioned that we had customers building up safety stocks and that I would expect those safety stocks to only decline slowly as more confidence is being built on the global supply chain resiliency. And I was very specific about talking that with the customers for many, many years, the supply chain had all been about productivity, productivity, productivity, and it now has shifted to reliability, reliability, reliability.

We saw in Q4, as I said, a reversal of some of those safety stocks. I don't think it's totally out of the system, to be honest. I think our customers are still operating at a slightly higher comfort level given that we still see disruption of the global pandemic. So I don't think there will be a huge deceleration because of that, but I still believe there's some higher level of safety inventory at the customer levels, which obviously is difficult to quantify.

To your questions on probiotics in China, by the way, it's always been the case that there has been probiotics from other customers. Probably the best example should be Japan, where that has been the case for decades. So I think this is an area that is being totally overplayed. I think it's great to see some of the Chinese customers having some of their probiotics. But when you think about global scale, science, consumer benefits, our cost efficiency of producing probiotics, I mean this is something that we monitor.

But I just think it's being highlighted as a larger challenge than what it is today. In some cases, if there have been successful probiotic developments, we have also proven to be the best and most efficient manufacturer of those probiotics in the future. So to a large extent, I see this as also potential opportunity.

Your last question, Heidi, is difficult to answer. I think overall, what I would say, the biggest trend for us in animal health is the continuing awareness of the overuse of antibiotics and the impact of antibiotic-resistant bacteria in human. And therefore, all of the trends that we see in animal farming basically favor the use of probiotics in feed as a natural way to contribute to healthy animal protein.

Heidi Vesterinen: Is it possible to get an estimate of your exposure to factory farming? Would it be most of animal health?

Mauricio Graber: We would have to get back to you, Heidi, on that. I don't have that top of mind. Maybe we'll discuss that a little bit off-line with Martin and try to give you more granularity on that, if that's OK.

Heidi Vesterinen: That's fine.

Operator: Your next question comes from the line of James Targett from Berenberg.

James Targett: Three ones from me. Just firstly, on Plant Health, obviously, as expected, big growth in the fourth quarter. Could you just talk a little bit about the outlook for '21, particularly if there's any phasing we should be aware of, new countries, new country launch, new customer launches, et cetera?

And then secondly, on probiotics in Food Cultures & Enzymes, obviously, the strong demand you've been seeing in probiotics in the dietary supplement or Human Health category. Are you seeing signs maybe outside of China that this is starting to translate into sort of high growth in probiotics in everyday food and beverage products?

And then finally, on the margin, just in the light of all the acquisitions, can you just confirm the base figure that you're benchmarking, so you're basing your margin expansion through '25 on?

Mauricio Graber: Søren, you want to start with the margin expansion and I'll comment on the others?

Søren Westh Lonning: Yes. So the base number that we are comparing to in our long-term financial ambitions for both margin, free cash flow and also our organic growth, that is our financial year '19 because when we had the Capital Market Day and the strategy launch, that was the, you can say, the fixed point in terms of the last fully closed and realized results. So it is compared to those numbers.

So when you measure organic growth, that's against '19 on average. When we also look at the margin, then we have said underlying margin expansion, net of the portfolio changes and net of currency, and that's also relative to our FY '19 where we delivered 29.6 percent EBIT margin.

Mauricio Graber: Just to comment on the other 2 questions. So probiotics in Food Cultures & Enzymes and in food and beverages, so I would say it's interesting because the pipeline and the number of projects for probiotics in dairy and in food and

beverage products is very high. And that gives me confidence that the level of consumer interest and the level of customer engagement is very high.

We have, however, seen a low number of new product launches. So let's say the potential of that is yet still to materialize. We have seen some launches in dairy. We have seen some launches in fermented beverages, and we have seen some launches in bars and cereals. But this is an area where I think the combined strength of the probiotic portfolio that we now have between Chr. Hansen, UAS Labs and HSO will provide further strength.

Now on Plant Health, I will comment and maybe, Søren, you complement if I miss anything, but the journey on Plant Health, we have basically said we need to move from the successful launch of sugarcane in Brazil where we continue to gain acreage, by the way, into soy and other crops and into other markets' numbers in like the U.S. being the next market, while also signing up some of the new partnerships that we will have for markets outside the Americas. We are making pretty good progress in all of those 3 areas.

Now as we reported in Q3, the soy planting season in Brazil was a little bit disappointing. We have learned the lessons from that and taking corrective actions to make it stronger. The collaboration with our partner, FMC, in the U.S. market is ongoing, and we expect to see commercial revenues on the next financial year. And we are also advancing with our new partnerships even though we have already mentioned that we will not communicate the new partnerships until the products are ready to launch because that would prove to be more effective from a commercial perspective.

Søren Westh Lonning: And maybe more specifically on the growth expectation for '21, I mean we do expect a strong double-digit organic growth in Plant Health. So that's what we expect at this point in time. And we also believe that the growth pattern will be more – somewhat more evenly distributed in the coming years as opposed to what we have reported in FY '20, where we had 3 quarters with negative growth and then an extremely strong Q4. We do believe that the timing will be more evenly distributed in FY '21.

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

Annette Lykke: So first of all, reaching the high growth of, yes, 30 percent or so for Jennewein, could you share with us what is needed – is part of the reason why you see only in a longer term better improvement of the margins, is that due to investments in the front line or in new products that you think has to be modified or anything like that? And then my other question would be on the bioprotection on the third generation. Where do we stand on this?

Mauricio Graber: Excellent. Thanks for your questions. So HSO – so on the HMO questions and Jennewein, I think the most important element that will drive the growth of HMOs would be deep penetration of HMOs into the infant formula solutions. And you know that HMOs are on trend with the premiumization of infant formula, and therefore, we are confident that we're playing to the right trends on the growth.

Now when you talk about the margin, I guess the biggest thing for the margin improvement is really building up the capacity in Kalundborg in the manufacturing facility so that we are able to have the, let's say, latest Chr. Hansen technology to produce the cost in use that drives the margin and delivers the productivity and the yield that we need for that improvement. And therefore, it's all about building volume and building the manufacturing process.

Søren, you want to comment before I go to bio-p?

Søren Westh Lonning: Yes. I think just worth mentioning that the penetration of HMO in infant formula today is around 5 percent or even less than that. So there is a very strong penetration game as more and more infant formula is expected to include HMO. Basically, this is the missing ingredient to create a product that mirrors what nature created in mother's milk. So we do believe that the penetration will increase quite significantly.

The other part is the dosage element. Today, the 5 percent or less than 5 percent, the dosage is not at a natural doses level. It's lower, so there's also an

element of how will that development over time and will we hit a doses level that is more in line with the construct of nature. So when you look to that, it's very market growth driven, and we need to tap into and help shape that market basically because it's not a market that fully exists today, but where we will shape that through penetration and through the right solution that creates the right dose solutions.

Annette Lykke: Yes. But when saying that the segment then to sort of educate or fertilize that market, does that mean you have to conduct a lot of studies? Or do you need to make some product modifications, i.e., to get, for example, the dosing of potency, et cetera?

Mauricio Graber: No, I would say, Annette, the 6 HMOs that have been already developed by Jennewein and the combination of those HMOs are ready to be commercialized. And by the way, remember in our communication about the acquisition of Jennewein, we said that a lot of the production that we're building in Kalundborg is already confirmed with customer agreements. So this is more about the execution of us producing the volume and the quantities that we have.

And I think if you look at some of the HMO – some of the infant formula products that are today in the markets with HMO, they are all prominently displaying with HMO on the front panel. So this will be an ingredient that will have a very strong proposition for consumers and for mothers closing the gap, as Søren said, between an infant formula and breastfeeding.

Therefore, there's – if you're trying to ask, is there a technology risk? Do we still need to invent or adjust these HMOs? No. The business that we acquire is already producing today and supplying to customers even if in lower quantities and with not, let's say, the industrial scale that we will need in the future.

Moving on to your question on bioprotection, an exciting year. I think I cannot say in which quarter, but we're definitely planning on launching bio-p third generation during the fiscal year '21. And I know that our R&D team and our commercial organization are highly focused on delivering on that.

Operator: There are no further questions at this time. Please continue.

Mauricio Graber: OK. Thanks for the very interesting calls. I hope that the answers to your thoughtful questions addressed a lot of the related questions to portfolio changes and the exciting journey ahead with our 2025 strategy.

This concludes today's conference call and Q&A session. And as this is Søren's last investor call as CFO of Chr. Hansen, I would like to thank Søren for his contribution over the last 13 years. And I don't want this to go out without mentioning that during your tenure as CFO, I know you're extremely proud that we have delivered everything year-on-year an EBIT margin expansion.

At the same time, I look forward to welcoming Lise Mortensen, who is here with us today, as our new CFO and taking on the exciting journey to our 2025 strategy.

Thank you all for joining, and we look forward to continuing the discussions over the next week, as usual during these pandemic times, a series of virtual road shows are organized. Thank you very much. Take care, and stay safe.

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

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