

Transcription

Chr. Hansen A/S Konference

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10 June 2020

PRESENTATION

Operator

Thank you for standing by and welcome to the presentation of Christian Hansen Holding AS conference call. At this time, all participants are in a listen only mode and there will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press 01 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, Christian Hansen CEO, Mauricio Graber. Please go ahead.

Mauricio Graber

Thank you. Good afternoon everybody and welcome to today's conference call on the acquisition of UAS Labs. With me today is our CFO, Søren Westh Lonning, and the IR team. Before we begin the presentation, I want to remind everybody that on June 1st we entered into the silent period leading up to our announcement of the Q3 results on July 2nd, so we will not make any statements today around the progress of our business, nor give any comments related to our expectations for the full year, except of course those which relate to the acquisition of UAS Labs.

Before we continue, please take notice of the safe harbour statement on slide two. Thank you. Let's turn to page three.

Yesterday, as you have seen by now, we announced the acquisition of UAS Labs. The acquisition fits very well to our strategy of pursuing bolt-on acquisitions that can extend and complement our microbial platform. We strongly believe that we can build up on the strength of both companies and that we can accelerate our efforts to grow the probiotic markets with this acquisition. We are very excited to be able to welcome this great company to Christian Hansen.

UAS Labs has been expanding rapidly in the dietary supplements segment over the past years and made particular gains in the multispecies, high-potency segment. This is a segment where Christian Hansen so far has not invested and as such, the combination of the two companies is a great fit with good complementary positions.

In addition to producing probiotic cultures, UAS Labs has also developed its own products, including the scientific documentation to support the related trademarks. Financially, UAS Labs is expected to realise sales of around USD 85 million in this calendar year with an EBITDA of more than USD 30 million. They have grown very strongly over the past three to four years and we believe this business will continue to outperform the underlying dietary supplements market.

In addition to the commercial activities and strengths, we also gain two factories in Wisconsin close to our US headquarters. These two factories have been recently completed and have very high standard and both are GMP facilities. They are an important element in our decision to acquire USA Labs because it allows us more flexibility in production, it reduces the enterprise risk by geographical diversification, and adds much more downstream processing capacity to our microbial platform.

Continuing to the next page, I would like to mention that in addition to the strategic rationale just mentioned related to the production synergies, there are also commercial and innovation synergies in this acquisition. By acquiring UAS Labs, we

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gain access to a portfolio of trademark strains within a range of indications, including digestive disorders, immune stimulation, infant probiotics, weight management and other areas.

UAS has also built a strong position in the high-potency, multispecies segment, where Christian Hansen currently has limited presence. In combination with and complementing our existing portfolio, we will simply bring a broader product range offering to our current customers. We believe that the combined portfolio will enable us to accelerate our efforts to grow our human health business globally, but especially in Asia.

We can bring our global business infrastructure to support the products of portfolio of UAS Labs and our current customers can access more trademark strains than they could before from a single supplier. We also believe we can add to our innovation pipeline by developing combination products that leverage strength from across the portfolio. The two new sites that we have acquired means that we will have more flexibility in production and in phasing of future capital investments.

The new sites will be able to produce any of the products in our human health portfolio and can also support the food cultures and enzymes business if needed. So, there will be operational flexibility and also gain investment flexibility in how we face our capex in the years ahead.

Finally, we will be able to realise synergies in our existing business and reduce costs and optimise production in other areas. With that, I would like to pass the word to CFO, Søren Westh Lonning.

Søren Westh Lonning

Thank you, Mauricio, and please turn to the next page, page five.

This slide goes into a bit more detail to explain why the production assets of UAS Labs are important for Christian Hansen. As those of you who follow us closely will know, our microbial platform, which consists of the food cultures and enzymes and health nutrition businesses, uses a common form of production, but even though they share the same fundamentals of production, the products of the two businesses are produced in different factories and the main facility for human health is located in Denmark.

In both food cultures and enzymes, and in health and nutrition, all of our products are made through fermentation. After the fermentation process, there are several different downstream processes depending on the end application. In food cultures and enzymes, our largest business, we have internal capacity in both fermentation and in downstream [ph 00:06:53]. Indeed, we have invested in both in the past several years, whereas in human health we have focused mostly on the fermentation side internally and relied to a large extent on external providers for the downstream processing.

Given that our human health business is expanding and growing, it is necessary for us to invest in more capacity as we grow and eventually it would be necessary to build a new human health factory, including the downstream process steps. UAS Labs is in the great position of having all production steps in house and makes for an excellent acquisition force.

As I mentioned before, we will gain some business gain, gain important production capacity and lower our enterprise risk as we will no longer be dependent on a single production site for human health. The US is the largest market for Christian Hansen's human health business, so logistically it makes a lot of sense for us to increase our footprint here.

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Commercially, by having all the production steps in house, we also believe that we become a stronger partner for our customers and in a broader segment than before because we are able to offer an end to end solution for probiotics for dietary supplements.

Let's move to the next slide, slide six, and talk about the financial implications.

The acquisition has a transaction value net of taxes of 530 million US dollars, which we have financed with a low interest bridge facility provided by our core banks. The transaction means that we will be above our target leverage by the end of this financial year, but we believe that the cash generation in our business is easily strong enough to handle a minor peak in leverage, so we do not expect that this will impact our ability to responsibly pay out a dividend of 40% to 60% of net profits.

When we report our full year results, you will be able to see a payment for UAS Labs of 610 million US dollars, which is the payment we will make upon closing. But there is a tax asset with a substantial value, which we will realise over the next seven years, and we have conservatively estimated to have a net present value of 80 million US dollars.

I should mention that closing of the transaction is pending a customary regulatory review in the US and makes the exact closing date uncertain. This slight uncertainty also makes it a little difficult to predict the exact impact on our current year's outlook.

The outlook for organic growth and free cash flow before acquisition and special items are unaffected, but there could be a minor negative impact to EBIT margin before special items, the size of which will depend on the exact closing date. However, we have chosen to maintain our EBIT guidance before special items of around 29.5%.

In the next financial year, our preliminary estimate shows an expected negative impact to EBIT margin before special items of around 1% at this point due to the depreciation of the acquired assets. However, on EBITDA margin level, so before these depreciations, we expect the acquisition to be marginally accretive already by next year. Looking further ahead, we expect the acquisition to be neutral to slightly accretive to EBIT before special items by 24/25 as synergies are being realised.

Finally, although we are not guiding today for a capex level on the longer term I do want to mention again that I view the flexibility that we gain in the facing of capex projects as a positive for Christian Hansen. With this, I would now like to hand back the word to Mauricio for some closing remarks.

Mauricio Graber

Thank you, Søren. To wrap up, I just have three main points as closing remarks. The acquisition of UAS Labs is fully in line with our strategy of pursuing bolt-on acquisitions. UAS Labs will be a great feat on many levels to our microbial and fermentation technology platforms. We will be able to realise synergies in both production and commercial.

With this, I would like to open up the call for the Q&A. Thank you.

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from the line of Jonas Guldbord from Danske Bank. Please go ahead.

Jonas Guldbord

Yeah, good afternoon guys. A couple of questions from my side here. First of all, you've now made two acquisitions within health and nutrition, HSO Healthcare, now UAS here, and with the comments you made around the leverage that will peak a little bit above your target, should we then interpret that as you will step away from further bolt-on acquisitions in the short to medium term or will you be willing to cancel dividends or leverage the balance sheets even further to snap up more companies like this?

And then on your remarks around that the acquisition will accelerate your growth in especially Asia, could you just try and elaborate and explain why especially in Asia? And as a follow up to that, could you give a geographical split of your revenue in human health for the combined between US, Europe and Asia? Thank you.

Mauricio Graber

Thank you, Jonas. This is Mauricio. I'll take the second part of your question on Asia first and then pass it to Søren to your questions on leverage. So, we mentioned Asia specifically because the Asian market is one that's really developed on the multi-strain high-potency, a lot of interest around immunity and some of the areas where UAS have capabilities but they don't have the market reach that we have, so the combination of the two companies in the go-to-market will make for an acceleration of the growth in Asia.

Obviously, among other markets, but the probiotics market in Asia is growing quite fast. Søren?

Søren Westh Lonning

Yeah, when it comes to acquisitions, then I think it's important that we remind ourselves about our capital allocation priorities which favours organic growth as number one, bolt-on acquisitions as number two, ordinary dividends as number three, and excess cash distribution as number four. So, to your questions we will remain loyal to these principles and whether or not that we are ready to move on other acquisitions really depends on the attractiveness of the targets.

We would hate to say no to something we believe we can execute well and we can extract a lot of value by due to some of the other things and considerations you mentioned here. So, we remain loyal to our capital allocation principles also going forward.

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Jonas Guldborg

Okay, understood. Just to follow up then on how the market is out there. Is there a lot of companies like UAS? I believe you bought of course the most premium of them, but is there a lot of companies out there like UAS? And then just Mauricio if you could - I don't know if you want to - but if you could answer the question on the geographical split.

Mauricio Graber

Yes, we cannot answer the question on the geographical split. I want to represent that we have signed but it's at the fair closing, so I will refer from any comments related to market share or combined market share or regional allocation or sales on customers. We will be happy to discuss that once we have closed and we have full visibility.

To your other questions. For sure there are other probiotics market players, but I think the size and scope and production capacity and innovation from UAS Labs was of particular interest to Christian Hansen.

Jonas Guldborg

Perfect. Thank you very much.

Operator

And the next question comes from the line of Søren Samsøe from SEB. Please go ahead.

Søren Samsøe

Yes, good afternoon, guys. First question on your acquisition strategy now, it seems like with this acquisition, you are now going more downstream and you have done in the past. Is this also something we should see as more of a change in strategy going forward that you are willing to go more downstream? That's the first question.

Second question is regarding the current owners of UAS, or you can say UAS at it looks today, what is the sort of debt level in that company before you take it over? And finally you can go more into detail with the synergies. Should we more expect the synergies to come under the sales and distribution and the larger reach that the UAS now will get through Christian Hansen is it more on the production site where you expect synergies. Thank you.

Mauricio Graber

Just to comment on the downstream and then pass it onto Søren for depth and synergies. On downstream, I would just say, Søren, that in the multi-strain high potency it makes sense to have the access to the downstream because it gives you a lot of flexibility and agility to service that business. I think for us to have now the capability of continuing to have strong external partnerships in our own capacity I think makes us more competitive and give us the right flexibility to manage a business with our highly documented single strength and also with the multi-strain high potency offering.

Søren Westh Lonning

Yeah, maybe adding that in that context, the human health business is slightly different as we are in this case producing the final end product in the form of a packaged tablet whereas when you sell a frozen culture through food cultures and enzymes or animal health, it's something that is being blended into something else. So, human health on a downstream perspective is somewhat different to the rest of our businesses.

When it comes to the debt level of the business before our ownership, you can say, it's owned largely by a financial owner and as to our understanding, the debt level is somewhere around the 2x plus EBITDA, but it's not something that has been particularly important for us to consider because we are buying the entity on a debt-free basis, so we are not taking over the financing packaging that the company had. That is for the owner to sort out and as a financial sponsor, private equity type investment, obviously they have a different way of thinking about this than we do.

To your third question regarding synergies, I would say that the synergies come in multiple shapes and forms. So we have some, which is probably a little bit some of the first one to materialise related to sourcing and to back office synergies. Then there will be some production synergies both from yield improvements, but also from utilising the capacity across the area of sharing best practises and being able to leverage this flexibility in the capex and potentially postpone some capex this way.

And then finally there are the elements of you can say cross-selling and more product creation through innovation between the combined portfolio, which is probably the element that will take the furthest time. But all of these are important for us and all of them we consider very attractive and something we will pursue at the right time and at the right speed, to not jeopardise also the great growth momentum the company is on as we see it right now.

Søren Samsøe

Okay, but - thank you. Just to follow up on the question on the downstream. If you compared with the other programme acquisitions you made recently, HSO Healthcare, how does this compare because as I remember that was not so much focused on the downstream part, right?

Søren Westh Lonning

No, actually the HSO business had a fully outsourced production. So, in that case of course one of the considerations is can we do it more efficiently in-house being the largest producer of bacteria in the world, and we saw when we did the MPC [ph 00:20:37] acquisition back in 2015 that we were able to take in some outsourced fermentation and significantly reduce the cost. So, that was a little bit the story about HSO.

When it comes to UAS Labs, they both do fermentation in-house and then they have this packaging format that we don't really have in-house, and that's quite, you can say, that's a different way to look at the synergies, but both of them brings very relevant synergies just quite different actually between the two companies.

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Mauricio Graber

Yeah, in HSO it's important to remind that we acquire basically the strengths, but we did not acquire any production assets in connection with HSO.

Søren Samsøe

Okay, thank you very helpful.

Operator

And the next question comes from the line of Lars Topholm from Carnegie. Please go ahead.

Lars Topholm

Yes, a few questions from me. First of all, congratulations with what seems to be a very good acquisition. So, one question you might not want to answer on sales but how much of this business is generated online and how do you predict this will affect your own online situation in the US, which, at least in the past, has been slightly problematic at times.

Then second question, so you're taking over a couple of those [? 00:22:03]. How important are Kevin [? 00:22:06] and Greg [? 00:22:05] to this business, and since I assume they become wealthy from selling it to you, how are you going to retain them, if at all, and then for how long?

Then question number three probably for you, Søren. When you mentioned that it will be EBIT margin accretive in 24/25, is that simply because there's then no longer any amortisation of purchase price allocations, and can you maybe comment on how large are the annual purchase price allocations, amortisations, and since it's EBITDA margin accretive immediately, would it also be EBIT margin accretive immediately disregarding these amortisations?

And then I have a final question. What capacity utilisation does UAS have in these two new plants? Thank you.

Mauricio Graber

Very good, Lars. So, I will start. Thank you. Thanks for your comments and good questions. So, to a large extent starting with the online the business in online and retail have normalised and UAS Labs tailors to both. They tailor to retail and to online and their business happens to be quite balanced. So, we are happy with that.

Kevin and Greg are fundamental parts of building this company and are committed to the journey ahead. One of the points that we didn't comment, indeed, during the call, but I can mention is my experience is that for successful acquisitions and integrations, culture plays a very large role and my management team and myself spent quite some time with Kevin and with Greg and one of the reasons that really excited us about the acquisition was the cultural feat.

We share a passion for shaping the future of the probiotic market. These guys have done probiotics their whole life and they view Christian Hansen acquiring them as a validation of the journey that they have been on. I think that's part of the

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reasons why we were able to acquire these business and they are committed to be part of the journey ahead for the next three to five years and very excited to be part of this company.

Maybe I'll close that comment saying also on sustainability and ESG, they are passionate about that. They have a solar plant for their factory Milwaukee and just a lot of common drivers of how we will generate value in the future.

Søren Westh Lonning

Yeah, and then I'll try to answer - address your two last questions, Lars. So, from a capacity utilisation point of view, you can say that today they're already operating with the excess capacity because it's a relatively new facility, but what is more important is that we're full starting up the 24/7 and with relatively limited investments we can actually significantly reduce - sorry, increase the capacity at the site which is a much more efficient, you could say, capacity expansion that we can do in our existing sites for this.

So, when you talk about it, maybe they're operating at something today around 70%, but we can bring that well below 50% with moving full time and also relatively modest investments –

Lars Topholm

So, just to follow up on that, does that mean we have, what you say, a mini version of the situation we had in food cultures and enzymes back under PI [ph 00:26:00] ownership where [? 00:26:04] plan was inaugurated and starting with excess capacity, which was then being filled up, which of course yielded quite good productivity gains. Could we assume you will be on a similar journey here since capacity utilisation is low?

Søren Westh Lonning

You can say there is a journey that in some ways resembles, although be it significantly smaller than what you have seen in [inaudible 00:26:30] and it's also part of the, you can say, the production synergies that we will attack it over the coming years as we grow in this business, which we have done very consistently, that we can really start leveraging some of these scale benefits.

Mauricio Graber

And also take into consideration, Lars, that in human health we will need to produce a lot of different strains. So, I think the synergies for sure exists, but you need to manage it against our complex portfolio.

Søren Westh Lonning

On the margin element, which I think was your third question, you know they have a EBITDA margin today that is just slightly north of what we have as a company in Christian Hansen, so they will already from the beginning as we said be EBITDA accretive to Christian Hansen. The EBIT margin today is somewhat lower than Christian Hansen's, and more to the 25%-ish and that is driven by the fact that they have more recently made major investments relative to the size of the company.

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So, disregarding the depreciation on the transaction payment, they would not be EBIT margin accretive, but then adding the, you can say, the assets that is being created from the transaction and is going to be depreciated going forward, that will bring – that's what we say - that will bring the entire EBIT dilution effect to around one percentage point in our coming financial year '21, but I think it's important to say there's a little bit of uncertainty because the purchase price allocation has not been fully settled yet, and that's something we will work [inaudible 00:28:27] closing and will have more specific guidance regarding this obviously when we guide for '21 in October.

So, that was just a little bit of the baseline of this. Most of the assets that will come from the transaction will be something that is being depreciated over a 10/15 year horizon and some will be goodwill that will not be depreciated and then there are some assets that will be of a shorter period than that. And then you can say that is the depreciation journey that we will see over until 25 and [? 00:29:11] also beyond that.

But it's difficult to be very exact in this given that we don't have a final PPA at this point in time.

Lars Topholm

So just to try to be slightly more exact, this feels - so, what you're saying is you expect to take it from an EBIT margin level around 25 to - if it's slightly margin enhancing in 24/25, maybe to a level, let's say, of 30% including PPA amortisation. So, that's sort of a soft guidance on the synergy potential you're seeing here on the EBIT level. Is that a fair conclusion?

Søren Westh Lonning

I would say it doesn't sound completely off, but I would not like to be very specific at this point in time about that, but I follow your logic, Lars.

Lars Topholm

Thank you very much. Thanks for answering my questions.

Operator

And the next question comes from the line of Patrick Rafaisz from UBS. Please go ahead.

Patrick Rafaisz

Thank you and good afternoon everyone and three questions please. The first would be around historical financials for UAS. Can you talk a bit more - you mentioned that they've had very strong growth over the last few years? Can you be a bit more specific and what kind of growth assumptions did you make for this business for the next three or four years, including and excluding cross-selling synergies?

The second question would be around customer overlaps. Do you - how big is the share of new customers you're adding that you can then use for your cross-selling synergies or is it essentially – is this a big overlap that you can increase the share of wallet here?

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And then the third question is around capex efficiency, and I fully understand what you explained that this will provide more flexibility. How much of potential capex do you save having made this acquisition? Is that something you can share some thoughts with? Thank you.

Mauricio Graber

Let's just say, Patrick, thanks for the question. We won't be able to comment on customers as I mentioned before until the until the closing. So, we won't comment on customer overlaps or topics related to that. On historical, I think what we have said in the release is that they have been growing fast and growing ahead of the underlying market and we see that they have been a strong participant in the fast growth multi-strain segment. Søren, you want to comment on the capex growth?

Søren Westh Lonning

Yeah, when it comes to the growth, if you look to the growth that this company have been able to deliver over the last three years, it's been very high double-digit growth. So, we are talking about something - we are talking – it's something that has been outgrowing the market quite significant, so it's above 15% [? 00:32:48] over the last three years. So, this team have, with their product portfolio and the way they run the business, really demonstrated a strong capability for growth and they've done so while they have built the organisation and the infrastructure that they have.

When it comes forward, we will not give exact guidance to what you expect but I think it's fair to assume that we're buying this because we believe that we can - UAS can continue a very strong growth journey and that we can combine, can outgrow, the market for dietary supplements.

Now, when it comes to synergies, one of the things also just to note is that the UAS Labs organisation is very strong from a sales point of view in North America, whereas when it comes outside of North America, our presence is stronger and that allows also a broader exposure of the product portfolio of UAS Labs being distributed outside North America, which we believe is one of the commercial synergies that we can obtain.

And then, in terms of the capex, I cannot give you a specific guidance on that. I think we will come back. There are many moving pieces in this puzzle here. What we can say it gives capacity we didn't have before, and that will clearly be a benefit, and it will offer flexibility, and it will allow us to play around with the timing of various capex, but we will give him more complete update on this when we update you on the - at our next - when we finalise our strategy and have a capital markets day and then we can provide a more granular view on the overall capex expectations.

Mauricio Graber

[inaudible 00:34:45] having our established human health plant in Denmark plus the new UAS facilities in the US. That is one of our largest markets for human health probiotics. Provides very good diversification in our logistic platform as well.

Patrick Rafaisz

Can I just follow up very quickly? And thanks for all this. It's very useful. Stepping away from the historical sales development. Can you also make a comment about how profitability developed at UAS over the last three to four years?

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Søren Westh Lonning

Yeah, but profitability has developed very strongly and reflecting that they have a very strong sales growth and having already made some investment to take that on. They have been able to deliver very strong scalability in the last couple of years. So, they have also seen a very strong traction on profitability in addition to the top line in recent years.

Mauricio Graber

And very steady is not that it has a sudden jump or anything like that. It's a pretty solid baseline on their EBIT the way we assess the case.

Patrick Rafaisz

Okay, thank you very much.

Operator

And just as a reminder, if you do wish to ask a question, please press 01 on your telephone keypad now. Our next question comes from the line of Fahan Baig from Credit Suisse. Please go ahead.

Fahan Baig

Hi, guys. Good afternoon. Thank you very much for the question and the conference call to discuss this acquisition. A couple of questions for me if I can. Can I just come back to the margin, the margin commentary on this acquisition? Søren, was I right in understanding that the EBIT margin of this business is currently around 25%, but due to the depreciation on assets and the amortisation of the intangibles that you're requiring, the margin will be lower than that, something around 15% maybe, which sort of gets us to this one percentage point dilution when we go into next year?

And if that is the case and we think about 2024-2025, when it should be broadly EBIT margin neutral, is that then a combination of a reduction in depreciation and then synergies that come on top of that to get to you, to the 35% mark or thereabout?

And then the second question on margin, if I may. Completely appreciate that the 25% margin is lower and it's partly due to investments, but is there a rationale that the other reason why the margins are lower is because there is a downstream element? Also, I note that you suggested that this company pays in the higher value mid-stream but also value as well. I know they do some private label sales, so is that also a part of the reason why the margins are lower?

And then the final question, I guess for Mauricio, more broader strategic. It wasn't long ago that you suggested the dietary supplements market is not growing as fast as it was historically. But despite that, you see it being a very attractive market. Could you just give us a bit more flavour on the market and how you see the dietary supplements market going forward? I know in the US, for example, there are question marks whether it's sort of becoming a commodity because of the fact that it is very difficult to make health claims and there are a number of other competitors making probably unfaithful claims

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regarding the product. And how you - what makes you confident that bringing UAS could potentially accelerate the growth of this category. Thank you.

Mauricio Graber

So, I'll start with the strategic question first and obviously probiotics is quarter [ph 00:39:06] of our microbial and fermentation technology platforms and we are a leading player in probiotics. And while for sure, the category growth we have mentioned a few quarters back moved a little bit down to what we have said mid-single digits, the relevance of probiotic post-COVID-19 I think will be higher.

The interest on immune preventive health and the role that probiotics will play in the future, I think, gives a very strong feat to Christian Hansen, our purpose and our strategy. And I would probably complement that by saying that what we have seen in probiotics is also a global expansion, a category that we have the capabilities to outgrow the underlying market and where the combined strength of UAS Labs and Christian Hansen would give us even a stronger position. So, that's why strategically, you have seen that we have made two acquisitions in this space with HSO and UAS Labs.

In relation to your question around the margin of the downstream business. So, the way to think about it is on bulk fermentation, I think the margin of UAS Labs and Christian Hansen is very similar. I would not consider their ability to price and their ability to drive value any different. And the downstream process, you are right, is probably less - on percentage margin lower but it still on absolute margin additive to capturing value of the end product that you deliver to the customer.

And today Christian Hanse does it with outside partners and HSO does it with insourcing capabilities that I think will enable us to be a stronger player as I outlined.

Søren Westh Lonning

And then to your question regarding the margin improvement, what are sort of the key drivers of that. I would say that synergies and general scalabilities are by far the most important one, and then there will also be an impact of the depreciation falling – or you can say some depreciation being done in that five-year period. But that will be by far the smaller part.

The absolutely key part is the synergies and the general scalability from continuing the growth journey and filling up capacity, et cetera.

Fahan Baig

Sorry, just one final question, just to follow up on the margin. The 25% margin you mentioned, is that what the business is currently? Because if it's 25% margin, I don't get to the one percentage point dilution.

Søren Westh Lonning

That is where the company is before the transaction. So, it's clear that then the book value of the assets that they have, we are paying more than the book value asset and that creates new assets that need to be depreciated.

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Fahan Baig

Yes, perfect, thank you.

Operator

And we have one more question from the line of Christian Schindler from DWS. Please go ahead.

Christian Schindler

Hello, this is Christian. One last question regarding the capex and the two facilities required. Just the question is what would you need to invest to replicate these two facilities you bought with the acquisition?

Mauricio Graber

That is always a little bit of a difficult question. European costs, US costs, et cetera, but I think the capacity that we have acquired really complements our needed capacity and obviously it provides, as Søren mentioned, a much effective way to expand the capacity than building a greenfield or a brownfield plant.

Christian Schindler

Okay. Super. Thanks.

Operator

As no further questions, I will send it back to the speakers.

Mauricio Graber

Thank you very much for your interest on the call and I hope we answered a lot of the questions related to the acquisition and we look forward to talking to you beginning of July for our Q3 release. Thank you.