

Chr. Hansen Holding A/S
Q2 2020/21 Results
Conference Call Transcript

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10 am CET

Operator

Thank you for standing by and welcome to the presentation of Christian Hanson Q2 conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press 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 Hanson CEO, Mauricio Graber.

Mauricio Graber

Good morning and welcome to today's conference call on Christian Hanson's Q2 2021 results. Together with our CFO Lise Mortensen, we will do a short presentation on the developments of the last quarter before opening for questions and answers.

Before we start, please take note of the Safe Harbour statement on the next slide. Slide two please.

Thank you, let's turn to slide three.

Despite the ongoing global pandemic, Christian Hansen continued its strong growth trajectory in the second quarter, supported by both food cultures and enzymes and health and nutrition. This resulted in organic growth of 10% for the microbial platform in Q2 and year to date, with equal contribution from volume and euro pricing. Our underlying EBIT margin before special items, meaning our EBIT margin excluding the recent acquisitions, was 30.9% in Q2 and 29.8 year to date. The key drivers for the margin decline in the underlying business compared to last year were FX, higher freight costs and a negative product mix that outweighed the production efficiencies and lower travel expenses. The reported EBIT margin before special items was 27% in Q2 and 26.1 year to date, in line with our expectations.

Free cash flow before acquisitions, divestments and special items at €42 million in Q2 on par with last year. Year to date, the free cash flow was below last year due to the acquisition of the Calemborg site for our HMO business.

In terms of strategic progress— please turn to slide four. I am very pleased about the successful divestment of the Natural Colours that we announced on March 31st. The team has worked full steam over the past

six months to prepare the division for its new start as an independent company and I would like to thank everybody involved in this complex process for the great teamwork to complete the carve out and wish the Natural Colours team all the best under the new leadership of EQT.

Consistent with the transaction agreement, Christian Hanson will provide various transition services for a period of up to two years. And as already communicated in September, we will use the proceeds from the divestment to bring down debt and we have also initiated the process to pay out an extraordinary dividend in May of around €116 million.

Sending off Natural Colours is not just a defining moment for the division itself, but also for the rest of Christian Hansen. After more than 145 years, we are opening a new chapter in our history as a microbial pure play with a truly unique business model and market positioning.

On the 2025 strategy, we will continue to reinvest in our core businesses of dairy, animal and human health whilst leveraging our technology platform to build our lighthouses and expand into new areas to grow a better world naturally and enable more sustainable development from farm to fork. In this context, I am very excited to share that we will launch the third generation of our bio protection range FreshQ later this month which will offer dairies even more powerful solutions to extend shelf life of fresh dairy products and use food waste in an all-natural way. The first trials have shown very good results and we have started dialogue with key customers. But also, we need to be mindful that the pandemic is making it more difficult to engage with customers around new concepts, particularly in emerging markets for which this product was developed, but where the demand for dairy products remains weak at the moment.

Extending our technology platforms via M&A is the third pillar of our strategy and we are on target to complete the integration of UAS Labs HSO Healthcare into our existing human health business by the end of the financial year.

In January, we officially launched our new combined strength to solution trademark product offering. Commercial activities have been aligned and the new organisation is transitioning into normal day to day business.

At Jennewein we continue to advance our dialogue with customers that are very keen to add HMO to their product portfolio and we are on track resolving the capacity bottleneck in Germany. We are also making progress on the new production site in Denmark and on establishing the new organization. At the same time, we continue to see pandemic related product registrations and customer launch delays which decelerate the pace of the HMO market development and this is a concern if we look ahead; however, I want to make absolutely clear that we still have a high conviction in the long term opportunity of the HMO market.

Overall, we continue to expect the acquisitions to contribute around €100 million revenue and around €10 million EDITDA for the group in this financial year, consistent with what we communicated in Q1.

Let's turn to the next page, page five for the Regional Performance review.

Overall, the trends we saw in the first quarter continued into Q2. Our largest region, Europe, Middle East and Africa, delivered 4% growth in Q2 and 6% year to date with food cultures and enzymes growing solidly, while health and nutrition declined due to another soft quarter in dietary supplements where the market continues to be impacted by its dependency on the traditional pharmacy channel.

North America, on the other side, reported 7% organic growth in Q2 and 8% year to date, with both food cultures and enzymes and health and nutrition contributing to the solid result. For health and nutrition, we saw momentum in animal Health pick up again after a flat Q1 supported by recent new product

launches and favourable commodity prices. Whilst in human health, the trend reversed and we saw a decline in the second quarter as customers were working through inventories that have built up during the pandemic.

Organic growth in Latin America was 32% in Q2 and 36% year to date, of which approximately two thirds were euro pricing and one third volume. Both food cultures and enzymes and health and nutrition contributed to the strong growth performance in the Latin American region.

Lastly, in Asia Pacific we saw an improvement quarter over quarter driven by a strong health and nutrition business, resulting in 10% organic growth for Q2 and 3% year to date. Food cultures and enzymes had another difficult quarter with declining sales due to continued weakness in China, which accounts for roughly half of our Asia Pacific business.

Whilst during the first phase of the pandemic, Chinese dairy industry was hit by shutdowns and production disruptions, what we have seen in the second half of the calendar year 2020, i.e. during our H1 fiscal year 21, was that overall dairy volumes grew slightly, supported by government recommendations to consume more dairy products but with a meaningful shift away from fermented products towards liquid milk.

According to AC Nielsen, the overall dairy retail value grew slightly in the second half of the calendar year, but it was driven by growth in drinking milk at the expense of fermented milk products. While drinking milk grew double digit, and that's a product segment that we don't have a large business in today, yoghurt declined double digits both in chilled and ambient.

We already mentioned this development on our last goal and in our view the trend continues to be driven by two main factors: first, consumers are choosing drinking milk over yoghurt due to affordability considerations. Remember that yoghurt remains a relatively expensive product for most Chinese and that instead of consuming yoghurt they can also follow the government recommendations by consuming plain drinking milk instead. We have experienced a similar high price sensitivity from consumers on yoghurt segment already during the African swine fever outbreak.

Secondly, in light of the short supply of raw milk and record high prices, the highest we have seen in nine years, producers have been simplifying their production and changed their priorities short term. We do expect this trend to continue for the foreseeable future, meaning we do not expect the market to come back to growth during our financial year 21 and it's difficult to say exactly when we will see this trend reverse, but we believe that it is a temporary decline.

We continue to see very high level of engagement with our Chinese customers in a solid project pipeline and strongly believe that mid-term the growth opportunities for the Chinese dairy market remain very attractive, which is why we will continue to invest for example, in local product innovations and our application presence in China.

And with this I would like now to hand it over to Lise for the segment and group financials. Lise.

Lise Mortensen

Thank you Mauricio and welcome also from my side. Please move to slide six for the segment review.

Food cultures and enzymes grew 8% organically in Q2 and year to date, with a 2% contribution from volume mix and a 6% contribution from the euro pricing mechanism.

Fermented milk markets in emerging markets remained soft and with our 2% growth from volume and mix, we're still outgrowing the underlying market.

If we look at the product segments, in Q2 we've seen very strong growth in meat and enzymes, especially in yield increasing enzymes like Chy-Max Supreme and in our Nola Fit lactase portfolio, followed by strong growth in cheese and buyer protection, while fermented milk only grew slightly and probiotics declined.

Turning to profitability, the Q2 EBIT margin for FC&E decreased to 31.0%, compared to 32.2% last year. Its efficiency is that we continue to realise in our production plans and COVID-19 related lower travel expenses were offset by unfavourable product mix, higher freight costs and FX.

Year to date, the EBIT margin was 30.8% compared to 32% last year. Please move to next slide, slide seven.

In health and nutrition, we've seen another strong quarter with 14% organic growth in Q2 and year to date, with the continued strength in animal health, whilst momentum in human health slowed because of more challenging supplement markets in Europe and North America.

Our probiotics business for infant formula and young children grew strongly in Q2 in line with expectations and despite softer markets. But also note that this is this only accounts for 20% of our human health business.

Health delivered strong growth ahead of the sugar cane season in Latin America. Our three acquisitions, HSO healthcare, UAS Labs and Jennewein contributed €22 million revenue in Q2 and €43 million year to date in line with our revised expectations.

Looking at profitability in the underlying business, the margin was 30.9% in Q2 compared to 32.1% last year and the decline can be fully attributed to FX. If we look at reported EBIT margin, it remained impacted by the acquisitions which led to an overall EBIT margin for the segment of 19.6% in Q2. Remember, Q2 is the first quarter where we fully consolidate all three acquisitions, which is why the impact is larger than it was in Q1.

Year to date, the reported EBIT margin was 16.8% compared to 26.5% last year and the underlying EBIT margin was 26.9%.

If we look at the top line performance for the microbial business in total, please turn to page eight. We realised 10% organic growth with equal contributions from price and volume both in Q2 and year to date.

Pricing was driven by our euro price list mechanism and given current FX rates, we expect the tailwind to slow down but still with meaningful contribution of around 3% for the full year. Acquisitions contributed 9% to absolute revenue in Q2 and year to date, and adjusting for negative currency effect mainly because of the strengthening of the euro versus the US dollars, this led to euro growth of 9% for the quarter and 10% year to date.

It is also worth flagging that in the first half of FY21, we had a relatively easier baseline, which as you can see on the right side will change as we go through the year. This is particularly true for Q3, where last year we experienced extraordinary demand from customers ordering additional safety stock because of the pandemic.

Let us now turn to profitability on the next page, page nine.

If we look at the margin bridge, the picture looks very similar to our Q1 reporting. In line with expectations, the EBIT margin in our underlying business was flat in Q2 as lower travel expenses and production efficiencies were offset by higher freight costs and investments into strategic initiatives.

The negative impact from FX remained around minus one percentage point and the dilution from the acquisitions was approximately 4%, leading to a reported EBIT margin before special items of 27.0% in Q2 and 26.1% year to date.

If we look at the cash flow on the next slide, slide ten. Year to date, our free cash flow before acquisitions and special items decreased compared to last year, mainly due to higher investments driven by the acquisition of the Calemborg side for the HMO business.

CapEx to sales ratio was 14.9% compared to 9.7% last year. Operating cash flow increased driven by acquisition related tax benefits, resulting in lower taxes paid and higher non-cash adjustments due to depreciation and amortisation charges that were partly offset by higher working capital.

Leverage was 3.7 times EBIDTA, but has already come down to around two times with receipt of the proceeds from the Natural Colours divestment.

Following the divestment of Natural Colours as Mauricio already mentioned, we have now initiated the process for paying out an extraordinary dividend at least equal to normalised ordinary difference for FY19/20. The dividend amount is expected to be around €116 million or 6.5 DKK per share. Declaration and payment of dividends is expected to be affected during the month of May, subject to board approval.

Please now turn to page 11 for some comments around our guidance for this financial year.

Given the strong performance during the first six months, we updated our guidance for the financial year 2021 as follows. We now expect organic growth of 6 to 8% with a positive contribution from Europe rising of around 3%. Both health and nutrition and food cultures and enzymes are expected to outgrow their respective underlying markets. Do note again that Q3 will be the weakest quarter of the year given the inventory building that took place in Q3 last year, the fading of the euro pricing tailwind and the currently relatively low demand in fermented milk in emerging markets.

Our margin guidance is unchanged, with an EBIT margin before special items still expected to be in the range of 27 to 28%. The EBIT margin of the underlying business for FY20/21 is expected to be below last year as FY19/20 number contains some positive one offs which we discussed in our annual report, and as we intend to ramp up investments in our 2025 strategy key initiatives and expect to return to more normal cost levels towards the end of the financial year.

Currency is expected to dilute the EBIT margin negatively by up to one percentage point and the acquisitions by around 4.5 percentage points.

With regards to the carve out of Natural Colours, we now expect total special items of around €20 million due to the complexity of their divestment.

The accounting profit which will be booked in Q3 as profit from discontinued operations, is expected to be around €650 million after taxes and transaction costs.

Guidance for free cash flow before acquisitions, divestments and special items is now expected to be €140 to €160 million with CapEx of around €150 to €160 million, slightly below the €150 to €175 million that we have indicated before.

And with this I'm heading back to Mauricio to wrap up the presentation.

Mauricio Graber

Thank you Lise. Let me keep it short. Christian Hanson has delivered a strong first half of the year with 10% organic growth year to date, which is why we upgrade our organic growth guidance for the full year to 6% to 8% and also our free cash flow guidance.

Despite this, we remain cautious about the impact of the global pandemic on our business. Weaker dairy and probiotic supplement and market in some regions and continued travel restrictions make it more difficult to convert our solid commercial pipeline into revenues. And we do expect to see a negative impact from increased focus on cost and business continuity as well as launch and rigid delays over the coming quarters.

Strategically, after the successful carve out of Natural Colours, the integration of UAS Labs, HSO Healthcare and the ramp up of our HMO Lighthouse remain as our key priorities for fiscal year 2021. But I also look forward to seeing our new product launches come to market, such as a third generation of buyer protection FreshQ. Thank you for listening and with this, let's open up for questions and answers. Thank you.

Q&A**Operator**

Thank you. Ladies and gentlemen, if you have questions for the speakers, please press 01. There will be a brief pause while questions are being registered.

All right, so our first question comes from the line of Soeren Samsøe from SEB. Please go ahead. Your line is open.

Soeren Samsøe

Yes, good morning everyone. I have three questions. I will start in Latin America where you showed strong organic growth and you mentioned that is supported by customer wins. Can you talk a bit more about these customer wins, please?

Mauricio Graber

Absolutely, good morning Soeren. So what we have seen in Latin America that by the way has been hit pretty strongly by the pandemic, particular a market like Brazil are two things. First, talking about food cultures and enzymes, it's one of the markets where some of our new innovations like CHY-MAX Supreme is performing very, very strong. It's helping customers leapfrog to a new generation with CHY-MAX Supreme and supporting the expansion of the cheese category. And you know cheese has performed very well in Latin America both at retail and also with pizza delivery services in the region.

We have also seen a very good engagement with customers for fresh dairy in the region, and while it's the smallest region for our dietary supplements, health and nutrition has also performed well as we see more interest in immunity and honestly those has been the key drivers. Obviously it's the region where Euro pricing has also been the strongest because of the development of the Latin American currencies.

Soeren Samsøe

Okay, then a question in regards to your bio-protection. In general, you say you expect regrowth in Q3 for the group and strong growth in Q4. Is that partly because you could expect growth to be supported in Q4

by the new launch in bio-protection or is that more something that will support growth next financial year? And also if you could just remind us about how much bio-protection makes up of food cultures and enzymes these days.

Mauricio Graber

So if you remember, Soeren, we have always said that when we launch a new product, our average time of project to launch is probably 12 to 18 months. So I think it's going to take a little bit of time until you see FreshQ really making a contribution into the results. Also, as I said in my notes, FreshQ is precisely being launched for developing markets. Particularly, it will be a very strong offering for China because it reduces the post-acidification taste issue while supporting the longer supply chain. I believe we will see wins as early probably as Q3 some in Q4 but the more material input you will get it definitely on the following year. Mark and Lise, just remind me what percentage of food cultures and enzymes is bio-team?

Mark

It's still around 7/8%.

Soeren Samsøe

Okay. And then the last question on health nutrition, you say timing of order support growth in Q2, is that then the part of the reason why you see lower growth in Q3?

Mauricio Graber

Yes, partly yes, you know that the orders— We tend to have larger orders in health and nutrition and [inaudible 0:27:01.10] may face in Q3 or Q4. But the main factor, Soeren, that we are highlighting is, remember that in March and April of last year, you had, as Lise highlighted, the large customer safety stocks and consumer palm tree building because of the pandemic. And that is the mountain that us and many other companies in the ingredient business will have to climb through that quarter.

Soeren Samsøe

Okay, but can you quantify these timing of order effect you think?

Mauricio Graber

I would not quantify it now, Soeren, but I think it's not the most material reason why we are flagging the Q3. Again I would say it is more because of the comparable to last year and the timing of orders is also in relation to the comparable of last year.

Soeren Samsøe

Okay, thank you very much.

Operator

Thank you our next questions comes from the line of Annette Lykke from Handelsbanken. Please go ahead. Your line is open.

Annette Lykke

Thank you so much. I would just ask a little bit into the launch of your new interesting FreshQ. Normally when you launch a new product I guess it's if your clients have a problem to solve expanding capacity or a specific consumer demand. What will drive the new generation of IP in the launch of China? And would

you see a faster uptake in China because it is a country that often sees more shift changes and then other regions.

And then, besides China, do you see any other markets where this post acidification is an issue or—?

That will be my question.

Mauricio Graber

Absolutely. So, first of all, every time that we launch a new product it is really to cover an unmet need in the market or to provide a new generation that really enables customers to have a better product, more productivity and something that is also margin accretive for us. So FreshQ third generation of bio-protection is something that we have for a while as being the next generation of providing first, a stronger bio-protection to avoid the formation of moulds and b) do it in a way that has led technical complication for the customers because it doesn't show up with the post acidification challenge. And that applies overall to all markets. It just happens to be that where we had the biggest challenge with consumers or customers sensing the post acidification challenge was in China. So we expect that this is a global launch, it is not only a launch in China, it's a global launch. We have continued to improve the way we launch products and I think I mentioned in my notes that we already have some key customers that have engaged with us on tests and trials and those have proven to be very successful. So we go into this with a high engagement and high conviction that will be a product that will be relevant in North America, in Europe, in Latin America and Asia but the strongest unmet need is in developing markets where the distribution chains are less consistent on the cold distribution chains and particularly in Asia because of the post acidification.

Annette Lykke

Okay. Would you say that it is food safety that are the most important for the Chinese dairy producers? Or would it more be expanded shelf life due to a more robust distribution?

Mauricio Graber

Yeah, I don't believe it's a food safety issue, definitely. It's really a brand image, it's a seal of guarantee of reaching the consumer in the best condition, the way the product is intended to taste and for the consumer to have the full experience of the chilled yoghurt in an all-natural way, right?

Annette Lykke

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Heidi Vesterinen from Exane BNP Paribas. Please go ahead, your line is open.

Heidi Vesterinen

Morning, so the first question is on your outlook. You talked about tough comps and destocking into Q3. Does this just concern supplements or do you see this in any other parts of the portfolio? I was thinking yoghurt for example is an in home consumed product in the mature markets so did you have a benefit last year? That's the first question, thanks.

Lise Mortensen

We did have strong benefits across food cultures and enzymes and health and nutrition in Q3 of last year. So it is for both businesses that we see Q3 to be significantly softer than the other quarters of the year.

Heidi Vesterinen

Great, that's very clear. And then the next question is on infant formula please. Some estimates seem to be calling for a material decline in the Chinese market. What are you currently seeing? And I think at the Capital Markets Day you had estimated the market would grow 10% per annum, is that still a realistic estimate?

Mauricio Graber

So Heidi, there are some reports, as you mentioned, indicating that and there are some other reports indicating slightly different numbers. But overall what I want to remind you is for sure good performance of infant formula is beneficial, but the largest opportunity for us is the penetration with probiotics into infant formula that we have mentioned are below 10% penetration and obviously with HMO that will be a nascent, let's say, additional ingredient. So while we are concerned on the infant formula numbers as overall retail growth, you can see that our performance with health and nutrition was strong because we continue to see probiotics being an important ingredient for the infant formula market and particularly for the upper end or the more sophisticated infant formula offerings.

Heidi Vesterinen

Thanks and then finally in Animal Health, you talked about strong seasonal demand in Q2. So what is your outlook into Q3 please?

Lise Mortensen

Excuse me?

Mauricio Graber

Can you repeat that Heidi, sorry?

Heidi Vesterinen

So in in the animal health area you talked about strong seasonal demand, I think it was for cattle in Q2, cattle probiotics. So what is your outlook on Animal Health as we go into Q3?

Mauricio Graber

We continue to see a strong performance from Animal Health. If you see my remarks also, the growth has been driven by new product launches and we are seeing very good tracking and momentum of our animal health business. Despite Q1 that you remember was sort of flattish, if you look at the last six quarters of animal health, it's been quite a strong performance, Heidi, and we see us continue to benefit from the Chinese swine market for the new launches of Bovamine Dairy cattle and also [inaudible 0:35:36.1] feet continuing to do very, very well in the poultry segment. So we see a good momentum for our animal health business for the balance of the year and you know, we haven't received many questions about that, but plant health has also had a pretty good performance year to date, and we see the year as being the year for plant health as well.

Heidi Vesterinen

Thank you.

Operator

Thank you. Our next question comes from the line of Alex Sloane from Barclays. Please go ahead, your line is open.

Alex Sloane

– and for fermented milk cultures in emerging markets, and I think you've been quite clear on the dynamics in China, but just in terms of Latam where you did flag a headwind also in Q2, is that just a sort of a market related demand for fermented milk products or is there any risk that you're quite strong euro based pricing has meant that you've lost some share their to competitors? That would be the first one, then the second one just on Jennewein, good to hear that the capacity constraints are on track to being kind of addressed. I guess with that in mind and thinking to next year, to fiscal 22, can you give any ball park guide at this point on the revenue outlook for that business relative to the, I think, 50 million revenue guide that you originally had for this year? Could you be at that level next year or does the slower pace of the market mean that you, even with the capacity sorted, revenues might be lower? Any guidance there would be great, thanks.

Mauricio Graber

So we lost at the very beginning your question, but I think it was in related to Fresh Dairy in what we have seen in Fresh Dairy. I don't believe honestly that we lose market share or lose projects because of the strong euro pricing. I think this strong euro pricing just talks to the strength of our customer engagement, our technical sales ability and ultimately the value that the customer sees in there. And I have mentioned previously that in our business model, once we have worked with customers on a solution for their product in their plants, there's so many services connection to that in the rotation, in our cultures, that we don't have a lot of customer deflecting from our business. So no, I don't believe that. I think if you read the reports of some of the large fresh dairy customers, Danone etc., there's been some challenges in that category for sure, and I think that from a volume perspective gets reflected in our business.

On HMO, indeed, our capacity constraints in Germany are being addressed on time. I think what we have flagged in relation to the late registration approvals because some of the government agencies are working at a slight lower pace due to COVID, that ultimately delays product registrations, has put less of a strain on the capacity short term.

We will not guide now for fiscal year 2022, but what I could mention is that from 21 to 25 we continue to see HMO as something that will be a very solid double digit growth rate journey. This initial delay on product registrations and customer launches is something that will sort out, I believe, within the first 12 to 18 months of our HMO journey and we still view the long term potential of HMO as being a very right and strong bed for Christian Hanson.

Alex Sloane

Very helpful, thanks.

Operator

Thank you. Our next and last question comes from the line of Lars Topholm from Carnegie. Please go ahead, your line is open.

Lars Topholm

Thank you, congrats with a good quarter. A couple of questions from me. One is a follow-up question on infant formula in China where apparently the big market share changes with local players gaining market share and some of the international losing. I just wonder if you can give some flavour on how you see that and to what extent this is a benefit for you or the opposite.

Then a question on currencies – two actually. So, in Q2 there was a currency impact of minus 9% on group revenue. Assuming current foreign exchange rates, where do you predict that number will be for the full year? And likewise the euro-based pricing effects assuming currencies are where they are now, how do you see that for Q3 and Q4? My assumption would be its pretty high in Q3, but then edging sharply lower in Q4 but I wonder if you have any comments on that? Thanks.

Mauricio Graber

Thank you Lars, good morning. I'll take the first one infant formula, then pass it on to Lise for currencies and euro pricing.

So on infant formula, you're correct. You probably have access to the same type of reports that we have read. Overall our business in infant formula is pretty well hedged with local players and international players. So let's say we're a little bit agnostic to the growth there.

What is clear is that in the offline channel, meaning true retail, actual physical stores, the leading Chinese brands have been gaining share. By the way, the customers that have been gaining share are the largest, best customers with the more upscale formulas and that are placed good to our product portfolio.

You have more dependency on some of the international brands on the import channel into China, that was a little bit disrupted because of covid, but if you look long term, infant formula will continue to be a very important product in China for Chinese models and Chinese consumers. A rebalance from the online versus offline will for sure take place. And I think you will continue to see a market share battle between the leading international brands and the local Chinese brands.

I hope Lars, that sort of gives the full perspective on that. I would just reiterate that on probiotics, our journey is really on penetration of probiotics in the infant formula, both with international and local players, both showing a lot of interest in our brands, particularly LGG and BB2, making gains in the market. And when you look at HMO, the positive thing is that the Chinese authorities are now receiving dossiers for the approval of HMOs. Now I want to remind you just to be cautious around this bit because it might be a journey of three to four years for the product to actually hit the market because first we need to have the ingredients registered and approved, the HMOs. And then you will need to have the actual infant formula or finished products also approved with HMOs. And that will be a strong collaboration with our customers and the Chinese authorities.

Lise, on the further questions on currencies.

Lise Mortensen

Yeah, just very briefly. Yes, the impact for this quarter was 9% and I don't want to display too much confidence in our ability to look into the crystal ball on this. For the full year, we expect a comparable number, probably a little bit less.

Lars Topholm

That's very clear. Then on the euro based pricing?

Lise Mortensen

On the euro-based pricing, we expect the full year to be 3%. In the range of 3%.

Lars Topholm

That is very clear. Thank you very, very much for answering my questions.

Lise Mortensen

Thank you, Lars.

Operator

Thank you. And we have a follow-up question from Heidi Vesterinen from Exane BNP Paribas. Please go ahead. Your line is open.

Heidi Vesterinen

Hi again, just one follow-up. We recently saw some news about certain European countries allowing the word probiotics to be used again. Do you expect this to impact your business or do you think that consumer awareness is high already on this product so it's not really going to change anything? I'd be interested to hear your views.

Mauricio Graber

Heidi, it's interesting. You're right about that and I think they will be. What I think we are doing is continue to drive our dietary supplement business through the right science and through effective advocacy. I turned back to what we have done with the Probiotic Institute as a way of bringing the science and the reason to believe in probiotics and bringing that to leaders of opinion, consumers. We also work very closely with the regulatory authorities. I think it is a positive always if you're able to mention the word probiotic and we hope that overall European regulation will at the brands sort of looking at probiotics and gut health as an important aspect of human health for the 21st century.

Heidi Vesterinen

Thank you.

Operator

Thank you. And we have another follow up questions from the line of Lars Topholm from Carnegie. Please go ahead. Your line is open.

Lars Topholm

Yes, just a brief follow-up on third generation buyer protections. I wonder if the price point is any different from second generation. Thanks.

Mauricio Graber

The price point will be competitive, Lars. Remember that we always sort of price not on a cost plus, but you know value based pricing and our pricing strategy follows the quantification of the benefit that this brings to the customers.

Obviously, we also improve our technology and I mentioned that are being margin accretive so we have a lot of faith. I think when I talked to the technical and commercial team there's a lot of very positive buzz

and a lot of excitement about the launch of the third generation of bio-protection and I hope that we will be able to share some exciting news about how fast we can penetrate the market with that.

Lars Topholm

Fantastic, thank you very much.

Operator

Thank you. As there are no other questions, I will hand it back for closing remarks.

Mauricio Graber

Thank you, I hope we provided a good balance on the strong performance on the first half of the year. We are cautious around Q3, but overall the strong journey in Christian Hansen towards our purpose of growing a better world naturally. This concludes today's conference call session. Thank you for joining and we look forward to continuing our dialogue during the upcoming virtual road show. Take care and stay safe. Thank you.