



Chr. Hansen Holding A/S
Q3 2020/21 Results
Conference Call Transcript

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PRESENTATION

Operator

Thank you for standing by, and welcome to the presentation for Chr. Hansen Q3 conference. At this time, all participants will be in 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 the conference is being recorded. I would now like to hand the conference over to the speaker today, Chr. Hansen CEO, Mauricio Graber. Please begin.

Mauricio Graber

Good morning, and welcome to today's conference call on Chr. Hansen's Q3 2021 results. Together with our CFO Lise Mortensen, we will do a short presentation today before opening up for questions and answers. Before we start, please take notice of the Safe Harbour statement on the next slide, slide two. Let's start with slide three to begin the presentation.

Chr. Hansen delivered Q3 2021 results in line with expectations, but at a slower pace than in the first half of the year. Organic growth in the third quarter was 4%, with equal contribution from volume mix and price leading to 8% organic growth year to date. The slowdown was, as expected, driven by a lower positive contribution from Euro pricing [ph 00:01:25] as well as a high baseline as customers built up safety inventories during COVID-19 last year in Q3.

In Food Cultures and Enzymes, we saw acceptable volume growth of 2%, driven by continued solid momentum in cheese [ph 00:01:46] and reduced negative impact from China, leading to 5% organic growth in Q3.

The performance in Health and Nutrition, on the other hand, was not fully satisfactory, with zero percent organic growth in the quarter as large Human Health customers adjusted their order volume in the third quarter to reduce elevated stock levels as a response to slower demand in the traditional sales channels.

Contrary to that, our newly-acquired probiotic businesses, whose customers have a strong online presence, deliver a strong third quarter, which reconfirms the strategic decision we have taken with the acquisitions to broaden our customer base in the markets we serve with our strain [ph 00:02:34] to solution offering. Animal and Plant Health delivered solid growth, as expected.

Now, looking at profitability, our EBIT margin before special items in Q3 was 29.3% compared to 34.5% last year. The underlying EBIT margin before special items, meaning our margin excluding the recent acquisitions, was 33.1%. The key drivers for the margin decline of 1.4 percentage points in the underlying business were FX and a return to more normal spending patterns that offset production efficiencies.

Year to date, the EBIT margin before special items stood at 27.3% well on track to deliver on outlook for the year. Free cash flow before acquisitions, divestments and special items was €120 million compared to €144 million last year, and largely driven by the investment in our HMO lighthouse at the beginning of the year.

Let's turn now to slide four for a strategic overview.

In terms of strategic progress, we are well on track to deliver on our priorities for the financial year for investment in the core, leveraging our lighthouse, and executing the portfolio changes. Re-investing in our core platforms of dairy, animal, and Human Health remain our largest priority as the majority of the growth during the 2025 strategy period will come from these businesses. To defend and expand our market position, we will accelerate commercialisation of new innovations and further expand our global reach and proximity to customers.

Despite travel restrictions and limited ways to engage with customers in person during the pandemic, we have seen an all-time high new launch activity in dairy, with more than ten new products that we have

launched, year-to-date, and we have also expanded our digital offering to work even closer with our customers.

In Animal Health, we successfully completed the global roll-out of our poultry probiotic [? 00:05:01], and we recently launched a new cattle probiotic, Bovacillus, in the Americas. Also, we are further expanding a route to market in close collaboration with local sales partners. For example, in Asia Pacific and Latin America.

Human Health next to integrating the recent acquisitions, and despite the current headwinds, remained focused on building science and strengthening our scientific marketing around our industry-leading strain portfolio. For example, in April, we released a new clinical study on the immune balancing benefits of probiotics on stress and sleep of shift workers. We received two new health claims: one for our DDS-1 strain in Canada, and another for our woman's health strain combination, UREX, in Japan, and we rolled out our education programme, the Probiotic Institute, in China and globally.

Furthermore, our dialogues with dietary supplement customers showed that there is more and more demand for full solution offering all the way from scientifically-documented strains to finished products and with our acquired consumer packaging capabilities from UAS Labs, we are well-positioned to cater to these strains [00:06:27] while taking more control over our full supply chain.

Next to re-investing in the core, we also continue to invest and leverage our microbial expertise to build new markets with our lighthouses. In spring, we launched the third generation of our bio-protection range for dairy products, and we also expanded our product offering for fermented plant bases under the new Vega brand.

In Plant Health, we continue to work closely with our partner FMC to bring biological crop protection solutions to farmers in Latin America, the US, and now, also, in Canada.

And lastly, our joint venture, Bacthera, reached a major milestone in May with the receipt of its manufacturing licences for clinical trial production in Denmark and Switzerland.

Looking at our acquisitions, the extent [ph 00:07:27] pillar of our strategy, we are well on track to deliver around €100 million revenue, and we now expect our EBITDA contribution of around €15 million, up €5 million, driven by a slightly improved sales outlook and efficiencies.

At **Jennewein**, we are on plan to expand our downstream facilities in Germany, and we continue to advance dialogues with customers. However, as we have already discussed last time, the pace at which the market is developing is slower than initially expected. On a positive note, during the period, we were able to prove the strength of our acquired HMO intellectual property by favourably resolving an outstanding litigation case.

Finally, with the closing of the Natural Colors divestment at the end of March, we paid out an extraordinary dividend to shareholders in May equal to the amount of a normalised ordinary dividend for the financial year 19/20. And with these comments, let me now turn to page five for the regional review.

Regionally, the picture remains largely unchanged compared to last quarter. Our largest region - Europe, Middle East and Africa - grew 3% organically in Q3, with good growth in Food Cultures and Enzymes, and declined in Health and Nutrition leading to 5% year-to-date. Both businesses faced a high baseline as customers built up safety inventories during COVID-19 last year.

North America reported 5% organic growth in Q3 on a relatively easier comparable. Food Cultures and Enzymes grew solidly in the third quarter, supported by the reopening of the food [ph 00:09:28] service channel, while Health and Nutrition was negatively impacted by Human Health, as we just discussed. Year-to-date growth was 7%.

Moving onto Latin America, the region delivered 19% organic growth in Q3, with a lower contribution from Euro pricing compared to the first half of the year and driven by both a strong performance in Food Cultures and Enzymes and Health and Nutrition, Year-to-date growth was 30%.

Lastly, Asia Pacific delivered negative growth of 6% in Q3 to flat sales here today, as Health and Nutrition was impacted by a very high and tough baseline comparable, and Food Cultures and Enzymes reported another quarter of declining sales driven by China, though to a lesser extent than in the first half of the year.

Market sources indicate that the Chinese yoghurt market continued to decline at a double-digit rate during the third quarter, but we're cautiously optimistic that momentum will improve over the coming quarters as we see good levels of engagement with customers and a solid pipeline.

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

Lise Mortensen

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

Food Cultures and Enzymes grew 5% organically in Q3 and 7% year to date with a 2% contribution from volume mix. Euro pricing contributed 3% in Q3 compared to 6% during first half of the year.

Although the global market for fermented milk continued to decline slightly, while cheese production grew approximately one percentage point, which means that in FC&E, we continue to outperform the underlying market.

If we look at the product segments, we saw a very strong growth in meat and fermented plant bases in Q3, while cheese grew solidly. Fermented milk and enzymes delivered good growth while our probiotics business continued to decline. While volume growth in fermented milk improved slightly compared to the first half of the year, and despite the high comparable, momentum in enzymes normalised following a very strong first half of the year.

Lastly, our bio-protection lighthouse delivered strong growth in Q3, mainly driven by meat, while growth in dairy was moderate. That said, we are seeing the pipeline in fermented milk filling up nicely with the launch of the third generation FRESHQ, but it generally takes six to 12 months for projects to materialise.

Turning to profitability, the Q3 EBIT margin for Food Cultures and Enzymes decreased to 33.0% compared to 34.4% last year as production efficiencies were offset by FX and a return to more normal spending patterns as we ramp up activities, post COVID-19 and as we invest in strategic initiatives to drive growth in the core. Year-to-date, the EBIT margin was 31.6%, compared to 32.9% last year.

In Health and Nutrition - please move to slide seven - organic growth was heavily impacted by the high baseline from last year and de-stocking in Human Health leading to flat volume and organic growth for Q3 and 9% organic growth year-to-date.

In our Human Health legacy business, sales declined both in dietary supplements and infant formula as customers with large exposure to traditional sales channels adjusted their orders to bring down inventory

levels. Our recent acquisitions, however, which have a larger exposure to e-commerce market, posted very strong growth.

Turning to our agricultural businesses. In Q3, Animal Health delivered solid growth driven by strong momentum in cattle and good growth in poultry and swine, while Plant Health grew very strongly. With regards to profitability, the underlying EBIT margin was 1.5 percentage points below last year's Q3 as we ramped up activities following the COVID-19 lockdowns, and we also faced a one percentage point headwind from FX. The reported margin was 22.7% and remained impacted by the recent acquisitions. Year-to-date, the reported EBIT margin was 19%, compared to 29.7% last year, and the underlying EBIT margin was 29.2%. In total, the three acquisitions - HSO Health Care, UAS Labs, and **Jennewein** - contributed €73 million of revenue year-to-date, and €12 million of EBITDA.

Please turn to the next slide - slide eight - for group financials.

The microbial platform our continuing operations delivered 4% organic growth in Q3. Pricing was driven by our euro price list mechanism, but to a much lesser extent than during the first six months. Acquisitions contributed 11% to absolute revenues in Q3, and adjusting for a negative currency effect, this led to euro growth of 10% for the quarter. Year-to-date organic growth was 8%, and reported sales grew 9%, with a 10% contribution from acquisitions, and an 8% FX headwind.

Moving on to profitability on the next page, page nine.

It was very much in line with expectations. The development in our EBIT margin in the underlying business turned negative in Q3 as the pandemic effect reversed and we returned to more normal spending patterns. Acquisitions had a negative impact of approximately four percentage points, and FX was minus 0.3 percentage points. Year-to-date, the EBIT margin came in at 27.3%, well on track to deliver within our guidance. With regards to the divestment of Natural Colors, we booked a gain of €636 million in the third quarter. This is slightly below the €650 million that we guided for due to final purchase price adjustments.

If we look at the cash flow on the next slide, slide 10, year-to-date, our free cash flow before acquisitions, special items, and divestments decreased compared to last year driven by higher CapEx and lower operating cash flow. The latter was driven by higher working capital that was partly offset by acquisition-related tax benefits and higher non-cash adjustments due to depreciation and amortisation charges. The

increase in working capital is partly related to outstanding receivables from the carve out of Natural Colors that have been paid at the beginning of Q4. Working capital is expected to come down to a normalised level by the end of the year. Following the receipt of the proceeds from the Natural Colors divestment, leverage came down to 2.3x EBITDA, and should end around 2x at the end of the year.

And with this, let's turn to page 11 for the outlook.

In light of the performance of the first nine months, we keep our guidance for the financial year 2020/21. Organic revenue is expected to be 6 to 8%, driven by Food Cultures and Enzymes, and supported by a positive contribution from Euro pricing in the range of 3%.

Organic growth in Health and Nutrition will be driven by Animal Health and Plant Health, while we expect Human Health to post a soft fourth quarter as customers continue to work through their inventories and adapt to slower demand. We are also facing some COVID-related supply constraints for certain raw materials, which limit our ability to drive new business in Q4.

On the positive side, the outlook for acquisition looks slightly better than before, thanks to strong momentum in the online sales channel, but still within the guided range of around €100 million.

Our EBIT margin before special items is expected to be 27 to 28%. The EBIT margin of the underlying business is expected to be below last year as FY19/20 contains some positive one-offs. Remember the VAT income in Brazil, and the one-line conciliation [ph 00:19:35] of UAS Labs in Q4. And we will continue to return to more normal cost levels.

Currency is expected to dilute the EBIT margin negatively by up to one percentage points and the acquisitions by 4 to 4.5% percentage points. Free cash flow before special items, acquisitions, and divestments is expected to be €140 million to €160 million, with CapEx of 150 million to 160 million.

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

Mauricio Graber

Thank you, Lise. To wrap up, Q3 was a softer quarter in line with expectations. With 8% organic growth and EBIT margin before special items of 27.3% after the first nine months, we are well on track to deliver

on our ambition for the year. The financial year 2021 is a transition year for Chr. Hansen as we are executing the recent portfolio changes, but we are on the right track.

The integration of UAS Labs and HSO is largely completed, the divestment of Natural Colors closed, and our HMO team is addressing the initial challenges we faced heads on.

As the world gradually reopens, advancing our commercial pipeline and bringing new launches to customers is our number one priority. But we must also acknowledge that uncertainty remains high and that the pandemic will continue to pose challenges short-term, whether it's related to weaker end markets, increased cost focus, or potentially supply bottlenecks. What's important for the coming months is that we stay focused day-to-day, while executing on our 2025 strategic priorities. Thank you for attending on this, and let's open up for questions and answers now.

Q&A**Operator**

Ladies and gentlemen, if you have a question for the speakers, please press 01 now.

And the first question comes from Lars Chopen from Carnegie. Please go ahead. Your line is now open.

Lars Chopen

Yes. Thank you. A couple of questions from me. One is about your guidance because the 6 to 8% organic growth is, of course, unchanged, but your wording has changed quite a bit. After Q2, you said the highest contribution would come from Health and Nutrition. Now, you say it will be driven by Food Cultures and Enzymes, and I just wonder what that change in wording implies for Q4. Because if the total growth 6 to 8 is driven by Food Cultures and Enzymes, does that imply that for the full year you see Health and Nutrition growing less than the 6 to 8%?

And then, to the same paragraph, in Q2, you mentioned you saw a contribution from Euro base pricing in line with last year, which was 2%. Now, you just say a positive impact. Is that still expected to be 2%? And then, on your raw materials challenges in Human Health. I understand it's related to some of the add-on services you sell on top of the - what shall we call it? I wouldn't call it the basic probiotic because that is advanced, but you understand what I mean. I wonder what duration you see of this challenge. What can you do to mitigate it? And how big do you think the impact is? Thanks.

Mauricio Graber

Good morning, Lars. Let me take the first part of your comments about the sentiment [ph 00:23:42] in Q4. I will pass it on to Lise and [? 00:23:46] to talk about Euro base pricing, but I will take on the raw materials, as well. So, on Q4 and what you read from our comments today, I think what has transpired is that Human Health had a soft quarter due to very high comparables last year. But it's the part of the Health and Nutrition business that we also see customers in the traditional channel having larger inventories versus the high demand on the pandemic.

So, versus we've seen Food Cultures and Enzymes signs of better trading conditions and momentum going into Q4. So, I think you read that correctly that we see some upside going into Q4 in Food Cultures and Enzymes, strength in Animal and Plant, and a bit more cautious on Human Health into Q4 due to the factors that I mentioned. And also, because there are a lot of supply chain disruptions in overall, let's say, the ingredient sector, I think we have a narrow and focused portfolio, we're less affected by that, but indeed, in our bulk probiotic sales, we don't face any challenges. But our fully packaged solutions, we do face some challenges that I think largely limit our ability to go and acquire more businesses in Q4. We have plans to see that normalised into fiscal year 22.

With that, Lise, I'll pass it to you for the Euro pricing question.

Lise Mortensen

The Euro pricing impact is expected to be 3% for the full year, which would mean 1 to 2% in Q4.

Lars Chopen

And is it correct that that would be a Euro pricing effect that is one percentage point bigger than you implied after Q2?

Lise Mortensen

I think we said 2 to 3%, as far as I recall. And now, we say 3%.

Lars Chopen

OK. That's good. Just to get back to your answer, Mauricio. Was I correct in assuming that for the full year you now see Health and Nutrition growing below the six to 8%?

Mauricio Graber

Lars, we're not guiding on that specifically. What I think we imply is that we see a stronger growth coming now from Food Cultures and Enzymes. I think we guide overall for the Group, and we're not giving specific guidance for the two business areas.

Lars Chopen

That's fair enough. Then, I have a question on Bacthera, actually relating back to your May 31st announcement of the licence to begin to produce. I wonder if you can put some words on how you see revenue ramping up in that business and also, disclosure-wise, going forward? I know as a joint venture it's shown on one line, but will you give additional information that allows us to see the revenue in the EBIT contribution?

Mauricio Graber

Lars, the setup that we have with Bacthera in our announcement was we have a drug substance set up here in Hoersholm [ph 00:27:27], and a drug product setup in Basel where we're able to now produce all the right conditions for pharma-grade probiotics for life biotherapeutics, and supply those to customers for clinical trials. I think, really good questions on Bacthera that we'll probably defer [ph 00:27:51] as we talk about Q4, the full year, and looking into 2022. The market has, on some areas, been affected by COVID and ability to do trials. On the other hand, there's products that are advancing faster to phase three and potential commercialisation. So, we will be giving an update on that in the quarters ahead.

Lars Chopen

Perfect. Thank you, Mauricio and Lise.

Mauricio Graber

Thank you.

Lise Mortensen

Thank you, Lars.

Operator

Thank you. The next question comes from Heidi Vesterinen from Exane BNP Paribas. Please go ahead. Your line is now open.

Heidi Vesterinen

Morning. I'll go one by one. First on APAC, please, which was down 6%. Culture sounds less bad, China's improving, but Health and Nutrition is weakening. Could you separate what you're seeing in supplements and infant nutrition, please? That's the first question. Thanks.

Mauricio Graber

Good morning, Heidi. Indeed, Asia Pacific, talking about Human Health, we saw very challenging comparables to last year Q3. It was probably their businesses that had some of the highest comparables, both in dietary supplements and infant formula, and excluding that, I would say our projection for growth in Health and Nutrition going forward in Asia Pacific is quite strong. It's a very dynamic market with strong sales online, and where in markets like China and Korea, we have historically done very, very well. Let's say other than the current comparables, I see a strong momentum for that as part of our strategic plan.

Heidi Vesterinen

And could you comment on infant nutrition, please?

Mauricio Graber

Infant nutrition in Asia Pacific? We saw a high comparable, as I mentioned, Heidi. There's been a lot of moving parts in infant formula in China. Short term, there was a large customer that sold their brands in the Chinese market. There's been concerns about the rate of growth of children in China. On the other side, you have read the same reports that I have read on the government releasing further the policy of number of children you can have in China. So, a longer-term better prospect for growth of infant formula in China.

What I always like to remind is the following: our largest opportunity in China with probiotics is about penetration of probiotics in infant formula, and we continue to see very good engagement and very strong partnership, both with international infant formula owners, as well as with the leading Chinese brands that, by the way, under government regulation, continue to consolidate. So, we are well-positioned to win with the Chinese formula largest players.

Heidi Vesterinen

And speaking about infant nutrition, given the topic of birth rates declining, it's a global issue, right? We hear about it in Europe and other regions. What have you seen in other regions in that segment?

Mauricio Graber

What we continue to see, Heidi, is honestly that premiumisation infant formula is the largest trend. So, for us, the success and the growth in infant formula will be about our best documented probiotic strains playing a role in premiumisation. And obviously, the adoption of HMO into the infant formula formulations in the largest markets, first, in the North American market, and second, in the Chinese market, once it's approved, will play a fundamental role for our growth in infant formula.

Heidi Vesterinen

Thanks. And then, a few on the raw material shortage. What exactly is the raw material that is in short supply, and how long do you expect an impact? And I'm also wondering if this is mainly a volume effect, or do you also expect a gross margin effect? I'm just wondering if you can pass on extra procurement costs that you might incur because of this situation.

Mauricio Graber

Heidi, because of, let's say, competitive reasons, we're not going to narrow this to a single raw material. I think I've commented that it's related to our full package solutions in Human Health probiotics. So, we have mitigated the challenges with great work of ourselves and Operation Planning team to be able to supply all of our orders in hand. But we will not be able to pursue incremental businesses in Q4. As mentioned earlier, we expect the situation to normalise for fiscal year '22. First of all, we are not as impacted as many other players that have broader portfolios with the overall inflationary trends, but we have a strong customer relationships and good pricing power to be able to pass through any inflationary impacts.

Heidi Vesterinen

So, it sounds like it's mainly a volume effect. And then, last question on this topic. You said the fully-packaged solutions business is impacted. So, if there's a global shortage of this raw material, why wouldn't your customers, who are packaging on their own, also get affected, impacting the rest of your business?

Mauricio Graber

I think everybody is affected by some challenges in the raw material supply chain, Heidi.

Heidi Vesterinen

So, is it possible that the non-fully-packaged solution part of your business has an impact due to that?

Mauricio Graber

I don't think so, because we have good visibility into the orders and the engagement with customers. But as you have seen, as we have talked about the slowdown that has played, that may very well play a role into what we have seen.

Heidi Vesterinen

OK. Thank you.

Operator

Thank you. Our next question comes Soeren Samsøe from SEB. Please go ahead. Your line is now open.

Soeren Samsøe

Yes. Thank you. Hello. The first question is on Food Cultures and Enzymes. I was just wondering if you give some more colour on your slightly high expectations for the rest of the year. Is it more due to that there's less [? 00:34:59] from China, or is it more that you see higher growth in meat and bio-protection, for example? And then, the second question is regarding China and yoghurt. Its market data seemed to

indicate a slight change of dynamics, where ambient yoghurt is not gaining so much market share from chilled. Is that also a trend that you are seeing? Let's start with those two questions.

Mauricio Graber

Hi, Soeren. Good morning. FC&E: indeed, you highlight some of the key points that we see positive momentum. I would say there is positive momentum in cheese. We see good momentum in cheese, where you see continued in-home consumption and a stronger demand for some of the cheese varieties related to food service, whether it's mozzarella or cheddar; strong global demand in those areas, good momentum in cheese. We have mentioned that we have a very strong pipeline in bio-P, but at least, as I mentioned, it will take 12 months or so to see that reflected, monetised into revenue. But we also see the same dynamic that you see in China. Comparables will ease, and we see the balance between ambient and chilled, although at the much reset baseline where it is today, both hopefully poised for a return to more normalised consumption levels.

Soeren Samsoe

OK. And the question on ambient yoghurt in China?

Mauricio Graber

Yeah, I think that what you mention is that ambient doesn't seem to be gaining share from chilled, and that's consistent to what we see, although I mentioned at the much lower levels of consumption, given the high growth of drinking milk that is currently taking place in China.

Soeren Samsoe

And I seem to have seen that IFF, your main competitor in yoghurt cultures, has launched quite strong products for ambient yoghurt in China, which allows for live cultures in the finished yoghurt product. Do you have a similar product, and if not, is this a risk to your market share in ambient yoghurt in China?

Mauricio Graber

No. Our collaboration with customers in China, both in ambient and in chilled, and the products that we have to service those segments, we consider those to continue to be industry-leading, so we don't see any major challenges. We have strong competitors, and I think the innovation of competitors pushes us also to continue to be one step ahead in innovation.

Soeren Samsøe

OK. Thank you.

Operator

Thank you. Our next question comes from Charles Egan from UBS. Please go ahead. Your line is now open.

Charles Egan

Good morning, Mauricio. Good morning, Lisa. Just two questions from me, please. Firstly, I just wanted to dig into the retention of the lower end of the full year organic sales growth guidance of 6% because, when I look at the 8% year-to-date performance, the low end would require around flattish in Q4. So, I'm asking, do you fear there's still some inventory de-stocking to come or inventory normalisation, particularly in H&M? That's question number one. And the second question was just picking up on your comments around FC&E in response to an earlier question and momentum in recent trading. Is that comment largely related to trends in China, or was it a more broad statement, Mauricio? Thank you.

Mauricio Graber

I'll comment on the FC&E, and then, pass it on to Lise for guidance. No, the comment on FC&E was broader. It's a business where we have, as I mentioned in the call, launched a lot of innovation specifically for dairy, and we see very strong engagement with customers across all the innovation platforms. So, our VEGA launch for plant bases, although from a very small base, is growing very strongly; our launch of FRESHQ third generation has had a very high engagement with customers; we continue to see our enzyme business

perform very well; and the new generation of cultures that we launched is also continuing to drive good growth and momentum. So, it's broad and global the comment on FC&E.

Lise, on to you for the questions on guidance.

Lise Mortensen

Yes, keeping the guidance at 6 to 8%, while we are at 8% year-to-date, should certainly be seen in the light of that we still operate in uncertain times. What we've talked to here is that we do see positive tendencies in FC&E, but we have also just experienced a quarter with Human Health below satisfactory results, and as also said, Human Health is expected to post another soft quarter. So, you can see, in the light of that, yes, at the lower end of the range is not our ambition, but we're living in uncertain times, which is why we keep the 6 to 8%, and we feel that, of course, that we are well on track to land it.

Charles Egan

Super. Thank you.

Operator

Thank you. And as another reminder, if you do wish to ask a question, please press 01 on your telephone keypad.

And the next question comes from Christian Ryom from Nordea Markets. Please go ahead. Your line is now open.

Christian Ryom

Hi. Good morning. First, a question on the Food Cultures and Enzymes division. As I understand you, you're seeing improving momentum in demand from the food services, particularly in North America. Can you give some clarity on how far progressed you see the recovery in food services globally, and whether you expect a similar dynamic across the EMEA region, so that increased demand from food service doesn't crowd out demand from in-home? I'll start with that question.

Mauricio Graber

Yes. Thank you. I would remind just that as Chr. Hansen, we are largely a retail company from a channel point of view. Our largest exposure to food service is really in North America, in the cheese market, so that's why we mentioned that. I do not expect any impact or shift patterns from the reopening of society or the growth in food service that would negatively affect our European business. We have limited exposure to food service, and mainly in the North American cheese market.

Christian Ryom

OK. Thank you. That's very clear. And then, just a couple of quick questions on the Health and Nutrition business. First, on your outlook for the HMO franchise. Can you elaborate a bit on the extent to which new registrations are required to significantly lift sales from the current level? And when do you expect those registrations to arrive?

Mauricio Graber

First of all, I can say with a lot of conviction that all the work that we are doing in HMO validates our strategic move into the space. We think that HMO will be highly synergistic with our probiotic franchise. We believe that HMO will play a substantial role in the premiumisation of infant formula. Now, the key growth in the HMO business will come from the launches in the US market, and where registration has been completed, FDA approval has been granted, and the next big thing after that will be the registrations approvals of the Chinese market.

That, we expect is going to take long. We don't expect that to happen before 23/24, but that will open up important access to the Chinese market. But indeed, these are products that will require registration of every single HMO. We are now in the process of commercialising the first five, six HMOs that are the most representative by volume in Mother's milk [ph 00:44:39].

Christian Ryom

OK. Thank you. And then, just a question, for clarification, on your guidance for the revenue contribution of your acquired businesses. Going by the year-to-date revenue, the 100 million that you're guiding for

the full year would suggest a moderate slowdown in revenues for the acquired businesses relative to Q3. Is that a fair interpretation? And to the extent that it is, what does that reflect? Is that related to raw materials, or order facing, or what is the explanation for that?

Lise Mortensen

No. We're not seeing any of that. You should just see it as a cautious guidance around a range of around €100 million. But we are, as you have noted, very well on track to make that number.

Christian Ryom

Great. Thank you.

Operator

Thank you. And as there appear to be no further audio questions, I'll return the conference to the speakers for any closing remarks.

Mauricio Graber

Thank you very much. This concludes today's conference call and Q&A session. Thank you for joining, and we look forward to continuing our dialogue during the upcoming virtual roadshows. For those of you that are taking a summer holiday, have a nice one, and we look forward to talking to you. Thank you.