

Chr. Hansen Holding A/S
Q4 2021/22 Results
Conference Call Transcript

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PRESENTATION

Mauricio Graber

Good morning and welcome to the presentation of Chr. Hansen's full-year results for the financial year 21/22. I'm here with our CFO, Lise Mortensen, and we will walk you through the highlights of our last quarter and the year, as well as the outlook for the next financial year, before opening up for Q&A. Before we move on, please take note of the safe harbour statement. Please turn to the next slide, slide three.

Let me start by praising our 3,800 employees. They are the reason why we, despite the volatile macroeconomic and geopolitical environment, can present what I see as a very solid set of results for the last financial year, well in line with our guidance. For the full year, organic growth reached 9%, with Euro growth of 13%. The top line performance supported a 9% growth in absolute EBIT. While the EBIT margin before special items contracted to 26.8, mainly due to the inflationary pressure, an initiative to mitigate challenges in the supply chain. Our free cash flow for the year ended €172 million compared to €196 million the year before. However, adjusted for the one-off impact of taxes paid last year from acquisitions, the cash flow generation has actually increased by more than 10%, ahead of the growth in EBIT of 9%.

For the fourth quarter we deliver 6% organic growth, corresponding to 12% Euro growth. The organic growth was as expected, lower than the first nine months of the year in both Food Cultures and Enzymes and Health and Nutrition. While volume was impacted by timing of orders, pricing in Food Cultures and Enzymes picked up as we continue to adjust selling prices to address the inflationary environment. Despite these unprecedented market conditions, the Q4 EBIT margin before special items ended at 27.9%, only 9 percentage points below last year. The decrease was driven by a negative impact from high input cost and increased cost levels to mitigate challenges in the supply chain. This was partly offset by a positive contribution from currencies and the above-mentioned pricing initiative. Please turn to the next slide, slide four.

Turning now to the strategic and operational highlights of the last quarter. Our focus was on business continuity and delivering to our customers at the service levels they expect, as well as to execute on our strategic priorities in the ever-changing business environment we navigate in today. In HMO we made important progress and I want to highlight the new regulatory approvals, the business received across different geographies in Europe, North America and Israel. Looking at the lighthouses combined, which account for approximately 10% of revenue, organic growth was negative by 9% in the fourth quarter, while the core business delivered 7% organic growth. The decline for the lighthouses in Q4 was expected and driven by the timing of orders in Plant Health and HMO.

The full-year performance was strong and growth for the lighthouses reached 14%, outgrowing our core business, which delivered a solid 9% growth. After an extraordinary strong growth rate in the first nine months, we saw a more normalised growth in our Human Health business during the first quarter, in line with our expectation. Overall, the business delivered solid results, especially in the infant and children segment, driven by the team's strong execution. In Food Cultures and Enzymes we continued to see strong momentum in the cheese segment, whilst fresh dairy market growth was impacted by the current macroeconomic environment. Growth was supported by the work done in close collaboration with our customers, to deliver solutions which drive cost savings by further leveraging our product portfolio of productivity and yield optimising solutions. Please turn to the next slide, slide five, for highlights on why our microbial solutions performed well during these challenging times and how they can help the agriculture industry become even more efficient.

In the current environment, many of our customers are challenged by rising raw material prices, as well as increased energy and labour costs. With our product ranges, such as CHY-MAX Supreme, YIELDMAX and YoFlex Premium, we can deliver solutions across the cheese and fresh dairy segment, that help improve yield and saves meat, protein or sugar, depending on the product type and the production, as illustrated by the examples on this slide. Please turn to the next slide, slide six.

These solutions not only support the financials of our customers, but they also support a more sustainable food system. In Chr. Hansen we are committed to advance the adoption of microbial solutions, to continue to developing a more sustainable agriculture, reducing food waste and improving human and animal welfare. With our microbial and fermentation technology platforms, we can address various global sustainability challenges. Please turn now to slide seven.

Turning back now to the financial performance. Food Cultures and Enzymes delivered 5% organic growth in Q4, leading to 7% for the full year. The last quarter was driven by solid growth in dairy, supported by strong demand in cheese. Pricing initiatives and the projects supporting production efficiencies, while bioprotective solutions showed more modest growth. Pricing contributed 4% in Q4, as we saw increased impact from the inflation-driven price adjustments, which have a positive carry-over effect into 22/23. Health and Nutrition saw solid growth in Q4 with 6% organic growth, leading to a strong 14% growth for the full year, driven by Human Health and HMO. Q4

was supported by strong performance, especially in the infant and children's segment in Asia-Pacific, while the other regions had a negative impact from customer order patterns, including HMOs from the US market. As mentioned in the beginning, we saw more normalised growth in Human Health in Q4, which was in line with expectations, after the extraordinary first nine months for the business. Organic growth was negatively impacted by Euro-based pricing, while we saw positive sides from the implementation of inflationary price adjustments in Health and Nutrition. Animal and Plant Health delivered strong growth in the quarter, despite Plant Health being negatively impacted by the placing of orders. Please turn to the next slide, slide eight, for the regional performance.

In the last quarter, we saw emerging markets improve and the solid progress from the previous quarters continued in developed markets. Europe, Middle East and Africa delivered 6% organic growth in Q4 and 10% for the full year. Growth in the last quarter was supported by all product areas, except for Human Health, which was negatively impacted by customer ordering patterns. Positive contribution also came from pricing initiatives and from Euro-based pricing, while organic growth was negatively impacted by Russia.

A 1% in North America in Q4 was supported by a continued solid momentum in the cheese and fermented beverage segments and pricing initiatives, while the fresh dairy segment was down relatively to last year, due to market softness. Health and Nutrition declined compared to last year, due to customer order patterns in HMO and Human Health, whereas Animal and Plant Health delivered solid growth. Organic growth in the region reached 8% for the full year, with a strong pipeline of products with customers.

Asia-Pacific grew 17% organically in Q4 and 12% for the full year. The last quarter was driven by volume growth and supported by all product areas, apart from dairy, which was negatively impacted by declining volumes in China due to the COVID lockdowns. A positive impact for pricing initiatives was more than offset by a negative impact from Euro-based pricing. Lastly, in Latin America the performance of Health and Nutrition was adversely impacted by the timing of orders in Plant Health, while pricing initiatives in Food Cultures and Enzymes were partly offset by a negative impact from Euro-based pricing and lower volumes. The region still delivered good organic growth at 3% in Q4 and 7% for the full year. For the financial overview of the last quarter, I will now hand over to Lise.

Lise Mortensen

Thank you, Mauricio, and welcome, everyone. Please turn to slide nine. Supported by a Q4 sales performance of 6% organic growth and 12% Euro growth, the absolute EBIT before special items in Q4 rose by 8% compared to last year, to €91 million. Despite the increasingly positive impact from pricing initiatives and exchange rates, the Q4 EBIT margin before special items came in at 27.9%, which is 0.9% below last year, as a negative impact from higher input costs and increased cost levels to mitigate challenges in the supply chain continued to pressure margins.

Looking at the full year, EBIT before special items increased by €28 million to €326 million. The full-year EBIT margin before special items was 26.8%, down from 27.7% the year before. The drop was mainly due to increased raw material and freight costs, combined with higher cost levels from efforts to mitigate challenges in the supply chain. This was partly offset by scale effects from the volume growth, efficiency improvements, pricing initiatives and the positive impact from currencies.

Moving into the segment margins. Food Cultures and Enzymes remained affected by higher raw material and freight costs, increased cost levels to mitigate challenges in the supply chain, a general ramp-up of activity, as well as the donation of an amount equal to the profit of Chr. Hansen Russia. This was partly offset by a positive contribution from currencies and pricing initiatives, resulting in Q4 EBIT margin before special items of 32.5%, compared to 33.0% last year. For the full year, the division delivered 29.9% EBIT margin before special items, compared to 32.0% the year before.

In Health and Nutrition, the Q4 EBIT margin before special items reached 20.1%, compared to 21.6% last year. The decrease was due to higher raw material and freight cost, increased cost levels to mitigate challenges in the supply chain and a general ramp-up of activities. This was partly offset by a positive contribution from currencies. The full-year EBIT margin before special items for the division reached 21.4%, compared to 19.8% last year. Let's move on to the free cash flow, slide ten.

Free cash flow before special items stood at €172 million for the year, down 24 million from last year, driven by higher taxes paid, which impacted the cash flow from operating activities before special items. That said, as already mentioned by Mauricio, with adjustment for the one-off impact from acquisitions on taxes paid last year, the cash flow increased by more than 10% and ahead of the 8% growth in EBIT, which is in line with our long-term ambition. Return on invested capital excluding goodwill was 24.0% for the year, compared to 24.8% last year. The decrease was driven by Food Cultures and Enzymes, which was down compared to last year, due to the negative impact from higher input costs and a general ramp-up of activities. While the return on invested capital in Health and Nutrition improved compared to last year, due to the strong sales development.

The return on invested capital remained impacted by the current pressure on profitability, and that can be seen in the difference between the two business areas. It was also impacted by the acquisitions made in Health and Nutrition in 2020. With the businesses now well integrated, we expect to see improvements in the return in the coming years. Please turn to slide 11.

In Chr. Hansen we have clear capital allocation principles, of which reporting our organic growth is a clear number one. In the past year, 8% of our revenue was allocated for developing our technology platform. In addition, over the same period we continued to strengthen our application setup to build new solutions in close collaboration with our customers. This also includes investments in new application centres which, together with continued capacity

expansions, led to CAPEX spend of 11.6% in 21/22. Following the high activity in 2020, we have in the past year focussed on the integration of our new business and have not made any acquisitions. Based on a 13% increase in earnings this year and our strong free cash flow generation, the board of directors is proposing an ordinary dividend for the year of €125 million. The proposed ordinary dividend is equal to 55% of the profit of the year. Furthermore, the board of directors during 22/23 will evaluate the capacity to distribute excess cash to a safe harbour share repurchase programme, alternatively, through an extraordinary dividend, in line with the company's capital allocation principles. Such an initiative would have the intent to keep Chr. Hansen at a financial leverage consistent with a solid investment-grade credit profile. Now, let's move to the outlook for next year. Please turn to the next slide, slide 12.

While the underlying market growth is expected to be modest for next year, considering the current uncertain geopolitical and macroeconomic environment, Chr. Hansen expect to deliver organic revenue growth in the range of 7 to 10%. The growth outlook is based on a positive impact from ongoing pricing adjustments, growth in our lighthouses, as well as successful execution on the project pipeline in the core business, including expansion of the market for bacterial solutions, providing customers with productivity improvements. Based on the current exchange rates, especially related to the US dollar, we expect revenue growth to be positively impacted by approximately 5%.

Given the outlook for revenue and organic growth, the absolute EBIT before special items is expected to grow faster than revenue and the EBIT margin before special items is expected in the range of 27 to 28%. A positive impact from operational efficiencies, pricing initiatives and currency exchange rate is expected to be partly offset by a continued pressure from the inflationary environment and continued actions to mitigate supply chain disruptions. Free cash flow before special items is expected to be in the range of €190 to €230 million. Before I hand back to Mauricio, let me just add a few words to the next slide on how we manage the current environment.

As just mentioned, the outlook reflects continued inflationary pressures on key input costs, such as raw materials, energy and logistics, as well as the need to continuously manage volatile global supply chains. Some of the key drivers of cost pressure relate to our energy exposure, both through our direct spend, but also indirectly, through increased cost on raw materials, transportation, packaging and traded materials, all correlated to the cost of energy. Secondly, we continue to see constraints in the global supply chain and we are mitigating these through optimisation programmes, strict supply chain management and ensuring that alternative energy sources are available for critical parts of our supply chain. Last, but not least, we will continue to closely collaborate with our customers, to adjust our selling prices to reflect the current inflationary environment, but through a balanced approach to secure long-term value creation for both Chr. Hansen and our customers. With these comments, I will now hand back to Mauricio.

Mauricio Graber

Thank you, Lise. Please turn to slide 14. We are indeed experiencing uncertain times and we will continue to adapt to a changing business environment for both our company and our customers. With our robust business model, Chr. Hansen is well positioned as we progress on our strategic ambition to differentiate as a bioscience company, focus on our microbial and fermentation technology platforms. We will likely see less support for market growth across our segments in the coming year, but with our robust business model, this also represents opportunities. And we expect to grow through continued innovation and upselling of our core business, expanding our market presence through our acquisitions in Human Health and through market penetration in our lighthouses, such as HMO and Plant Health. And as you will see on the next slide, we remain committed to our long-term financial ambitions. Moving to slide 15.

Our ambition is to deliver industry-leading, organic revenue growth of mid- to high-single digits, through the strategy period. Note that in 2021 we delivered 7% organic growth, last year we delivered 9% organic growth and for this year, we expect a similar organic growth rate in the upper part of our long-term financial ambition. On EBIT margin before special items, we want to reach 30% by 2025 and the average growth in free cash flow before special items are to exceed the average growth in EBIT before special items. While we are well on track on both organic growth and free cash flow, reaching the EBIT margin target will be challenging and more back-end loaded, due to significant impact from changes in the geopolitical and macroeconomic environment. Particularly, by the inflationary cost pressure and disruptions in the global supply chains. So, to meet the long-term financial ambitions towards 25, we are adjusting selling pricing to offset this inflationary pressure over the period. And we need to see normalisation of global supply chains and a stabilisation of the geopolitical and macroeconomic environment. With this, I will move to the next slide to wrap up.

First point. Despite the turbulent business environment, Chr. Hansen showed good progress on our strategic ambitions, our sustainability targets, and delivered solid financial results for 2021. This provides us with confidence to continue adapting to a changing business environment, while we aim to deliver on the targets for the year 22/23. Second, we have embarked on another year of delivering on our 2025 strategy and we are committed to delivering industry-leading, profitable organic growth, enabled by passionate employees with a relentless focus on innovation, efficiencies and strong customer relationships. Third, the foundation of pioneering microbial science, to improve food, health and productivity for a sustainable future will carry us forward. Thank you all very much for your attention. Now, I propose that we open up for questions and answers.

Q&A**Operator**

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star, followed by one. Please limit yourself to two questions only. If you wish to remove yourself from the question queue, you may press star, followed by two. Anyone who has a question may press star, followed by one at this time. One moment for the first question, please. We have the first question from Alex Sloane from Barclays. Please go ahead.

Alex Sloane

Hi, morning, all. Thanks for taking the questions. The first one, in terms of the 7 to 10% organic sales growth guidance, could you give us a sense of the proportion of pricing versus volume within that? I'm assuming it obviously requires some incremental pricing. So, just on that, in terms of incremental pricing negotiations, are there any signs or pressures that this is getting tougher, as retailers push back in negotiations with your customers further down the chain? And then just a second one. In terms of HMOs, obviously you flagged some good regulatory develops there in the year, and overall for the year good underlying momentum. Can you remind us what the current state of play is with regards to the timeline for building the new site at Kalundborg and when your base case would be that you can fully insource production there? Thanks.

Mauricio Graber

Hi, Alex. Thanks for your questions and good morning. I will take your questions, both of the growth and volume, as well as the progress on our HMO business. First, on the 7 to 10% organic growth guidance for next year, it should tell you the confidence we have on the momentum of our business. We entered the year with a full pipeline of projects with our customers. I mentioned during the call the productivity tools that we are able to bring with our customers. So, I would think about it in three elements. First, it's clear, as I mentioned in the call, we will see less strength in the underlying market momentum. We already see that in fresh dairy, but we expect the underlying markets to be weaker for Food Cultures and Enzymes and Health and Nutrition. However, based on our project pipeline and based on our innovation and productivity tools, we expect a good contribution of volume for the 7 to 10%. That will be complemented by a higher contribution from pricing for next year. We have mentioned in Food Cultures and Enzymes, we exit the year with pricing momentum above 4%, so that's probably a good relative guidance on what the volume to pricing component would be for next year.

On your question, on how tough is it on pricing negotiations with customers, that is never easy, but I think we have a very good dialogue with customers and how we can pass on price increases, but helping productivity and yields. Our customers have, as you know, many tools on how they will deal then with prices with retailers. Moving on to HMO. I'm very pleased with the growth

that HMO had during the year. You'll remember, we had mentioned HMO will deliver north of 20% growth in FY2021. They over-delivered to that and we made good progress, both geographically and also with our customers, as well as with innovation with our 5 Mix that is now being commercialised. Consistent with what we have said in the past, we will invest into Culemborg as the market develops and as we see the volume growth demands requiring us to make that investment. It's been now, obviously, a period of high inflation and a lot of instability in the supply chain, so I wouldn't judge it as the best moment to start a large capital project. Therefore, we have continued to make progress in our design of the Culemborg site. And we will obviously decide to start that project whenever the volume of HMO requires us to do so.

Alex Sloane

Very clear, thank you.

Mauricio Graber

Just to finalise on that. We do expect HMO to continue to grow above 20% for next year.

Operator

The next question comes from James Targett from Berenberg. Please go ahead.

James Targett

Hello, good morning. Couple of questions from me. Just firstly, on the margin outlook. Could you maybe quantify what you think the contribution from FX, based on your 5% expectation currently, will be to that margin increase? And then also, with the energy component as well, you mentioned your hedge for at least part of the year. Can you talk about the visibility that you have on that hedging, in terms of what the year-on-year increase of your energy costs you're facing are? And also, how you're planning to pass that on to customers, if it's via energy surcharge invoice or through the usual price negotiations? That's my question on the margins. Then just on the top line, regarding the various order timings you mentioned, maybe some colour on how that could impact Q1? That would be helpful, thank you.

Mauricio Graber

Excellent, James. Good morning. I'll take the question on the top line and, Lise, I'll pass it on to you for the margin outlook, currencies and energy questions. We had, basically, some timing of orders in the lighthouses, particularly on Plant Health and HMO. I expect both of those to be beneficial for Q1, particularly for Plant Health, will provide some underlying momentum to Health and Nutrition in Q1, but nothing that would be significant facing. But both HMO and Plant Health would enter Q1 with good momentum with some of those phasing of orders. Lise, on to you for the other parts of the question.

Lise Mortensen

Thank you, James. Based on the current exchange rate level of the US dollar, we expect to have around 1.5% margin tailwind. And adjusting for this, the margin is expected to stabilise as we implement further pricing adjustments to mitigate the continued inflationary pressure and continued need to secure supply. If we look at inflation, and as you say, it is definitely energy that's taking the picture, as we speak. It's also very, very volatile. As I also said previously, we have a direct component and we also have an indirect component hitting us on raw materials, transportation, so on and so forth. On our own part, we have a high level of secure pricing for the rest of this calendar year and we'll be more exposed to the volatile market for both gas and electricity in 2023. And our ability to foresee what will happen with energy is only as good as it gets, but we have included in our outlook that we'll be more exposed in calendar year 2023.

James Targett

Can I just follow up? For the period that you are hedged for, can you give us any idea of what your increase in cost is? And then also, again, just in terms of how you're planning to recoup that from your customers? Thank you.

Lise Mortensen

We are coming from a hedging of energy of around 60% plus and we will go down to around 40, or something like that. That's the detail I can share.

Operator

The next question comes from Soren Samsøe from SEB. Please go ahead.

Soren Samsøe

Good morning, everyone. Just a couple of questions from my side. First of all, on your organic growth target of 7 to 10, you usually get some support from hyperinflation in this organic growth. Maybe you can quantify a little bit what kind of tailwind you have in your guidance? Then, also, the special item in Q4, give more details exactly what it relates to. You mentioned Natural Colors product, that was a while ago since you finalised that, so maybe give a bit more details on that? Thanks.

Mauricio Graber

Hi, Soren. On organic growth, and Lise I'll pass to you for special items. On organic growth, as I said before, will have a component of volume and a component of pricing to compensate for the inflation. I don't know if that's exactly your question. I would assume pricing, we have a 4% momentum going into the year, so you could expect pricing to be that or slightly higher and the

rest would be volume from our project pipeline and contribution from the innovations that we're doing with customers. Lise?

Lise Mortensen

Soren, specifically on hyperinflation, this is something that we have made an assessment of, for example for Turkey, and it's immaterial for us. So, no adjustments for that. When you look at the special items, we have experienced certain costs which is not related to our recurring business. And these costs are mainly financial adjustments related to the carve-out and through our probiotics acquisitions. Yes, it's true, it was in March we received the proceeds from selling Natural Colors, but it's a complex process to carve out an operation like that from the company. We've had some final adjustments in Q4 to end that journey.

Soren Samsøe

Okay, thanks. Then just another question on R&D, it looks like R&D to sales is dropping in Q4. What should we expect to happen to R&D to sales in the coming year? Thanks.

Lise Mortensen

I think you should expect a flat development. And Q4 is also not something you should conclude anything on. Look at the full year and that level will continue.

Mauricio Graber

I think to complement that, Soren, we have always said that we believe that the current ratio of R&D to sales provide us the right level of innovation for Chr. Hansen to have good competition of projects and prioritisation of what we need to bring for innovation to market. I would not expect that ratio to variate on an annual basis, where you could have small variation on a quarter-to-quarter basis.

Soren Samsøe

Thanks, that's very clear.

Operator

The next question comes from Faham Baig from Credit Suisse. Please go ahead.

Faham Baig

Good morning, guys. Couple of questions from me, as well. Could I go back to energy costs, please? Could you remind me the split between natural gas, electricity and renewable? I'm convinced renewable has historically been a significant proportion of the energy cost and you do tend to have long-term contracts. So, if can remind us, that will be helpful. The second question

is housekeeping. Could you help us with expected CAPEX rates for FY23, tax rate and interest cost, as well. I'm conscious that 40% of your loans are floating, so I just want to see how that develops into 23, as well. And if I can squeeze in a third, sorry about this, but supply chain issues, where are we on this? Have the issues largely resolved or should we expect a continuation of a headwind into 23 as well? Thank you.

Mauricio Graber

Thanks. A third question there, so let's make sure we don't forget, but I will tackle a couple of them and, Lise, I will hand over to you. Probably starting from the end, supply chain. There has been a very globally disrupted supply chain across all areas, from basic materials to packaging materials to distribution networks. We see an improved supply chain, but not a normalised supply chain to pre-COVID levels. We expect further normalisation of the supply chains as there's a less heated market, we still get, constantly, changes in the supply chain that requires us to either expedite solutions or to have a higher cost to secure our number-one priority, which is servicing our customers. I do expect that the cost of mitigating supply chain challenges may be lower next year, as it was this year, but we are not completely out of the forest.

I don't think we will go into a lot of details on the split of energy that you requested, but if I can give an overall direction to give you some colour to that, I would say in electricity. As part of our sustainable journey, we have largely moved to sustainable energy, particularly in Denmark and towards our decarbonisation journey, we plan to go globally 100% to renewable energy. That obviously makes us less dependent on fossil fuels energy. The part where we are more exposed to gas is basically on the boilers we use in our facilities to generate steam. That is the exposure to gas. We have a mitigation strategy for that, being able to have dual sources of energy for those boilers. Lise, I'll pass it on to you, if you want to comment a little bit more on that, as well as on CAPEX and the tax rates.

Lise Mortensen

I can maybe lean a little bit out, Mauricio, and say that electricity is more than half, it's close to 60%. And gas is then maybe in the range of 20, but it's all supporting what you say. Our expectations on CAPEX is flat. And your question on tax, we expect for the coming year to be in the lower end of our range, of 24 to 25%. And for net financials, we expect around €20 million, roughly, in line with last year.

Faham Baig

Thank you very much.

Operator

The next question comes from Lars Topholm from Carnegie Investment Bank. Please go ahead.

Lars Topholm

Congrats with the quarter. Just one question from me, which goes to the trend you see in the global yoghurt markets. You're the leading supplier of yoghurt culture so, without mentioning specific customer names, you must be able to see what goes on. My question is, really, in this environment, who is taking market share, who is losing? It seems big brands are losing, just from Nestle and Danone, at least. Do you see a trade-down? If it's a trade-down, is it to private labels or is it cheaper yoghurts? Is there any tendency that people don't buy probiotic yoghurt, but maybe buy cheaper yoghurts? How do you assess the price elasticity in this market? A slightly broad question, I apologise for that, but it would be super interesting to hear your views. Thank you.

Mauricio Graber

Thank you, Lars. And thank you for the congrats. I think all our employees would appreciate that message, as they've worked really hard against a very challenging environment. So, I'm proud to represent them in this call. When you look at Food Cultures and Enzymes, I've tried to provide some clarity in the call, that we continue to see strong underlying momentum in cheese. Cheese market continues to advance with innovation, both in our business to business, as well as what we see on our customers in the food service segment. Good capacities, expansion going on around the world, strength of the cheese market in North America, and we continue to make good progress in the conversions of bulk starter to our DDS solutions.

You're right that the fresh dairy market, or the yoghurt market, has been more challenged. It has not grown, I would say, and showed some signs of weakness, both across mature markets and developing markets. And, as everybody on the call well knows, it has been a continued compressed market in China, basically, that has declined, it hasn't recovered since COVID. To your question on who's growing, I think there has been growth in the opportunities for us to the fresh dairy market, precisely because of the type of solutions that we bring. Which is solutions that help customers drive yield improvement, show productivity in their processes, or upselling of some of the opportunities that we have with our new culture ranges. Culture ranges that can be more robust in their production processes. Culture ranges that provide opportunities, as well, to upsell with probiotics, other parts of our portfolio.

But overall, if you take the fresh dairy market, which I know is a concern for you, you probably have to look at it that large global customers are focusing on innovation and how they can reinvent moments of consumption with consumers. You see smaller customers and start-ups looking at ways to disrupt, in the same way that it happened with the Greek yoghurt. As you know, we cover more than 4,000 dairies globally, so we work with small customers on their good innovations. Then you have the private label segment, that is very actively managing their price and offering to consumers, to provide consumers that option. And we work across all of those elements. That's why, I don't want to sugar-coat it, there's not a lot of underlying strength in the fresh dairy market, but we are very confident on our ability to outgrow that market and deliver a

positive growth globally for the fresh dairy market. I hope, Lars, that gives you more colour to that, but happy to point to other some specifics, if you have.

Lars Topholm

If one had an assumption that the global yoghurt markets would, in fact, contract if we look at the next 12 months. Would that be a material deviation to your outlook?

Mauricio Graber

No, I do believe you're right. It will be either flat to a slight contraction. We have not built our guidance on any positive growth momentum from the underlying fresh dairy market.

Lars Topholm

That's super. Thank you very much, Mauricio, for answering my question.

Mauricio Graber

Thank you, Lars.

Operator

The next question is from Georgina Fraser from Goldman Sachs. Please go ahead.

Georgina Fraser

Hi. Good morning, Mauricio. Good morning, Lise. Thank you so much for taking my questions. My first question is just on your pipeline visibility. Can you give us an idea how far ahead you can see and how secure those orders that you have in the pipeline are? And then my second question is much bigger picture. If global economic powerhouse forecasts are right, the population in India is set to overtake the population of China in 2023. I was wondering if you see that as a trend that matters for Chr. Hansen, in terms of overall dairy consumption of the global population?

Mauricio Graber

Hi, Georgina. Good morning, good to talk to you. Lise, I will take this one, if you're okay with that? If you listen in there, you can build on my comment. On the pipeline, we have a very structured process on the pipeline for Chr. Hansen, based on implementation that has been done over the years. Every interaction with customers, every project has a very good stage gate and we have good visibility on that. When I say we have a full pipeline, meaning we have a full pipeline of projects, on what we expect to bring of incremental revenue from new projects. Usually those projects would have, on average, 18 months from, let's say, project definition to sale. And you remember, during COVID we talked that closing those projects was taking a little bit longer. But we see a normalisation of that pipeline and a normalisation of those projects. It varies between

the different categories that we work, some projects in Human Health may take longer. Some projects in FC and E may be shorter, but on average, I would say roughly 18 months. So, we have that visibility to our pipeline as we go into the new financial year.

Moving on to your question on India. India is obviously one of the largest producers of milk. The challenge of India has always been about the low percentage of industrialisation of the milk. But when I look at the results for Asia-Pacific and the strength that I mentioned, India was a strong contributor to that. We have definitely seen an acceleration of the industrialisation in India. I'll share with you a little internal story. Every quarter we give internally, in Chr. Hansen, a success of the quarter, which is recognising teams or recognising parts of our business that performed really well. And we are very proud of the success that we have had in India, as one of our successes of this quarter. We are investing in India in our application capabilities, in our go to market, to be able to reach an expanding customer base. But before I pass it to Lise, that has hands-on experience, everything in India takes time. I don't expect this will be a revolution, but rather an evolution. Lise?

Lise Mortensen

I couldn't agree more, Mauricio. We will grow with India, as India will industrialise, and they will. It just doesn't happen from one day to the other. I do want to say that I think something like COVID can accelerate a little bit the industrialisation, but it is a very, very promising opportunity for the long run.

Mauricio Graber

And, in a way, your analogy with China is good because, obviously, we have seen some slowdown in the Chinese market. And for our Asia-Pacific performance, India has been a very good compensating factor and probably something we need to start talking more, as we look into the future.

Georgina Fraser

Thanks so much for your comments.

Operator

The next question comes from Charles Eden from UBS. Please go ahead.

Charles Eden

Hi, good morning. Just one question left from my side. Could you comment on this a bit, on the outlook for probiotics and supplements for 22/23.

Mauricio Graber

Charles, we cannot hear you well. Can you get closer to the mic? I'm sorry, you're coming across very weak.

Charles Eden

Apologies. Is that better?

Mauricio Graber

Yes.

Charles Eden

Just one question left from my side. Could you comment on the outlook for probiotics and supplements for 22/23? I guess my question is, do you expect a positive volume development for Chr. Hansen in this product area? What is baked in, in terms of your broader market trends for probiotics and supplements? I ask because obviously it's an area a couple of your peers have called out some caution in the coming quarters. I think Mauricio, you were somewhat cautious on this category with Q3, particularly with North America. Any update on that business would be helpful. Thank you.

Mauricio Graber

Yes, Charles, happy to do that. If you recall from our Capital Markets Day, in our long-term view on the dietary supplement segment of probiotics, we have talked about that 4 to 6% underlying market growth. We think that, given the inflationary pressures, you're probably talking about the lower end of that segment as the underlying market. Now, some of the same comments that I made around fresh dairy apply to our Human Health business as well. We have, over the last couple of years, significantly transformed our Human Health business from a business that was more focused on the traditional channel, that was more focused on single-strain, high-scientific probiotics. To what we call now, and I want to reiterate that, our STRAIN TO SOLUTION strategy. We are now well-hedged in a multi-channel approach. We are now well-hedged on a regional growth approach. And we are now well-hedged between high-documented single-strain in our ability to also do fast, multi-strength solutions. We believe that our growth in the probiotic, dietary supplements market will continue, based on our ability to continue to commercialise the benefits of the legacy, strong Chr. Hansen probiotics business, the addition of the HSO strains. That has given us tremendous momentum in the women's health category, as well as the momentum from the UAS Labs acquisition, and our strength in the US market and the Asia-Pacific market. I think with this last call from Charles, we've run out of time. We have time for one more question? Okay, let's take one more question then, before we wrap up.

Operator

The question comes from Andre Thormann from Danske Bank. Please go ahead.

Andre Thormann

Thank you so much for squeezing me in. Just one more question from my side. In terms of price increases for Health and Nutrition, I wonder if you can give some comments. You mentioned the 4% impact in Food Cultures and Enzymes in Q4, but actually, you saw 1% decline in pricing in Health and Nutrition, as I see it. How do you look at price increases into 22/23 for Health and Nutrition and what was the reason for this price decline in Q4? Thank you.

Lise Mortensen

Andre, on Health and Nutrition specifically in Q4, it was the Euro-based pricing mechanism that pushed pricing down. Taking that aside, we did see signs of the price initiatives that we have started, to start working. The time lag between implementing new prices in Health and Nutrition is longer than it is with Food Cultures and Enzymes, for the reason that customers maybe put an order and then it takes eight to 12 weeks. Because we are now all the way from STRAIN TO SOLUTION to actually produce and get to market, and so on and so forth. So, the delay for Health and Nutrition is bigger. I also want to highlight that Health and Nutrition is less exposed to food cost inflation. It's not that it doesn't matter, but it's more important for Food Cultures and Enzymes.

Mauricio Graber

And probably lastly, thank you, Lise, for the good comments, and just to complement on that. We see very clear signs in our Health and Nutrition business of the inflationary pricing pass-through, but there are other elements that have negatively compensated that. One, Lise, you mentioned, some of the Euro-based pricing impacts, as well as large negotiations with customers that are multi-year and may have some shorter impacts to that. With that, Andre, let me then conclude today's conference call and thank you all for the engaging Q&A session. Thanks for joining us this morning. We really look forward to connecting with you in dialogue as Lise and I, with our IR team, will be in roadshows on the days ahead. We look forward to seeing you and several of our investors. Thank you so much.