

Chr. Hansen Holding A/S
Q1 2022/23 Results
Conference Call Transcript

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PRESENTATION

Mauricio Graber

Thank you. Good morning, everybody, and welcome to the presentation of Chr. Hansen's Q1 22-23 results. I'm here with our CFO, Lise Mortensen, and we will, as usual, walk you through the highlights of our first-quarter results, the outlook for the year, and not least, touch upon the announcement from 12th December on our proposed statutory merger with Novozymes. Before we move on, please take notice of the safe harbour statement on slide two. And with that, let's move on to slide three, please.

We started the new financial year with a solid performance, delivering 10% organic growth in Q1, corresponding to 15% Euro growth. Food Cultures and Enzymes showed solid growth, mainly driven by price, but also with good volume growth, above the underlying markets. Health and Nutrition showed strong growth, driven by volume and an increasing impact from our pricing initiative. Our latest pricing initiatives are taking effect from early 2023, and we expect the positive impact to continue in the coming quarters, in both segments, Food Cultures and Enzymes, and Health and Nutrition.

The Q1 EBIT margin before special items was 24.7%, plus 0.3 percentage point above last year. The improvement in the margin was due to the positive contribution from exchange rates and volume scalability, which was partly offset primarily by a continued inflationary pressure, despite the ongoing pricing initiatives, and a change in product mix in Food Cultures and Enzymes.

Free cash flow before acquisitions and special items amounted to €17 million year-to-date, down from €55 million last year, as cash flow from operating activities before acquisitions and special items was negatively impacted by a change in working capital, due to increasing inventory levels and a reduction in trade payables, as well as higher taxes paid. Please turn to slide four.

I will now address the strategic and operational highlights. A key strategic highlight is, of course, the proposed merger of Novozymes and Chr. Hansen announced mid-December. This, I will

elaborate further on in the end of this presentation. Focusing on the strategic and operational highlights of the first quarter of the financial year, our core businesses delivered 10% organic growth, supported, as expected, by an increasing impact from pricing in both Food Cultures and Enzymes, and Health and Nutrition. We expect additional pricing impact in the coming quarters, contributing positively to our EBIT margin development.

In Food Cultures and Enzymes, we continued to work closely with our customers on yield optimization-related projects. The momentum in cheese remains strong, while the fresh dairy sector was more challenged due to the microeconomic environment. In Health and Nutrition, our Human Health business had a strong start of the year, driven by the infant and children's category, as well as our business with women's health, especially in Asia-Pacific.

Our agricultural businesses delivered solid performance, driven by pricing in animal health. Looking at the lighthouses combined, which account for approximately 10% of revenue, the businesses delivered 4% organic growth in the first quarter.

Both Bioprotection and Fermented Plant-Based Solutions performed well. Bioprotection was especially strong in meat, which drove a solid performance in Food and Beverages. In Fermented Plant Bases, we launched a new collaboration to accelerate access to new categories beyond plant-based yoghurts.

Plant Health entered Q1 with good momentum and showed strong performance in the quarter. On the backdrop of a very strong Q1 last year, HMO showed, as expected, a decline in the first quarter. The decline was also impacted by order timing, and the full-year outlook remains strong. Let me again repeat that. The full-year outlook for our HMO business remains strong. Please turn to the next slide, slide five.

Continuing with the financial performance, Food Cultures and Enzymes delivered 8% organic growth in Q1. The first quarter was driven by solid growth in dairy, supported by solid momentum in cheese and pricing initiatives. Food and Beverages grew strongly, driven by meat, including strong momentum with Bioprotective Solutions, while Fermented Beverages was negatively impacted by order timing within the wine segment. We saw an increasing impact from pricing adjustments, which contributed by 5% to the organic growth in Q1.

Health and Nutrition had strong double-digit growth in Q1, with 12% organic growth, driven by volume. Human Health delivered strong growth, while HMO declined due to order timing and a tough comparable from last year's quarter. Animal and Plant Health delivered solid growth, driven by pricing in Animal Health and strong performance in Plant Health. Please turn now to slide six for the regional performance.

In the first quarter, we saw strong progress in EMEA and emerging markets. As mentioned, EMEA delivered 16% organic growth. The strong performance was driven by very strong growth in Health and Nutrition, while Food Cultures and Enzymes delivered solid growth. Strong volume

growth in Human Health contributed to the growth in Health and Nutrition, while pricing, including euro-based pricing as well as volume growth, contributed positively to the growth in Food Cultures and Enzymes.

The decline of 2% in North America was driven by Health and Nutrition, which was affected by a negative impact from order timing in HMO and softening market in Human Health. The supplements sector in North America showed, as expected, signs of negative impact from inflation and consumer price sensitivity. We expect Human Health's growth rate to be challenged in the short run, also considering tough comparables from Q2 last year. While for HMO, we see a stronger outlook for the full-year 22-23. On the positive side, Animal and Plant Health had good performance in the quarter. Food Cultures and Enzymes grew solidly, and this was mainly driven by continued good momentum in both cheese and meat. In addition, pricing initiatives further contributed to the growth.

Moving on to Asia-Pacific, that delivered 14% organic growth in the first quarter, driven by Health and Nutrition, which experienced very strong growth in Human Health, supported by all segments. Growth in Food Cultures and Enzymes was driven by strong momentum across the region, except for China, which declined, partly due to the continued COVID-19 lockdowns during the quarter. Also, pricing initiatives contributed to the growth, while the impact from euro-based pricing was negative.

Lastly, Latin America delivered a double-digit growth rate of 15% organic growth, and this was driven by both volume and pricing initiatives in Health and Nutrition, and Food Cultures and Enzymes. I will now hand over to Lise for the financial review of the first quarter.

Lise Mortensen

Thank you, Mauricio. And welcome, everyone. Please turn to slide seven. Driven by the organic growth of 10% in the first quarter, as well as exchange rates, the absolute EBIT before special items in Q1 increased by 17% from the year before, and reached €77 million. The EBIT margin before special items came in at 24.7%, which was up 0.3 percentage point versus last year. The margin improvement was due to a positive contribution from exchange rates and volume scalability, which was partly offset by continued inflationary pressure, despite ongoing pricing initiatives and a change in product mix in Food Cultures and Enzymes. The EBIT margin before special items, excluding exchange rates, is still lagging versus last year, due to the inflationary pressure, as Q1 of last year was not yet impacted by the accelerating inflation.

Our latest price-up initiatives are taking effect from early 2023, and we expect a positive impact from this in the coming quarters. Looking at the margins per segment, the profitability in Food Cultures and Enzymes was impacted by higher input costs, a change in product mix, and the donation of an amount equal to the profit from Chr. Hansen LLC Russia. This was partly offset by positive contribution from pricing initiatives and exchange rates, which resulted in a Q1 EBIT margin, before special items, of 27.9% compared to 30.8% last year. For Health and Nutrition, the

margin improved. A scalability effect from the strong volume performance, acquisition synergies. And exchange rates more than offset higher input costs, and the division saw a Q1 EBIT margin, before special items, of 19% versus 11.9% the year before.

Next, I will explain the movement in the free cash flow. Please turn to slide eight. Free cash flow before special items was €17 million year-to-date, down by approximately €38 million from last year. This was due to cash flow from operating activities, before special items, being impacted by a change in working capital and higher taxes paid. The change in working capital was mainly due to an increase in inventory levels and reduction in trade payables. The inventory level was, in part, affected by our efforts to secure supply chains and will normalize throughout the year. The increase in taxes paid versus Q1 last year was related to the acquisition impact we saw in the first quarter of our FY22, and we will not see the same impact compared to last year in the coming quarters.

Return on invested capital, excluding goodwill, amounted to 21.5% year-to-date, up from 20% the year before. The improvement was driven by Health and Nutrition, supported by the division's strong sales development. And for Food Cultures and Enzymes, however, was down compared to last year, driven by the negative impact from higher input cost. Please turn to slide nine for the guidance.

The solid results of Q1 show the strength of our business model. Organic growth reached 10%, driven by both volume and pricing initiatives, and EBIT before special items increased by 17%, supported by this organic growth and exchange rates, leading to an EBIT margin, before special items, of 24.7%. Considering the Q1 performance, we are confident to maintain our underlying target for the year, which remains unchanged. Organic revenue growth is still expected 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 of the project pipeline in core businesses, including expansion of the market for bacterial solutions, which provide customers with productivity improvements. For euro-based pricing, we assume a neutral impact for the year.

For the current quarter of Q2, organic growth is expected in the lower end of the expected range for the year, as volume growth will be impacted by a high comparable in Human Health, which experienced very high volume growth in Q2 of last year. This will partly be offset by an increased impact from pricing, following the latest initiatives to address the inflationary pressure. Organic growth is then expected to reaccelerate in the second half of the year.

While the underlying performance is unchanged, the current macroeconomic environment has led to volatile exchange rates, and we therefore update the outlook based on the current level for the euro to US dollar, in line with the sensitivities we announced in connection with the previous outlook from October 12th, 2022.

That outlook was based on a euro-to-US-dollars of 0.97, while the present outlook is based on a euro-to-US-dollars of 1.07. With an approximate 10% depreciation of the US dollar, the impact from exchange rates on revenue is now expected to be neutral, and the EBIT margin before special items is now expected in the range of 26% to 27%.

For the current quarter, Q2, EBIT margin before special items in FC&E is expected to increase, reflecting the impact from pricing initiatives, while the EBIT margin before special items, in Health and Nutrition, is expected to decrease compared to last year, due to the impact from the high sales comparable in Human Health. Group EBIT margin before special items is expected to increase from the 24.7% in Q1 and throughout the year, mainly in the second half, driven by scalability from sales volumes and full impact from the sales price-up initiatives.

The free cash flow before special items is now expected to be in the range of €170 million to €210 million. I will now hand over to Mauricio for an update on the proposed merger with Novozymes that we announced on December 12th, and for the final remarks. Please turn to slide ten.

Mauricio Graber

Thank you, Lise. As you know, Novozymes and Chr. Hansen announced in mid-December the agreement to propose a statutory merger of the two companies. The completion of the merger is subject to approval by both the extraordinary general meetings of Novozymes and Chr. Hansen, as well as customary merger control and other regulatory approvals from the relevant authorities.

I am proud that we, with this combination, are joining forces to create a global bioscience partner based on our strong complementary technology platforms, highly dedicated employees, and a customer-centric approach. Building on shared purpose-driven values and cultures, as well as a solid business rationale, the proposed combination of these two iconic Danish companies represents a natural next step towards addressing the needs of tomorrow, by unleashing the full potential of biological solutions while generating significant value for all stakeholders and society at large. Let me move to slide 11.

By combining the complementary strengths of each business, we create strong opportunities for revenue and cost synergies, both on the short term and the long term. With regard to revenue synergies, we will be able to utilise each company's broad market access and sales and marketing organisation, and application capabilities, to reach existing and new customers with our products, especially in Human Health, but also across various food and beverage categories, and animal and plant health.

Long term, we will aim to supplement the near-term signatures with new solutions, based on our joint technology platforms, as we create opportunities for food and health for the future.

Cost synergies will, in large part, be from optimising our production, utilising best practices and technologies from each business. As an example, supporting the scaling of our HMO production footprint, and from optimising procurement and logistic savings.

This will be supplemented with general SG&A synergies, where we can utilise the proximity of a large part of our business, creating an effective combined workforce, building on the strength and competences of both businesses to support the long-term growth opportunities which this merger will certainly create.

Finally, we also expect, over time, to see meaningful CapEx savings. Before we move on, let me just stress that we will maintain a clear and strong focus on executing our ambitions for the financial year 22/23, while preparing for the proposed merger with Novozymes. Please turn to slide 12.

And now let me wrap up the presentation before we open for Q&A. Chr. Hansen delivered a strong start to the financial year 22-23, showing off the robustness and resiliency of our business model. And therefore, we are confident to keep our underlying guidance unchanged for the year, despite the expectation for continued market uncertainty in 2023.

We will maintain a clear and strong focus on the execution of our targets for the year, while we prepare for the proposed merger with Novozymes. As I just mentioned, the combination of these two great bioscience companies with Danish heritage and global presence offers a fantastic opportunity to address future challenges and opportunities in our industry. Thank you all for your attention, and let's move on to opening the Q&A session.

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 on their touchtone telephone. Please limit yourself to two questions only.

If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star and one at this time. The first question comes from Soeren Samsøe from SEB. Please go ahead.

Soeren Samsøe

Yes, hello. Soeren Samsøe from SEB. Two questions from my side. First of all, we've also seen a quite sizable drop in energy prices since you last gave guidance, which must be positive to your margin in some way.

I understand, of course, there's a lag in terms of accounting, but maybe you could just try to explain a little bit about the effects of the energy prices on your cost of goods sold and your margin. That was the first question.

Mauricio Graber

Thank you, Soeren. Good morning to you. One thing that I want to remind everybody is, here we are talking about Q1 of last year to Q1 of this year. And obviously, while you are right that we are beginning to see signs of energy softening, the comparable to last year first quarter was really before or at the time of the Russian invasion of Ukraine. So, we still have a significant step-up in energy.

Overall, before I pass it to Lise to comment more, is, we do see signs, going forward, that inflation is flattening and softening. But up to now, when we compare our Q1 results of this year to last year, it's at much more higher input cost prices.

I think if inflation continues to soften, energy as well, and our pricing actions continue to show the good tracking they're demonstrating, that will be supported to our EBIT margin expansion. Lise?

Soeren Samsøe

Yes, because I actually meant for the impact to the full-year, because I was just wondering when it will start to impact your full-year figures. Thank you.

Lise Mortensen

Yes. And of course, Soeren, that will happen with some delay because we carry inventories on the road. The energy prices have been quite volatile, and it's true that now we see maybe good news somewhere out there.

Still, when we look at the outlook for the year, the inflationary pressure is still mainly related to cost of energy. We are not seeing also the savings where we are impacted indirectly on raw materials, travelling, and so on and so forth. We don't see any impact at this point in time.

So, out of you can say prudence, we are not basing our outlook on any material changes here, but of course, we keep an eye for the future quarters also on how this develops. But just remember that energy is not only our direct energy, which is not a large part of our costs, it's also all the indirect. And we are not yet seeing an impact that could cause us to change our guidance, driven by this.

Soeren Samsøe

Okay, thanks. And then just on the dietary supplements markets, you talk about a weakness in North America, but a strong European market outlook for this year. Could you just remind us about the sizes of these markets compared with each other, just so we know how that nets out on the overall effects for the overall market?

And then also on the HMO outlook, you stressed that it's a strong outlook for the full-year. Does that mean high-teens growth, or where are we when you say that? Thank you.

Mauricio Graber

Thank you, Soeren. The dietary supplement in the US definitely has been challenged. I think what I mentioned is, we see that continuing short term, particularly into Q2, because we have a very strong comparable in Q2. But overall, as you can see in my comments and sentiment, we have not a concern, longer term, on the tracking of the strong portfolio that we have in Human Health for dietary supplements and infant formula.

Now, you're right. Europe was actually quite strong, probably a little bit stronger than we expected. And it was driven also because there's been a very strong momentum in the key European markets, that most of the European dietary supplement market is still the traditional market, via pharmacies. And there we have seen some markets like Italy coming back and having a very strong rebound in performance for Europe.

Let's not forget about Asia-Pacific. Asia-Pacific is also a very important market for dietary supplements, and as I mentioned, our business with Human Health performed quite well. Obviously, the US is the largest market for dietary supplements, and Asia-Pacific is also quite relevant, Europe being below those two markets, following our acquisition of UAS Labs and HSO.

As to HMO, remember that we have always mentioned that we expect HMO to grow around 20% per year, and definitely this year, with my statements of a strong year for HMO, we expect to at least grow at that level, if not well above that.

Soeren Samsøe

Thank you very much.

Operator

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

Lars Topholm

Yes, hello. I will also limit myself to two questions. One is on your lighthouses, because I'm slightly confused. Now, you mentioned in your introduction that Bioprotections have had strong momentum, and that's the biggest part of your lighthouses, but total lighthouses only grew 4%.

And what puzzles me further is that when we discussed the Q4 results, you explained there were some negative effects due to different phasing in lighthouses. And on the call, you specifically mentioned that this timing should benefit the lighthouses in Q1. And I wrote down, you said that in particular HMO and Plant Health would enter Q1 with good momentum.

So, I just wonder if you can put some words on the actual Q1 growth in the different lighthouses. And also, if Plant Health and HMO start Q1 with a strong momentum, and lighthouses only grow 4%, does this imply these two segments have slowed down considerably during the quarter? Or how should I link what you say now with what you said after Q4?

And then, question number two is more of a household question on the effects of euro-based pricing. So, I wonder what the effects were in Q1, and also how you see the full-year effects as things stand now. And maybe if you can comment specifically on how Turkey isolated seen impacts your organic growth, because it's a hyperinflationary economy. Thank you.

Mauricio Graber

Thank you, Lars. Good morning. I will address the lighthouses and then pass it on to Lise for euro-based pricing. So, listen, first of all, I always repeat this. Let me say this again. Let's look at the lighthouses on an annualised basis, because given that they only represent 10% of our business, on a quarter-to-quarter basis you will always have variations.

Now, we are now talking about the lighthouses, let's say, as a bucket of lighthouses, but you're right about some of the comments from Q4 and into Q1, but let me split those. So, Bioprotection had a very strong performance in Q1. We're very happy to see the performance of Bioprotection in fermented meat, but specifically in meat as well. And given that I had mentioned that Bioprotection is an add-on sale, which is more challenging in inflationary environments, it was very good to see the strong performance of Bioprotection.

Plant Based also had a very strong performance for the quarter. Obviously, it's the smallest of the lighthouses and comes from a very small base.

And in Plant Health, in our agricultural plant health business, as indicated, it had a strong performance in Q1 that also benefited from the order phasing from Q4 and into Q1.

However, HMO had a huge comparable from last year's quarter and had a negative quarter that dragged down the overall bucket of the lighthouses, because there was softness in the HMO market, in North America specifically. It has nothing to do with any weakness for the year in the HMO business. That's what I confirmed, that our HMO business will grow over 20% for the year. We feel very confident around that, based on the agreements and orders that we have with our key customers in HMO.

Now, having said that, you can see that I definitely expect the lighthouses to grow double-digit for the full year, despite the 4% in the first quarter that's largely a drag from the HMO business. With that, Lise, let me pass it on to you on euro-based pricing.

Lise Mortensen

Of course, yes. Yes, Lars. The impact on the group in euro-based pricing in Q1 was zero. Of course, in there, there are countries and regions, and ups and downs, and we did have a positive impact in EMEA and a negative impact in APAC. But at a group level, it's a zero, and our outlook for the full-year is also a zero impact from euro-based pricing. So, euro-based pricing as such is not a topic for us this year.

Then, you talked about Turkey and hyperinflation. This is, of course, one of the areas that we monitor on an ongoing basis. Turkey is of a size that is immaterial to the financial statement for us.

Lars Topholm

Thanks for two very clear answers. Thank you very much.

Lise Mortensen

Thank you, Lars.

Operator

The next question comes from Alex Sloane from Barclays. Please go ahead.

Alex Sloane

Yes, hi. Morning, all. Just the first question, just on the Food Culture and Enzymes margin in quarter one. Can you quantify the mix drag here, from weaker sales into the yoghurt end market? And are you assuming that drag continues over the course of the year? That's the first question.

And then just the second one, just on the transaction. When should we expect to hear who will be nominated for the board of the combined company? Obviously, Novozymes' current Vice Chair has a very good understanding of Chr. Hansen. I wonder how involved he's been in the transaction so far. And is he likely to have a key role going forward in the proposed combined business? Thanks.

Mauricio Graber

Yes, let me.

Lise Mortensen

Do you want me to start briefly on the margin?

Mauricio Graber

Go ahead, Lise, yes.

Lise Mortensen

I can do this on the margin. So, if you look at Q1, the biggest impact on the FC&E margin is the inflationary pressure. The mix change that we have seen has less impact, but it is of course a tendency here that we expect and have also calculated in for the full year.

But it is the inflationary pressure that is the biggest player in the decline that we see in the FC&E margin. And of course, again, as I said earlier, the price-up initiatives that are now kicking in also, from January onwards, will help us see an improvement in that margin throughout the year.

Mauricio Graber

I think there, Lise, that's very important because we flagged the mix really between cheese and fermented milk. But in an environment where you would not have the inflationary pressures that we have, that could probably be compensated with other productivity initiatives. Not in the case of the large inflationary pressure.

On the transaction, I would really not comment on the timing, but obviously you now have clarity on the definitions, that the CEO and the CFO will come from Novozymes, that there will be a Chair coming from Novozymes and a Vice Chair coming from Chr. Hansen.

And I think the chairmanship will then take the responsibility of proposing the board members for the NewCo that will have to be voted by the shareholders. And that's to the extent that I can comment as of now.

Alex Sloane

Thank you.

Operator

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

Georgina Fraser

Hi. Morning, Mauricio. Morning, Lise. Thanks for taking my questions. The first is if I could confirm that your outlook assumes no reopening in China, and if you could also remind us the magnitude of a headwind the China lockdowns have been for Chr. Hansen in recent years.

And then my second question is, if I look at your commentary on 2Q, it seems to imply a decent step-up in pricing. And given we've got quite a tough comparable to model against, just

wondering if you could give us a bit firmer expectations on the absolute pricing level you're aiming for. And whilst volume growth might be tough, would it actually be negative? It'd be really helpful, thank you.

Mauricio Graber

Yes, Georgina. Thanks. Let me comment a little bit on China, and then I will pass it on to Lise on the Q2 and pricing. So, in China during the lockdowns, it was very tough from two perspectives.

First, obviously low consumption because there is less of a grocery consumption and less on-the-go consumption that will be moments of consumption from fresh dairy, and more of basic staples being consumed or delivered door-to-door in China.

The second one is, it was very difficult for us also to operate business, meaning no customer visits, no pipeline, no projects being advanced. So, from that perspective, the opening, even with the high cost of, let's say, the infection rate that will come, we expect that to be a net positive. However, we don't factor into our business or our current growth scenario a positive contribution from China. So, anything that the current negative development improves would be a net positive for our business and for the growth and mix in Food Cultures and Enzymes.

Passing it on to Lise, I would just say Q2 is our largest challenge, let's say, from a comparable point of view, particularly in Health and Nutrition. But as I mentioned in the call, we expect a continued improvement in the contribution from pricing. Lise?

Lise Mortensen

Yes. No, I can only build on that and say, remember it's from Q2 it all starts. Q1 of last year did not have neither a lot of inflation or price-ups, and the latest pricing negotiations will then kick in now from Q2.

And we do not see at this point in time any further inflationary pressure, but we are expecting that the recent pricing initiatives will cause us to, during Q2, fully recover inflation by the end of the fiscal. So, a step-up in pricing impact from Q2 and improving impact on the margin throughout the year, but only by the end of the year, we will have the line cost.

Georgina Fraser

Okay, thank you.

Operator

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

Andre Thormann

Yes, good morning, and thank you for taking my questions. First of all, on your guidance on the EBIT margin, you have previously guided that you would get a tailwind on 1.5% from FX. Just to be sure, what is that tailwind now with the decline in US versus euro? That's the first question.

And my second question is, I wonder whether you can give some more comments on what you're seeing specifically for Human Health in North America. You come out with some interesting comments on dietary supplements, where orders are getting postponed and also seeing softening on Human Health specifically.

But can you give some more flavour on that, and also maybe how that affects your expectations for the full-year? Your previous communications have been that you expected Human Health to grow in the lower end of this 4% to 6%, which is your long-term guidance. Do you still expect this with this new information that you have on Human Health? Thank you.

Mauricio Graber

Yes. Lise, you want to take the question on EBIT? Then I'll comment on Human Health?

Lise Mortensen

Yes, I can comment on that. There's no doubt that back in October, the exchange rate level was supportive to our margin, and now you can say it's not so much. The impact since October is in the range of 1% to 1.5% down on our EBIT margin, so what's left of a positive is insignificant.

Mauricio Graber

And then on Human Health, I don't expect any negatives in relation to our guidance or the expectation. I think it's as expected. We I think had flagged already that the US market is the market that would be more sensitive to consumer pressure on disposable income.

I've also mentioned the strong tracking in Asia-Pacific, and one thing that I want to highlight also is that when we talk about the dietary supplements category as a category in general, there're many end users within that.

And particularly our end users around infant, around women's health, continue to show resiliency despite the pressures in the US, from basically consumers being faced with a very high inflation and having to take decisions about allocation of their disposable income.

But there's very strong, more and more strong tracking to the importance of probiotics, as we have discussed, following the pandemic, and you can see that by the strong performance that we're seeing in Europe and in Asia-Pacific as well. And by the way, Latin America being the

smallest market for dietary markets, but we see a growing market for us, particularly in Brazil and Mexico as well.

Andre Thormann

Okay, thank you. Can I just quickly confirm? So, you expect 0% tailwind on the EBIT margin from FX now?

Lise Mortensen

It's in the 0%-plus, yes.

Andre Thormann

0%-plus? Okay, thank you.

Operator

As a reminder, if you wish to register for a question, please press star followed by one. The next question comes from Mattias Haegglom from Handelsbanken. Please go ahead.

Mattias Haegglom

Yes, good morning. Mattias Haegglom, Handelsbanken. Thanks for taking my questions. I have two, both related to the December announcement with the planned combination with Novozymes.

So, firstly, I'm curious about any internal feedback from the organisation that you can share at this stage. And in particular, if there were any concerns or misunderstandings that you've been able to address since the announcement, that you could share with us on the outside world as well, to further enhance our understanding of the transaction.

And then, secondly, if you can expand on the additional incentive program that the board has put in place, in conjunction with the announcement to remove any disruptions that the deal announcement could possibly cause. There is a brief comment in the report, but I was curious to understand the breadth of the initiative. Thanks so much.

Mauricio Graber

Yes, happy to comment on both and give an overall perspective. When you think about an announcement like this, which I think will generate substantial value for shareholders, I think as a CEO, you also think employees, customers, how will they react?

So, one thing that I can say is, it's been overwhelmingly very well received by our customers, and that, I think for me, is a reaffirmation of the strong strategic rationale for this proposed merger.

I think all the customers that we have talked to see the benefit on future innovation of combining a microbial leader like Chr. Hansen and an enzyme leader like Novozymes.

They see the benefits in production capacities in the future, they see the benefit in R&D and innovative solutions, and they also see the benefits on proximity to customers with our combined global footprint. So, very positive reaction from customers.

From our employees, I was expecting that this would create obviously uncertainty, and I think I was positively surprised. It does create some level of uncertainty on an individual basis. Will I have a job? What type of a job will I have? What will be the synergies? But overwhelmingly, all of the employees that I've talked to are, A, excited to be part of this historic opportunity of shaping a Danish-based global bioscience company.

A lot of people that I have talked to say, hey, I want to be part of this, and I want to be instrumental in shaping the future company. So, that's I think stronger and more positive than I expected, across the organisation.

Now, as there's a long period between signing and closing, and we have a very talented workforce that makes a difference day-to-day in front of our customers, the board of directors has put a retention program in place to be able to make sure that we retain and incentivise key people that are fundamental for the running of the company and fundamental for getting the transaction to close.

And the number of restricted share units is disclosed and will be distributed across managers in the organisation that have specific expertise and specific responsibility to achieve the outlined objectives.

Mattias Haeggblom

Thank you so much.

Operator

The next question comes from Heidi Vesterinen from BNP Paribas. Please go ahead.

Heidi Vesterinen

Good morning. First of all, just to clarify on pricing. You talked about incremental pricing in Q2, so what is your price expectation out of the 7% to 10% guidance for the year, please? That's the first one.

And then I have another question on the Novozymes deal. You had said in the past that you wouldn't go beyond food enzymes, so I wondered what led to your change in thinking.

And I do think your shareholders like your focus on food and beverage, and through this transaction, it will be exposed to more volatile categories that you have in enzymes, so if you could explain that a little bit, that would be helpful. Thank you.

Mauricio Graber

Yes, I will take the second question and pass it on to you to pricing, Lise.

Heidi, we always said, as a standalone company, we would not extend beyond food enzymes because we never saw ourselves as a large company with broad enzyme capabilities outside of the narrow playing field that we have.

So, as I said, we are largely, let's say, a global microbial solutions company with a small capability on dairy enzymes. Novozymes is largely complementary, so I think that's what makes this deal very attractive on the complementarity of the technology platforms. Lise?

Lise Mortensen

Yes. Heidi, with regard to pricing, I think we also said already when we came with the outlook for the year, that even though organic growth is at a comparable range with last year, more this year will come from pricing and less from volume. So, you should expect probably a 50/50 split between volume mix and pricing.

Heidi Vesterinen

Thank you.

Operator

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

Faham Baig

Hi, guys. Good morning. A couple of questions from me. Lise, you highlighted you're not assuming any recovery from China in your numbers, but could you confirm that the HMO growth target of 20% does not include any benefit from launching your offering in China?

And if it doesn't, when do you expect to receive approval for your HMOs in China? I noticed one of your competitors is targeting an approval early this year.

And secondly, going back to the transaction, you highlighted that you await customary and regulatory approval, which clearly are going to take some time. In which areas, regions, or categories do you see the most challenges or expect the approval to take the longest? Thank you very much.

Mauricio Graber

Yes, let me comment on China. So, yes, indeed, my comment around China is correct. We have, I think, always stated that we expected HMO regulatory approval in 24, or at least we would not see any significant volumes in HMO in China in our fiscal year 23.

So, all of the above-20% growth from HMO, really that growth will be driven mostly by North America, some of the other European and non-European countries where we have communicated that we have received approval, and also by the continued, let's say, expansion of the Five HMO mix, and not only, let's say, the single 2-FL HMO. So, those are the sources of growth for our HMO.

Obviously, China will be an important approval, but we should factor any growth in HMO coming from China after our fiscal year 23. I hope that clarifies that.

Now, on the regulatory approvals, you can expect that we will have to file in the customary jurisdictions of the US, EU, China. There're always some jurisdictions, like Brazil, that tend to take longer just because of the process, but as I said, we need to be thorough, we need to be respectful of the regulatory authorities.

But largely from my business, a humble perspective, this is a very complementary deal, where we are a microbial-based company and Novozymes is an enzyme-based company. And therefore, a deal that is largely complementary from a technology platform and end market applications.

I think with that, this concludes today's conference call. I want to thank you for the good questions on this morning, and we look forward to continuing the dialogue with you in person or virtually over the coming days and weeks, as Lise and I will be in roadshows with our IR team. Thank you very much. Have a great day ahead.