

Q3 2022/23 AIDE MEMOIRE

This memoire sets forth public information previously provided by Chr. Hansen. The information provided below may prove helpful in estimating the financial performance for Q3 2022/23. Please note that the items listed below are not exhaustive and that other factors may affect the comparisons versus last year.

FY23 guidance ([Company Announcement Q2 FY23, p. 9](#)):

- “Following the portfolio changes announced in 2020, Chr. Hansen delivered organic growth in the range of 7-9% in 2020/21 and 2021/22 vs. a long-term ambition of mid-to-high single-digit organic growth. While expectations to underlying market growth in 2022/23 remain modest given the current uncertain geopolitical and macroeconomic environment, **Chr. Hansen is adjusting the outlook for organic growth to 8-11%** (previously 7-10%) to reflect an increased impact from EUR-based pricing. The expected growth is composed of a positive impact from price adjustments, growth in lighthouses, and successful execution of the project pipeline in the core businesses including expansion of the market for bacterial solutions which provides customers the opportunity for production improvements.”
- “EBIT b.s.i. is expected to grow in line with revenue, and **the EBIT margin b.s.i. is expected to be in the range of 26%-27%**, as a positive impact from operational efficiencies and pricing initiatives is expected to be partly offset by continued pressure from the inflationary environment and continuing actions to protect against supply chain disruptions.”
- “**Free cash flow before special items is expected to be in the range of EUR 180-220 million** (previously EUR 170-210 million) to reflect a change in phasing of operational investing activities.”

Sensitivities ([Company Announcement Q2 FY23, p. 9](#)):

- “Continued changes in the geopolitical and macroeconomic climate including additional sanctions against Russia or other countries where Chr. Hansen operates, supply disruptions and developments in raw material and other input costs, such as energy, may impact the outlook for 2022/23.”
- “The most significant currency exposure relates to USD, while exposure to other currencies is relatively modest. A 5% increase/decrease in the EUR/USD exchange rate would have a positive/negative annualized impact on revenue measured in EUR of around EUR 25 million, while the impact on EBIT and cash flow is approximately two thirds of the impact on revenue. The outlook for 2022/23 is based on actual rates until April 12, 2023, and for the remainder of the year assuming constant exchange rates at the current level of EUR/USD rate of 1.10 (previously EUR/USD rate of 1.07).”
- “Organic revenue growth is sensitive to exchange rate fluctuations in currencies for which Chr. Hansen applies an EUR-based pricing model, while protecting the impact on EBIT and cash flow.”

Q2 FY23 comments ([Conference Call Transcript Q2 FY23](#)):

- **Human Health:** “Despite a tough comparable from last year, Human Health and HMO delivered strong growth. [...] Human Health [...] was partly offset by a positive impact from timing of orders [from Q3 into Q2.] [...] Even though it's a challenging underlying market for dietary supplements, our strain to solution strategy is working very well, and we are able to gain projects with customers, and deliver innovation in infant, in the women's health category, in immunity, and those are important categories that are performing well for us.”

- **HMO:** “Encouraging performance in the first half, with strong organic growth. [...] It’s driven by higher demand and product launches where HMOs are approved, particularly in North America and Europe. Also, by [...] innovation and higher dosages of the regulatory approvals. That is what is driving the volume growth. [...] HMO [...] was also positively impacted by the timing of orders. [...] We continue to see high customer interest, which is supported by good progress within regulatory approvals. [...] The approval process is still ongoing in China, and we await the feedback from the Chinese authorities.”
- **Animal and Plant Health:** “Animal and Plant Health delivered solid growth, driven by pricing in Animal Health, and strong performance in Plant Health. [...] Plant Health [...] was positively impacted by the early timing of orders into the first half.”
- **FC&E:** “Strong 12% organic growth in Q2, reaching 10% year-to-date. While pricing accounted for 9% in Q2, we saw good volume growth above the underlying markets. Dairy showed strong growth, supported by pricing initiatives, solid momentum in cheese and the lighthouses of bioprotection and fermented plant bases. Despite the decline in probiotics and fresh dairy, the segment delivered solid growth, however, mainly driven by pricing initiatives. In food and beverages, we saw very strong momentum in both bioprotective solutions and fermentation cultures for meat.”
- **Lighthouses:** “The core business was, as expected, outgrown by the lighthouses, which combined, delivered 38% organic growth in Q2, and 21% year-to-date. [...] All lighthouse areas delivered double digit growth in the first half of the year. [...] It is important not to look at the lighthouses on a quarterly basis, as they still represent only about 10% of the global sales for the Group.”
- **Q2 EBIT margin:** “Our EBIT margin before special items reached 27% in Q2, which was 0.7 percentage point below last year as continued inflationary pressure, negative impact from product mix, and a high comparable in Health & Nutrition from Q2 last year were partly offset by a positive impact from pricing, scalability, and exchange rates. Year-to-date, the EBIT margin before special items was 25.9%, compared to 26.2% the year before.”

Q3/FY23 comments ([Conference Call Transcript Q2 FY23](#)):

- **Human Health:** “We have said that the US dietary supplement market remains soft, as we see that there’s some consumer price sensitivity. [...] The growth of probiotic human health products remains below the midterm outlook of 4-6%, mainly due to a slowdown in the North American market and certain Asian markets for dietary supplements. [...] We have continued to see a pretty robust business momentum in China for dietary supplements, where we have seen a little bit of softening [...] is in the important market of South Korea. [...] We are confident that the US market is increasingly likely to rebound in the future, based on the consumption data we see, the customer order patterns in the pipeline that, for us, is starting to trend positively.”
- **HMO:** “We expect 30% growth for this financial year for the HMO business. [...] We have secured enough capacity for our 2025 strategy, and we expect HMO to at least be margin neutral by 2025. [...] Talking about the HMO margin, there’s an improvement, compared to last year, but we are still looking at a couple of percentage points drag for the current year.”
- **Dairy market:** “The growth for the dairy market, we do remain cautious on that short-term, amongst others, due to the uncertainty in China. We expect [...] 0-1% volume growth in [...] FY23, predominantly supported by the cheese segment and North America. [...] We expect fermented milk to be below FY22 slightly.”
- **FC&E China:** “For FC&E, China has continued to be challenging. [...] I am not, short-term, optimistic on that. [...] The opening [...] enables us now to talk to customers, talk about projects, and I’m confident on the long-term outlook for our FC&E business in Asia.”

- **Pricing:** “We are seeing a strong execution and delivery of our pricing. [...] We expect the strong pricing contribution to continue in the second half. [...] In Q3, and even more in Q4, some of our initial waves of price increases will lapse, and then we will have the impact for the new price increases.”
- **Guidance for extended financial period:** “Subject to the status of the regulatory approval process for the proposed merger, we expect, in connection with the Q3 report in July, to supplement our current guidance for the financial period, September 1, 2022 to August 31, 2023, with an outlook for the extended financial period that will cover September 1, 2022 to December 31, 2023.”

Q3 FY22 comments ([Investor Presentation Q3 FY22, p. 6](#)):

Regions:

- EMEA (10% org growth): Solid growth in FC&E supported by pricing including EUR-based pricing; very strong growth in H&N supported by strong sales in Human Health and HMO.
- NA (10% org growth): Solid growth in FC&E driven by strong momentum in cheese and pricing initiatives; strong growth in H&N supported by strong HMO sales, while level of activity in Human Health normalized.
- LATAM (-1% org growth): FC&E on par with last year as slight volume growth and pricing initiatives were offset by a negative impact from EUR-based pricing; H&N negatively impacted by order timing in Plant Health.
- APAC (9% org growth): Solid growth in FC&E driven by strong momentum in India, while China declined; strong growth in H&N driven by very strong growth in Human Health supported by infant and children.

Corporate news

- **New customer & application center for Meat & Prepared Foods:** A new customer and application center in Germany, fully dedicated to food cultures for meat and prepared foods, went into operation in the beginning of March 2023. ([Press release](#))

Sources

- [Company Announcement Q2 FY23, Conference Call Transcript Q2 FY23, Investor Presentation Q3 FY22](#)

Forward-looking statements

This document contains forward-looking statements that reflect management’s current views and expectations with respect to Chr. Hansen’s future and potential financial performance. Those forward-looking statements are based upon data and information currently available to the Company, and on a variety of assumptions, many of which may be beyond our control and subject to risks and uncertainties that may cause the actual results of the Company or the industry to differ materially from such forward-looking statements. The information, opinions and forward-looking statements are provided as of the date stated in this document and the Company is under no obligation to publish any updates thereof except for what is required by applicable law or stock exchange rules and regulations.