

**Chr. Hansen Holding A/S**  
**Q3 2022/23 Results**  
**Conference Call Transcript**

**6 July 2023**

**PRESENTATION**

**Mauricio Graber**

Good morning, everyone, and welcome to the presentation of Chr. Hansen's Q3 2022/23 results. I am here with our CFO, Lise Mortensen, and we will, as usual, walk you through the highlights of our third quarter and outlook for the year. And as we communicated in the Q2 results, we will also provide commentary on the outlook for the calendar year covering the period up to 31st December 2023. Before opening up for Q&A, I will also provide an update on the proposed merger with Novozymes. Before moving on, please take notice of the safe harbour statement.

Please turn to slide three. As the organisation remained focused on business execution, Chr. Hansen ended the third quarter of the financial year with a solid result, delivering 9% organic growth for the group. As expected, the positive contribution from pricing continued in both Food Cultures and Enzymes and Health and Nutrition. While volumes were more modest, the positive impact from euro-based pricing was higher, predominantly in Food Cultures and Enzymes.

Looking at the year to date, the group organic growth was strong at 10%. Food Cultures and Enzymes delivered strong growth, mainly driven by price, while volume growth was softer. Health and Nutrition delivered solid growth, mainly driven by price which contributed more compared to the previous quarter, but also by volume growth. EBIT margin before special items was stronger in the third quarter compared to last year, reaching 27.5%. This was 0.8 percentage point above last year, as the margin was supported by strong sales development and scalability effects, which was partly offset by a negative impact from higher input cost, a change in product mix and exchange rates.

Year to date, the EBIT margin before special items was 26.4%, which is 0.1 percentage point above last year. Free cash flow before acquisition and special items reached €76 million in the third quarter. Year to date, the cash flow amounted to €133 million, up from €116 million the prior year. The higher cash flow was due to high cash flow from operating activities and a positive impact from taxes paid.

Now, please turn to slide four for an overview of the strategic and operational highlights of the third quarter. Starting with price, it's great to see the results we continue to deliver from the efforts of our teams on pricing initiatives. In the third quarter, we still continued pricing impact in Food Cultures and Enzymes, while the impact in Health and Nutrition increased from the previous quarter. We still expect pricing to contribute positively for the rest of the year, but at a lower level than in Q3, due to annualizations of the price adjustments from last year.

As we continue to see increased pressure across part of our cost base, we will work diligently with our customers to ensure these cost increases are reflected in future price increases. Continuing with the organic growth, our core business remains stable, with 8% organic growth in the third quarter. We saw solid volume growth in Cheese, demand driven by products related to productivity improvements and yield optimization, while there was also focus on sustainability impact.

With our CHY-MAX Supreme solution, faster and more precise coagulation enables cheese producers to produce more cheese faster, which leads to not only improved productivity but also reduced cheese carbon footprint. In addition to this, CHY-MAX Supreme helps make the cheese firmer, meaning that the process of slicing, cutting and shedding the cheese at industrial converters, who provide the cheese to food service, is improved and results in less waste.

Within Meat and Prepared Foods, we inaugurated a new customer and application centre, with a microbial laboratory and a meat processing pilot plant in Pohlheim, Germany. This new centre will strengthen customer collaborations, both in the Fermented Meat Products segment and in applications such as seafood, hot dogs and plant-based products.

Year to date, our core business delivered 9% organic growth. Organic growth in the Lighthouses combined reached 15% in the third quarter, and looking at the year to date they delivered very strong growth of 19%. All the lighthouses delivered double-digit growth in the first nine months of the year. And as usual, please note that it is important not to look at the lighthouses on a quarterly basis but on an annual basis instead, since the businesses combined account only for approximately 10% of group sales.

Now, looking at each of the lighthouses separately, Bioprotection continued solid progress, driven by upselling and new business. Fermented Plant Bases grew from a small base, driven by Dairy Alternatives, where the focus remains on improving the taste and texture profile of plant-based products.

In HMO, we reached an important milestone during the quarter. Chr. Hansen received the EU approval of the final HMO, 6'-SL, in our 5 HMO mix, for highest use levels in infant formula. This is an important step, since now we are able to offer customers with a mix of 5 HMOs, bringing infant nutrition products closer to human breast milk. Product registrations in China are ongoing, and we still expect the approval at the end of 2023, or the beginning of 2024. Lastly, in Plant Health we saw strong growth both in the third quarter and year to date.

Now, please turn to slide five. In terms of top line performance, the group in the third quarter was mainly driven by price in both Food Cultures and Enzymes and Health and Nutrition. In Health and Nutrition, the impact from pricing stepped up compared to the previous quarter. The total pricing impact on the group was 7% in Q3 and 6% year to date. The impact from euro-based pricing was significant in the quarter, mainly impacting Food Cultures and Enzymes.

Organic growth in Food Cultures and Enzymes reached a strong 10% in the third quarter and also year to date. This was mainly driven by price which contributed 9% in the quarter, but we also saw slight volume growth. Dairy growth was strong, supported by pricing initiatives and strong momentum in Cheese, while Fresh Dairy was solid, except for probiotics, which continued to decline. Bioprotection and Fermented Plant Bases also supported the growth in Food Cultures and Enzymes. Food and Beverages performed well, driven by pricing, while volume declined due to market softness within Meat and Prepared Food categories.

Moving on to Health and Nutrition, that delivered 7% organic growth in Q3, mainly driven by price but also by volume, leading to 9% year to date. We saw increased pricing impact in the business in Q3, and the contribution of pricing was 5%. Human Health and HMO delivered good growth, driven by pricing. Volumes declined as they were negatively impacted by the timing of orders in HMO.

In general, the market outlook is slightly more positive compared to the previous quarter, and the sector growth of probiotic Human Health products is in line with the midterm outlook of 4% to 6%, with some recent improvements in North American consumption after a period of very soft growth and despite softness in the South Korean markets for dietary supplements. Markets across EMEA and in China have continued to show resilient growth in this segment. Animal and Plant Health delivered strong growth supported by both pricing and volume growth.

Now, let's turn to slide six for the performance by region. All regions, except Asia-Pacific, drove the growth in the third quarter. Looking at the year to date, all regions contributed positively to the group's organic growth. Starting with Europe, Middle East and Africa, the region grew 10% organically in Q3, leading to a 15% year-to-date growth. Organic growth was driven by both Health and Nutrition and Food Cultures and Enzymes. Food Cultures and Enzymes was supported by pricing, including euro-based pricing, as well as slight volume growth, while Health and Nutrition was supported by pricing initiatives and good volume growth.

North America further improved from the previous quarter and reached 9% organic growth in Q3, and 4% year to date. Organic growth was driven by both Health and Nutrition and Food Cultures and Enzymes. Food Cultures and Enzymes was driven by solid volume growth across categories except for Probiotics and Meat and Prepared Foods, which declined in the quarter. Health and Nutrition was supported by pricing initiatives and good volume growth across categories except for HMO. As mentioned, volumes in HMO declined due to negative impact from the timing of orders.

Asia-Pacific reported a decline of 2% in Q3. Year to date, the region however grew 3% organically. Organic growth in Food Cultures and Enzymes declined due to lower volumes in China and India, while a decline in Health and Nutrition was driven by softening market conditions in South Korea. Food Cultures and Enzymes was impacted by a tough comparable from the year before in India, while in China the business saw less favourable conditions, the country still recovering from the pandemic lockdowns. Notably, the project pipeline continues to strengthen as our interaction with customers in China increases. Organic growth was also supported by pricing.

Latin America continued with strong growth and delivered 23% organic growth in Q3, resulting in very strong growth year to date, at 20%. Organic growth was driven by both pricing initiatives, including euro-based pricing, and volume growth in Food Cultures and Enzymes, while volume in Health and Nutrition declined, driven by negative impact as well on the timing of orders. Now, I would like to hand over to Lise for the financials.

### **Lise Mortensen**

Thank you, Mauricio. Good morning, everyone. Please turn to slide seven for our profitability. The absolute EBIT before special items for the group increased by 9% in Q3 compared to last year, amounting to €92 million. The increase was driven by a positive contribution from pricing initiatives, volume growth and stable operating expenses, which was partly offset by a negative impact from higher input costs and exchange rates.

The Q3 EBIT margin before special items reached 27.5%, which was an increase of 0.8 percentage points compared to the year before. The positive development in the margin was due to the strong sales development and scalability effects, which was partly offset by a negative impact from higher input costs, a change in product mix and exchange rates.

Looking at the year to date, the absolute EBIT before special items increased by 11% compared to last year, to €260 million. The year-to-date EBIT margin before special items was 26.4 compared to 26.3 last year. The Food Cultures and Enzymes profitability in Q3 improved versus last year, and the EBIT margin before special items reached 30.7% compared to 28.4% the year before. The margin improvement was due to pricing increases and scalability, which was partly offset by higher input costs and change in the product mix.

Profitability in Health and Nutrition declined in Q3 versus last year, the EBIT margin before special items amounting to 22.4% compared to 23.9% the year before. The negative development was due to a negative impact from product mix, exchange rates, and higher input costs, which was partly offset by pricing initiatives and positive impact from scalability.

Now, let's look at the free cash flow. Please turn to slide eight. We saw an improvement in the free cash flow year to date compared to last year. The year-to-date free cash flow before acquisitions and special items reached €133 million, up from €116 million last year. The increase was due to improvement in operating profit and lower taxes paid, despite cash flow from

operating activities being impacted by a negative change in working capital, driven by increased inventories and trade receivables. The lower taxes paid were due to a one-off tax payment in FY22 related to acquisitions.

The higher inventory level we have experienced over the past few quarters is partly driven by our strategic decision to secure our supply chains due to high volatility in the end market demand. We expect the inventory level to start decreasing towards the end of the calendar year. For the rest of the year, we expect a change in phasing of operational investing activities which will improve the free cash flow for the full calendar year.

Return on invested capital, excluding goodwill, was 23.4 year to date, which is slightly higher than the amount the year before, at 23.3. The slight increase was supported by strong sales development in Health and Nutrition, while Food Cultures and Enzymes was impacted by the high inflation on operational results.

Now, let's move to the outlook for the year. Please turn to slide nine. We acknowledge that the underlying market growth expectations for the remainder of 2023 remain modest given the current uncertain geopolitical and macroeconomic environment. However, in light of the solid performance for the first nine months of the financial year, we adjust our outlook for organic growth covering the period September 1st 2022 to August 31st 2023 to 9% to 11%, previously 8% to 11%. The expected growth is composed of price adjustments including euro-based pricing, combined with growth in Lighthouses and successful execution of the project pipeline in the core businesses.

The EBIT margin before special items covering the period September 1st 2022 to August 31st 2023 is still expected to be in the range of 26% to 27%, as a positive impact from operational efficiencies and pricing initiatives is expected to be partially offset by continued pressure from the inflationary environment and continuing actions to protect against supply chain disruptions. The free cash flow before special items covering the period September 1st 2022 to August 31st 2023 is now expected to be in the range of €200 million to €230 million. Previously, it was €180 million to €220 million, reflecting a change in the phasing of operational investing activities and a positive impact from lower taxes paid.

Please turn to slide ten for the supporting outlook for the 2023 calendar year. For the period January 1st to December 31st 2023, organic growth is expected to be 9% to 12%, while the impact from exchange rates on revenue is expected to be negative, estimated to be around 4% to 5%. The EBIT margin before special items for the period January 1st to December 31st 2023 is expected to be in the range of 26% to 27%, compared to 26.3% in the same period last year. The EBIT margin before special items is expected to be negatively impacted by exchange rates, estimated to be around 0.4 percentage points.

The free cash flow before special items for the period January 1st to December 31st 2023 is expected to be €200 million to €250 million, compared to €152 million for the same period last

year. Due to the change of our financial year to calendar year, we have included financial highlights and key figures that have been restated to reflect calendar year quarters in the Q3 interim report. Now, I would like to hand over to Mauricio for an update on the proposed merger with Novozymes.

**Mauricio Graber**

Thank you, Lise. Let me say a few words on the progress of the proposed merger with Novozymes. Together with Novozymes we are continuing the work with additional regulatory filings and are progressing well with the relevant authorities. We have added financial information in order to align with Novozymes' calendar-year reporting. Regarding the timeline for the closing of the deal, this is unchanged and the closing is still expected in the fourth quarter of the 2023 calendar year or the first quarter of the 2024 calendar year.

In connection with the merger agreement, Novozymes and Chr. Hansen have agreed on certain specific restrictions in respect of distributions to their shareholders until completion of the proposed merger. As part of this, it has been agreed that Chr. Hansen can make a dividend payout in respect of its earnings for the period September 1st 2022 to August 31st 2023 up to an amount corresponding to a dividend payout ratio of 55%. The board of directors intends to announce such a dividend in connection with the 12-month report on October 12th 2023, which is subject to closing of the proposed merger not taking place prior to the payout date.

To sum up, the solid third quarter proves the strength of Chr. Hansen's organisation, and whilst the ongoing progress with Novozymes to complete the proposed merger, we continue to deliver first-class products and innovative solutions to our customers around the world. To reflect on the performance of Q3, we updated our outlook for organic growth and free cash flow, while the outlook for EBIT margin is unchanged. Thank you very much for your attention, and we are now ready to open up and move on to Q&A.

**Operator**

Ladies and gentlemen, at this time we will begin the Q&A 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're using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question is from Alex Sloane with Barclays. Please, go ahead.

**Alex Sloane**

Hi, morning, all. Thanks for taking the questions. Two from me, please. The first one, in terms of the updated guidance, obviously for the calendar year you're guiding to a slightly higher range than for the fiscal, can we infer from this you are incrementally confident in volume acceleration

into September to December? And if so, what are the key drivers of that? Or is that guidance difference more about pricing tailwinds? That's the first one.

Second one, energy costs have obviously fallen a long way from the start of the fiscal year when you set margin guidance, do you need to pass back any of that potential benefit to customers in pricing, or should we assume that it drops to the bottom line? And I guess if so, when should we be expecting that tailwind? Thanks.

**Mauricio Graber**

Good morning. Let me make just a few general comments, then I'll pass it on to Lise on the specifics. I think just taking your second question, it's true that energy is declining, there are some other parts of the supply chain where we still continue to see our cost input cost increasing, but I think consistent with what we have said in the past, our pricing negotiations with customers have taken a long period, but they're based on the value we bring, and we do not expect that these reductions in energy will translate into pricing give-backs as the pricing has been negotiated and included in our contractual agreements with our customer. Lise, I'll pass it to you to comment on the financial year and calendar year guidance growth.

**Lise Mortensen**

Yes, Alex, the outlook on organic growth for 9% to 10%, you should see that as a result out of pricing and also euro-based pricing playing stronger in the calendar-year view than in the fiscal-year view. The volume part, still we are at 4% year to date, but the volume part of our outlook is where we are, we need to be, cautious, and we see the biggest risk. We're still outperforming underlying markets, but it is a very uncertain macroeconomic environment that we operate in, and that's also taken into consideration for the outlook for the calendar year.

**Mauricio Graber**

Absolutely. I think, Alex, we will only start to see stronger volume growth as I think the inflationary pressure reduces. I've always viewed those as relatively connected.

**Lise Mortensen**

And to your question on when we see the benefit in our costs, we are definitely seeing the clear signs of our price-up having effect. We don't foresee any more input cost tsunamis, so through this calendar year the lines will cross, if everything is looking the way we look at now.

**Alex Sloane**

Very helpful, thank you.



**Operator**

The next question is from Charles Eden with UBS. Please, go ahead.

**Charles Eden**

Hi, good morning. Thanks for taking my question. Two from me also, please. My first one is that we've heard from some of your ingredients peers discuss the deterioration in volume trends in recent months, specifically May and early June, so I wonder if this is a dynamic you've also seen? Maybe you could talk about how volumes trended through your fiscal Q3 and the outlook for the early weeks of Q4, and any product areas or geographies in particular you would call out as slowing materially, or accelerating for that matter, in recent weeks? Could you touch on that?

And then my second question's on China volumes in FC&E, which were lower once again, year on year. Could you give a little more detail here, please? I get the negative impact that the pandemic had on the Fermented Dairy business, but with restrictions lifted and on some presumably relatively undemanding prior comps, volumes are still declining. So have you looked at where volumes are in this market for FC&E versus pre-pandemic? Because just taking the three years of volume decline, I would think it's probably double-digit below the pre-pandemic levels. Is that correct? And if so, are you confident this is simply a market dynamic effect rather than loss of market share in this market? Thank you.

**Mauricio Graber**

Excellent. Thanks, Charles. Good Morning. On your question around volumes, first, as Lise mentioned we are 4% volume year to date, and we had 2% volume growth in the quarter. We expected Q3 to have softer volume. And I think, as I mentioned before, we will need to overcome the current high level of price inflation to see stronger volumes. But we have not seen a stronger volume deterioration.

So just to give a little bit more colour, I mentioned that in Food Cultures and Enzymes we see good volume in Cheese, driven in part because of our innovation in relation to CHY-MAX Supreme, and in Health and Nutrition we have seen the segment, the underlying segment, trending back to the expected normalised growth of 4% to 6% and our ability to outgrow the underlying market. The pipeline I particularly mentioned in North America for Human Health is strengthening, so we expect that to be a net positive.

Now, moving on to China, just to comment about China, China Health and Nutrition, or Human Health, has remained strong. We have seen a very dynamic business in Human Health in China, and it was dynamic pre-pandemic and it has come out as very dynamic after the lockdowns. A lot of innovations, a lot of focus on bringing probiotic solutions to consumers, and really good growth for us.



I think the other side of the coin is what you mentioned, and we indicated that in Q2, which is after the last range of lockdowns, it really had a negative impact on volume and our ability to also connect with customers. So while the positive news in China is that our interactions with customers have now really normalised, we have seen a very rich inflow of projects, a strong pipeline, but I do not expect this to be translated into any improvement in China volumes until 2024.

**Charles Eden**

Thank you very much. Am I right in thinking that volumes in that market would be double-digit below where they were before [overtalking]?

**Mauricio Graber**

Absolutely. Absolutely, well deep into the double-digits.

**Charles Eden**

That's great. Thank you, both.

**Operator**

The next question is from Søren Samsøe with SEB. Please, go ahead.

Søren Samsøe Thank you, and good morning. The first question is again also under the Health and Nutrition part. The comparables were quite easy in Q3, you said that in the first half still weak growth, so if you could comment a bit, you mentioned South Korea is not going well, but it must be going really bad if it should pull down growth to that level. And also, it seems like your outlook for the North American probiotics market looks a bit better, maybe you could give a comment on that? Thank you.

**Mauricio Graber**

Absolutely. Søren, let me take it, then, Lise, please complement if I miss anything. Yes, I think 7% for Health and Nutrition was good, still against relatively high comparables of last year, but you're right, softer than in the first half. The positive trend, as mentioned, is we see signs in North America definitely on the market strengthening, both in the pipeline, in our open order books.

South Korea is an important market in the sense that it drives a lot of innovation, but we always expect Health and Nutrition to come back to double-digit growth and being a net contributor to our good growth for the group, and that is expected, we want to see this coming in the quarters ahead. Lise, anything I missed?

**Lise Mortensen**

I can maybe say South Korea we see as cyclical, not as a structural dip but impacted by the macroeconomic. And then maybe one more thing, Søren, and that was H&N in Q3 is impacted by timing of orders. You remember Q2 was quite strong, and there were some timing of orders there between Q2 and Q3.

**Søren Samsøe**

Yes, that's right. And then I just had a second question relating to CAPEX and investments. You're taking about phasing of investments, and we're also seeing a higher guidance for free cash flow also for the calendar year 2023. Should that be seen as some kind of CAPEX synergy with Novozymes, i.e. are there some of the investments you had planned that you see that Novozymes have already covered in what they have, and therefore you don't need to make as many investments?

**Lise Mortensen**

No, it's completely business as usual. The projects that we've been running have had a little bit higher ambitions and acceleration than they are able to do simply in the market that we are playing in. Processing equipment can be delayed, stuff like that. So we have not started comparing those with the Novozymes on these projects yet. That will come on day one.

**Søren Samsøe**

Okay, thank you.

**Operator**

The next question is from the line of Joan Lim with BNP Paribas Exane. Please, go ahead.

**Joan Lim**

Hello. Just going back to the drivers of your outlook, what will get you to the upper end of the guidance, and what gives you the confidence regarding pricing, considering the slower end markets? That's my first question. And on the second one, you also talked about pricing, so last quarter you said euro-based pricing was about 1%, can you give us an estimate of how much you're expecting it to be for the outlook? Thank you.

**Lise Mortensen**

Maybe I can start with that. Yes, we did say that we expected euro-based pricing for the fiscal to be around 1%, and now we're looking at above 1%. At the quarter, we have realised around 2% of euro-based pricing, and a little bit stronger than anticipated when we went into the quarter. And getting to the upper end of our guidance will take volume. Our pricing as such we're actually

pretty confident on. Remember, we have not implemented new price-ups. The pricing impact we are seeing now is contracts that have already been signed, so on and so forth. Although we will say that pricing as such, from a year-on-year perspective in Q4, will not be as strong as Q3 because we are getting to the annualised impact of our, in particular, Food Cultures and Enzymes price-up initiatives from last year.

**Joan Lim**

Okay, thank you.

**Operator**

The next question is from André Thormann with Danske Bank. Please, go ahead.

**André Thormann**

Thanks for taking my questions. Just two from here, please. First of all on free cash flow, I just wonder whether the improvement is not at all related to better operations. You mentioned tax and phasing of investments, but is there nothing of this improvement that is reflected in your upgraded guidance on top line? That is the first one.

The second is just related to the other question on euro-based pricing. You say above 1 percentage point now. Does that mean that this upgrade is actually just related to higher euro-based pricing contribution? That's my second question, thanks.

**Lise Mortensen**

Maybe starting with the second, André. The adjustment we did to the guidance a quarter back was caused by euro-based pricing. It is true that where we are standing now, the full-year impact, a quarter back we said 1%, now we say above 1%, but it's really decimal points. So the adjustment we made to the outlook this quarter is simply just because we are nine months in and the risk that we see for the remaining year is more manageable, so to say.

On the free cash flow, it's ups and downs, but the primary factor is the delay of some of our investment in some of the CAPEX projects, and some timing of tax paid. That's the largest components playing in.

**André Thormann**

Can I just follow-up? What offsets the better operations that you see on free cash flow?

**Lise Mortensen**

André, it's really minor. It's small ups and downs on what is the outlook for inventories for net working capital in general, stuff like that.

**André Thormann**

Okay, thank you.

**Operator**

Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone.

**Mauricio Graber**

It doesn't look like we have any further questions. Or do we?

**Operator**

No, there are no more questions registered at this time.

**Mauricio Graber**

Thank you. So this concludes our conference call, then, and the Q&A session. Thank you all for joining this morning, and we look forward to continuing the dialogue with you virtually over the next few days. Thank you, everybody.