Givaudan
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Transcript

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2022 Full Year Results
Conference call and live webcast

Company representatives
Gilles Andrier, Chief Executive Officer
Tom Hallam, Chief Financial Officer

Gilles Andrier
Thank you, operator. Ladies and Gentlemen, so good afternoon, good evening to Asia, and good morning to the Americas. Welcome to our 2022 full year results Conference call. Tom Hallam, our CFO, will also be on this call. We will take you through the presentation before answering your questions at the end. The company news on our full year results were published on our Givaudan website before 7 o'clock Swiss time this morning. This is where you can also find the slides for today's presentation, along with the company news on our website, both our 2022 integrated annual report and sustainability report are also available.

I'd like now to start going through the presentation and invite you to turn to slide 3 to go through our performance highlights. So I'm happy to announce another solid set of figures. We are very pleased with our performance in 2022 despite the challenging environment that we have operated in throughout the year. We have indeed been facing an unusual number of adverse external circumstances ranging from high inflation in input costs to geopolitical tensions, persisting disruption in the overall supply chain and a contrasted picture of the consumer and customer demand across geographies and segments.

In this perfect alignment of headwinds, we have demonstrated 3 things; our ability to focus on supporting the growth of our customers with innovative and differentiating solutions whilst ensuring an excellent supply chain performance. The second one, the natural hedges of Givaudan across clients, geographies and product segments has allowed to deliver a net positive growth. And finally, thanks to the collaboration with our customers, we are on track to fully compensate the sharp increase in input costs over 2022 and 2023.

I'm, therefore, extremely grateful to all of the Givaudan employees around the world for their continued commitment to continue to deliver industry leading performance.

In 2022, we reached… we actually passed the bar of 7 billion with… 7.1 billion Swiss Francs representing a growth of 5.3% on a like-for-like basis and 6.5% in Swiss Francs. This solid growth was supported by many levers. The strong contribution of high growth markets, which increased 9.9% on a like-for-like basis. The strategic focus areas, as well as, the acquired businesses and the implementation of price increases, as already mentioned.

The level of innovation has remained high, and I will come back to this shortly whilst our new business pipeline remains strong. Finally, our new win rates have been very healthy. The EBITDA in Swiss Francs was stable at 1.476 billion in 2022 compared to 1.482 billion in 2021. What is interesting to note is that we actually managed to protect our absolute EBITDA in Swiss Francs despite 2 headwinds.

Raw materials, Energy & Logistics totalled an increase of 360 million for the full year and the Swiss franc has further strengthened across all currencies… across many currencies. The EBITDA margin was 20.7% in 2022 compared to 22.2% in 2021. On a comparable basis, the EBITDA margin was 20.9% in 2022 compared to 22.5% in 2021.

The free cash flow amounted to 479 million, representing 6.7% of our total sales. And as discussed before, this lower free cash flow rate than lower than usual reflects the lower EBITDA percentage and the higher levels of working capital we had to keep throughout 2022 in order to protect our service levels to our customers. At the AGM on March 23rd of this year, the Board of Directors will propose a dividend of 67 Swiss Francs per share, representing an increase of 1.5% year-on-year.

Let's turn now to slide 4; both divisions actually contributed equally strongly to our growth. Fragrance & Beauty reached almost 3.3 billion Swiss Francs, growing 5.5% and

Taste & Wellbeing reached 3.9 billion Swiss Francs, growing 5.2%. Both growth rates are on a like-for-like basis.

The good growth was achieved across most product segments. For Fragrance & Beauty, it was driven by the sustained strong performance of both Fine Fragrances and Fragrance Ingredients, combined with the return to a positive growth of the Consumer Products business, especially in the second half. For Taste & Wellbeing, the growth was strong, especially in sweet goods, beverages and snacks and more modestly in savoury and dairy.

We also benefited from the continued growth momentum of our local and regional customers, one of our strong 2025 strategic growth platform which grew again more than twice as much as with our global customers. Finally, all our strategic focus areas have contributed to our growth, including high-growth markets, health and wellness, plant-based proteins and active beauty.

Let's turn now to slide 5. We're actually back to the usual picture of high-growth markets, growing 4 times to 5 times the rate of mature markets. At the end of 2022, high growth markets represented 44% of our total sales, delivering 9.9% on the like-for-like growth. All high growth markets contributed with high to double-digit growth rates to this result, except for China, which grew low a single digit, given the continuous stringent COVID regulations prevailing in 2022 and also the double-digit growth comparable in 2021.

The Middle East contributed with strong double-digit growth levels as well as Latin America, which performed strongly, led by Argentina, Brazil and Mexico. Most of Asia have also recovered, including Indonesia and India, the Philippines and Thailand. Our size and operation footprint give us a unique exposure to the diversity of these high-growth markets in which we continue investing both with additional talent and new facilities to service a wide diversity of customers.

Mature markets representing 56% of our sales in 2022 have also contributed to the growth with a like-for-like growth of 1.9% led by an exceptional performance in Europe, an encouraging recovery in Japan, partly offset by a decline in North America. This demonstrates once again how Givaudan's geographical balance contributes to the natural hedges against demand cycles where timing and intensity can differ by geography.

Please now turn to slide 6, you can see on slide 6, the sales development by region for the group in more details. So it's worth mentioning EAME grew a record 11.9% against the high comparable of 2021. It was supported by the strong recovery and expansion of various markets particularly in France, Italy, Spain, the U.K., Northern and Central Europe for the mature markets of Europe, but as well as the Middle East for the high growth markets parts of Europe.

Sales in Latin America continued to perform very well. Latin America recorded another outstanding growth of 10.4%, driven mainly by Argentina, Mexico and Brazil. Volume growth and market share gains contributing to most of the growth. Sales in Asia Pacific, as mentioned earlier, continued to recover despite a subdued performance in China still impacted by the pandemic, as well as, suffering from a very high 2021 comparable, as already mentioned.

Overall, the growth in Asia Pacific was 5.2% with India, Indonesia and the Philippines contributing significantly to these results.

Lastly, North America, which had reopened earlier than other regions in 2021, showed a decline of 5.4%. Our 5% growth in 2021 in North America was certainly not an easy comparable, but a certain amount of safety stock building by our customers, followed by a significant destocking as weaker consumption was encountered by our customers was certainly amplified the decline in the second half of 2022 in both Taste & Wellbeing as well as in Consumer Products as part of the Fragrance & Beauty division.

Let's turn now to slide 7. Fragrance & Beauty sales were almost 3.3 billion Swiss Francs, an increase of 5.5% on the like-for-like basis and 5.3% in Swiss Francs. The good growth was driven by the sustained strong performance of Fine Fragrances and Fragrance Ingredients combined with a sustained return to growth in the Customer Products business. In active duty, the single-digit growth was achieved against a very high double-digit comparable growth in 2021. Across all businesses and customer groups, the good performance was also supported by the increased impact in the second half of the year of the pricing actions, which have been implemented with customers to compensate for the increase in input costs.

When looking at the business unit level. Fine Fragrances, sales increased by 14.3% in 2022 on top of the very strong performance of 22.5% in the prior year, it's self-driven by the post-COVID rebound. In 2022, against any expectations, sales have continued this strong momentum due to the recovery of travel retail, an increased offering notably for independent brands in 'Haute Parfumerie' and broader distribution with a well-established e-commerce reaching out to more consumers.

All these combined with a high level of new wins for Givaudan. So, the CAGR, the competitive average growth rates for Fine Fragrances over the last 3 years has been close to 10%. Western Europe, Asia Pacific, and Middle East grew strong double-digit sales, whilst North America declined mid-single-digit against a double-digit comparable in 2021.

The second business unit, Consumer Products, the sales increased by 2% on a like-for-like basis. This performance was driven by solid performance with local and regional clients, which more than offset the decline of volume coming from large customers. On the regional basis, growth was led by Western Europe, South Asia and the Middle East, while sales in North America declined.

On the product segment basis, the sales growth was led by fabric care followed by personal care. The compounded average growth rates for Consumer Products over the last 3 years has been 4.2%.

Sales of Fragrance Ingredients and Active Beauty increased by 10.2% on a like-for-like basis. Active Beauty grew mid-single-digit against a very strong comparable in 2021, as already mentioned, and Fragrance Ingredients delivered a strong double-digit growth in 2022, supported by the buoyant Fine Fragrance market demand for ingredients. The compounded average growth rate for Active Beauty and Fragrance Ingredients combined has been 9% for the last 2 years.

Now, let's turn to the next slide 8. Sales of the Taste & Wellbeing division grew 5.2% on a like-for-like basis and 7.5% in Swiss Francs. This is a very good performance if we remind that it compares to the 7.6% growth, which was achieved in 2021, actually the highest growth ever achieved by the division. Key growth pillars of the 2025 strategy, including alternative proteins and health & wellness, as well as, all customer groups contributed positively to this sales growth.

From a segment perspective, the good sales performance was achieved across all segments, but mainly in beverages and savoury and snacks. From a geographic perspective, as you can see the growth performance was quite impressive in Europe, South Asia and the Middle East, and in Latin America. Sales in South Asia, Africa and the Middle East increased by 17.6% on a like-for-like basis. This double-digit performance was achieved in India, as well as, across African markets and the Middle East regions where Givaudan has a strong footprint.

Sales in Latin America increased 16.7% on a like-for-like basis, led by high single to strong double-digit volume growth in Brazil, Argentina, Mexico, and Colombia. Sales in Europe increased by 11.1% on a like-for-like basis. The mature markets of Spain, Germany and Italy achieved double-digit growth followed mid-to-high single-digit growth in the U.K. and France. In the high growth markets of Europe, there was excellent business momentum, especially driven by Poland.

Sales in Asia Pacific increased by 5.3% on a like-for-like basis. Growth in Asia Pacific was strong, despite COVID-19 impacting performance in China in 2022. In the high growth markets, Indonesia, the Philippines, and Vietnam delivered the strongest performance. And finally, in the mature markets of Asia Pacific, the growth was driven by Korea.

On a like-for-like basis, sales in North America decreased by 6.4% after growing a strong 5.8% in 2021.

In addition to the strong comparative, this situation can be explained by customers destocking and more cautious inventory planning following the safety stock building as supply chain disruption and high inflation prevailed, especially in the first half of the year.

Let's turn now to slide 9. As you all know, our company purpose is above creation. The cornerstone of which is innovation. Innovation is what our customers expect from us. The core of our innovation is about working on the more than 300,000 briefs per year and winning more than our fair share of those multiple briefs is the only way to compensate more than the average 10% erosion of our business so that we can deliver our average sales growth promise of 4% to 5% on the long term.

We continually seek new ways to anticipate consumer needs and help solve our... their customers challenges and create value for them, while developing creations that contribute to happier and healthier life, which is our purpose. And this is whilst reducing the impact that we have on the environment.

Our research and development activities allowed to provide our teams working on those multiple briefs with novel technologies, differentiating ingredients, which will make those bespoke solutions we develop with our customers, win the briefs but also and more importantly, win the consumer.

In 2022, we invested 522 million Swiss Francs in R&D in line with what we had spent in 2021. But let me give you some of the key outcome examples that stand out of our research programs.

In Taste & Wellbeing, it's about shaping the future of food and creating food experiences that consumers love. Our new Primelock, a natural vegan-friendly solution that mimics animal fat cells encapsulates, protects and locks in both flavour and fat in plant-based meat substitutes.

This integrated technology enables companies to enhance the food experience of plant-based meat products, while having 75% less fat and 30% less calories when compared to a full fat, full protein plant-based product. A good example of how a plant-based protein can not only provide the benefit of being more sustainable that's also being healthier than the animal version.

BioNootkatone, a breakthrough ingredient that responds to the demand for sustainable natural clean label citrus flavour without the cost and supply volatility of traditional citrus extracts, made from a non-GMO sugar source as the starting material.

The ingredients does not require the use of any citrus ingredients and originates from a renewable natural starting material. This material is used in thousands of flavour applications.

In the other division, in Fragrance & Beauty, sustainability is a key driver for creativity and innovation as well. We launched Patchoul'Up an eco-design up-cycled active for hair and scalp. It is sourced responsibly in Indonesia and is crafted through green fractionation from distilled patchouli leaves after they use as a raw material in fragrance creation. This is a very good example of how we can use waste and up-cycle. In the field of delivery systems, a major breakthrough was the launch of Planet Caps, the first biodegradable and bio-sourced fragrance core-shell technology for fabric softness, laundry sanitisers, and scent boosters.

And finally, AmbreXolide, a sustainable alternative to the widely used musk Ambrettolide.

This biodegradable and naturally derived molecule exclusively available for Givaudan perfumers is obtained by an innovative process using noble price within technology.

Finally, in terms of artificial intelligence, we developed customer foresight, a proprietary digital engine, leveraging big data, artificial intelligence, and Givaudan's deep expertise to detect signals and emerging trends to anticipate future potential food solutions, opening opportunity to enhance the current development processes.

With this, I'd like now to hand over Tom who will give you more granularity on our financial results. Tom, please.

Tom Hallam
Thank you, Gilles. I would also like to welcome you all to the call. As always, as Gilles has taken you through the business performance of the group, as well as, the main aspects of the market and regional development. On the following slides, I would like to focus on the group's operating performance and those of the 2 divisions.

Let me start with the performance highlights on slide 11. Group sales increased this year to 7.1 billion Swiss Francs, an increase of 5.3% on a like-for-like basis and 6.5% in Swiss Francs.

This result includes the full-year impact of DDW and Custom Essence, the 2 companies that we acquired in December 2021.

The group's EBITDA is 1.476 billion Swiss Francs, compared to 1.482 billion Swiss Francs in the prior year, and the reported EBITDA margin is 20.7% in 2022, compared to 22.2% in 2021.

The underlying EBITDA is 1'486 million Swiss Francs a margin of 20.9% in 2022, compared to 22.5% in 2021.

The net income increased to 856 million Swiss Francs, an increase of 4.2%, compared to 2021 and the net income margin was 12% of sales. The group achieved a free cash flow of 479 million

Swiss Francs or 6.7% of sales. The group's net debt to EBITDA was 3.1 times at the end of 2022, compared to 2.97 times at the end of December 2021.

Please turn to slide 12, which shows the exchange rate development. As always this slide shows the comparison of the exchange rates in 2022 versus the average in 2021. In the current year, mainly due to the geopolitical instability and economic uncertainties, we have seen major fluctuations in the main currencies that the group operates in, especially in the development of the US Dollar, GBP sterling, and the Euro against the Swiss Francs. Although the movement in currencies can have an impact on the various lines of the income statement, the net impact on the EBITDA margin is fairly limited given the operational and geographical spread, which provides good natural hedges to our business.

Please turn to slide 13 for an overview of the operating performance of the group. The gross margin decreased from 42.7% in 2021 to 38.8% this year. Due to, on the one hand mechanical margin dilution effect of the pricing, as well as, the timing of the price increases, to offset higher raw material, energy, and freight costs.

On the EBITDA level, the impact of the higher raw material, energy and freight costs was mostly offset by price increases and a lower operating expense due to the strict cost discipline resulting in an EBITDA of 1,476 million Swiss Francs in 2022, compared to 1,482 million Swiss Francs in 2021.

We had a number of one-off items in the year amounting to 10 million Swiss Francs all relating to the integration of the acquired companies and the optimisation of our manufacturing footprint.

As such, the underlying EBITDA margin was 20.9% this year, compared to 22.5% in 2021.

The operating income increased to 1.112 billion Swiss Francs in 2022, compared to 1,089 billion Swiss Francs in 2021 a small increase versus the year, a good performance considering a very challenging operating environment.

On the next 2 slides, I would like to spend a few minutes on the operating performance of the 2 divisions. If you turn to slide 14, we will start with Fragrance & Beauty. Fragrance & Beauty recorded a sales increase of 5.5% on a like-for-like basis and 5.3% in Swiss Francs, mainly driven by the sustained good growth of Fine Fragrances and of the Fragrance Ingredients business during the year.

EBITDA for the division was 698 million Swiss Francs in 2022, compared to 696 million Swiss Francs in 2021. The underlying EBITDA margin was 21.6% in the year, compared to 22.6% in 2021. The decrease in the margin is a result of the higher input costs, partially compensated by price increases.

If you now turn to page 15, we will cover the performance of Taste & Wellbeing. Taste & Wellbeing recorded a sales increase 5.2% on a like-for-like basis and an increase of 7.5% in Swiss Francs. With excellent sales growth recorded in Europe, Southeast Asia, Middle East, Africa, as well as, Latin America. The division was particularly impacted by higher raw materials, energy and freight costs, and recorded an EBITDA of 778 million Swiss Francs, compared to 786 million Swiss Francs in the prior year. On a comparable basis, the underlying EBITDA margin was 20.3%, compared to 22.4% in the prior year. Again, the decrease in the margin is as a result of the higher input costs, partially offset by price increase with clients.

Please turn to slide 16 for the net income. The net income before tax was 928 million Swiss Francs in the year, compared to 965 million Swiss Francs in 2021, with the decrease caused by higher non-operating expenses, compared to 2021.

Although interest expenses remained stable, the group incurred higher realised and unrealised losses from fair value fluctuations of its financial instruments caused by the economic uncertainty in the financial markets, particularly during the first half of 2022. The effective tax rate decreased to 8% in 2022, compared to 15% in 2021. The net income was up to 856 million Swiss Francs in the year, which is a solid increase of 4.2%. The net income margin was 12% in 2022 and basic earnings per share was 92.83 Swiss Francs, compared to 89.03 Swiss Francs in the prior year.

Please turn to the next slide, which shows the free cash flow. In 2022 we had a free cash flow of 6.7%, compared to 12.6% in 2021.

The decrease is mostly explained by the higher cash investment in working capital, driven by the need to manage the in-bound supply chain disruptions that the group has been facing throughout the year in order to continue to deliver and to satisfy the needs of its customers. During the year, the group generated an absolute free cash flow of 479 million Swiss Francs, compared to 843 million Swiss Francs in the prior year.

Total net investment was 289 million Swiss Francs, and as a percentage of sales, net investments were 4.1% of sales, compared to 3.7% in the prior year as the group continues to invest in growth. Working capital was 26.8% of sales, compared to 24% in 2021.

Please turn to slide 18. This slide has been updated to include the final acquisition values of DDW and Custom Essence acquired in 2021 and it gives you a perspective of the future expected amortisation. I would like to remind you that on page 101 of the annual report, we provide a split of the changes in amortisation on the various income statement lines. As an example, amortisation of intangibles decreased by nearly 20 million Swiss Francs in R&D between 2021 and 2022.

Please turn to slide 19. Over the last 22 years, the company has generated a cumulative 10.7 billion Swiss Francs of free cash flow. Including the proposed dividend for 2022, Givaudan has returned 7 billion Swiss Francs to shareholders in the form of either dividends or share buybacks since its spin-off in 2000. As mentioned in previous years, this clearly underlines the strong commitment of Givaudan to return surplus cash to its shareholders. Based on the strong resilient business model of Givaudan, it is with confidence that the Board of Directors will propose a further increase of the dividend to 67 Swiss Francs per share in 2022 from 66 Francs in 2021, an increase of 1.5%.

Please turn to slide 20 to look at the debt profile of the group. This slide shows a well-balanced and stable debt profile, compared to the prior year with interest rates, which have been locked in at attractive rates. At the end of the year, the net debt was 4.5 billion Swiss Francs, with a weighted average interest rate of 1.7%, compared to 1.4% in 2021.

Finally, please turn to slide 21, which shows the net debt-to-EBITDA ratio. At the end of the year, the net debt-to-EBITDA ratio was 3.07 times relatively stable, compared to the 2.97 times at the end of 2021.

With this, I would like to conclude my section of the presentation and hand back to Gilles.

Gilles Andrier
Thank you, Tom. So, let me now come back to our 2025 Strategy and the Outlook for 2023, which I will comment further in the coming slides.

Turn now to slide 23. So, let me quickly remind the main features of our 2025 Strategy.

The company's 2025 ambition is to deliver sustainable value creation for all stakeholders. Givaudan's 2025 strategy is fully in-line with our purpose, while placing customers at the heart of our business, supporting them to grow and creating products that are loved by consumers.

The 2025 Strategy is focused on 3 growth drivers. The first one, expanding our portfolio. The second is expanding our customer reach. And the third one is having a focused market strategy.

All supported by 4 growth enablers, which are aligned with the company's purpose, namely creations, nature, people and communities. These 3 growth drivers and 4 enablers are all underpinned by a commitment to excellence, innovation, and simplicity in everything we do.

Let's turn now to slide 24. Ambitious targets are an integral part of Givaudan's 2025 strategy, with the company aiming to achieve organic sales growth of 4% to 5% on a like-for-like basis and a free cash flow of at least 12%, both measured as an average over the

5 years period strategy cycle until 2025. In addition, the company aims to deliver on key non-financial targets around sustainability, diversity and safety, linked to Givaudan's purpose.

Let's move now to slide 25, on our 2023 outlook. We are confident in our capabilities, the quality of our portfolio, our creative strengths and our ability to build on the strong start of this strategic cycle. For 2023, let me share with you our priorities and focus areas. We remain very well-positioned with our capabilities and our 2025 Strategy. We have a strong brief pipeline to support the growth with our customers as they innovate.

Our input costs are expected to increase 5% in 2023. We will continue to be focused on delivering pricing actions to compensate for higher input costs. In terms of operational priorities, a performance improvement program is about to be launched aiming at structurally improving our gross margin and our EBITDA margin over the course of this strategic cycle. It includes keeping our strong focus on operational excellence to the manufacturing and the supply chain footprint. It also includes an organisational simplification and further reducing the inventory levels through process optimisation and continue cost and cash discipline across the business.

This will imply restructuring costs of up to 60 million Swiss Francs to be expected in 2023, out of which 40 million in cash and 20 million in non-cash. And we expect from this initiative savings of 60 million on an annualised basis with 40 million to come through in 2023 and fully in 2024.

With that, we have arrived at the end of our 2022 full-year presentation. I'd like to thank you for your attention. And now, we look forward with them to your questions.