Givaudan
Human by nature

Transcript

21 July 2022

2022 Half Year Results
Conference call and live webcast

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

Gilles Andrier
Thank you. Ladies and Gentlemen, welcome to our 2022 half year results conference call. I will be on this call with Tom Hallam, our CFO. We will take you through the presentation before answering your questions at the end. The company news on our half-year results 2022 was published on our website this morning. This is where you will also find the slides for today's presentation. Along with the media release, you will find our 2022 half year results on our website.

I'd like now to start going through the presentation. I invite you to turn to Slide number 4 to go through our performance highlights. So I am very happy to share you… with you an excellent sales growth and a solid financial performance for the first half of 2022 in a highly challenging environment to say the least.

Once more, forecasts for 2022 were certainly difficult to make at the start of the year, notably due to tough comparables of 2021, COVID-related concerns slowly phasing down, the continuous challenges with our supply chains. And then to add to the list, new geopolitical and economic uncertainties emerged at the early stage of the year making our environment even more difficult to predict and to operate in.

Our results for this first half demonstrate again, the resilience of our business supported by our natural hedges built-in product categories, in types of customers, or to the balanced geographic footprints and thanks as well to the unique quality of organisation and the dedication of our employees whom I'd like to warmly thank. Our sales continued to benefit from a robust demand. Overall, volumes improving further in the second quarter across all categories and especially the ones which had already strongly rebounded last year, notably Fine Fragrances.

These results were especially good in the strategic product categories we have chosen for the coming 5 years, confirming our 2025 strategy, makes perfect sense and to name a few of those categories, Health and Wellbeing, Naturals, Alternative Proteins, Active Beauty. Similar to our strategic focus areas in terms of customers and geographies, local and regional clients have continued to outperform and now account for 56% of our Group sales.

I am equally glad to report that high growth markets have gathered pace notably in the second quarter and outperformed again mature markets. We have made, as well an excellent progress with the integration of our recent acquisitions over the last months albeit at a slow pace in order to focus the organisation's attention on protecting the present customer satisfaction in a very tense supply chain environment.

In the first half of 2022, we reached sales of 3.6 billion Swiss Francs, a growth of 6.2% on a like-for-like basis and 8.3% in Swiss Francs. This was achieved across all markets, segments and customer categories, despite high comparables in 2021, supported notably by a balanced growth between mature markets, which are up 5.4% and high growth markets, which are up 7.4%, local and regional clients, which have been growing double the pace of global customers and our key strategic product categories, which are already named.

Our pricing actions to recover the absolute amount of input cost inflation are well underway with close to 40% of our 6.2% like-for-like growth being pricing, versus 60% volume growth in the first half overall. As I said earlier, Fine Fragrances continued to grow despite high comparables largely supported by the upturn in travel retail and the continued strong momentum of ecommerce.

The other part of COVID impacted business, food service, thanks to a good growth, is now almost fully back to the pre-pandemic levels.

We achieved a comparable EBITDA of 820 million Swiss Francs, it represents an underlying EBITDA margin of 22.5% compared to 24.2% in the first half of 2021. Free cash flow was minus 147 million Swiss Francs representing a minus 4% of our sales, driven by the higher working capital requirements, notably inventories and higher investments compared to 2021. I am really pleased with the solid performance of our business with all parts contributing to this excellent financial results. We have shown our resilience, our focus on supporting our customers and our ability to capture opportunities.

Let's now turn to Slide 5. On a like-for-like basis, our Fragrance and Beauty division grew 4.7% and our Taste & Wellbeing division grew 7.6% versus the same period of 2021.

As I mentioned earlier, this performance was driven by further strength in Fine Fragrances, continuous recovery in food-service, as well as a good growth in most of the categories despite the tough first half 2021 comparables.

Once again, all our strategic focus areas complemented by acquisitions have contributed to our growth namely Health and Wellness, Naturals, local and regional customers, outperforming sales with our multinational customers, which also showed a very good momentum.

Finally, as I mentioned earlier, these numbers include pricing elements reflecting the ongoing recovery of our input costs inflation, which brings me to say that thanks to the collaboration with our customers, we are fully completed with our pricing actions to fully recover over a period of 18 months, those additional input costs by June 2023, as promised and guided for at the beginning of this year.

Let's turn now to Slide 6. In the first half of 2022, high growth markets delivered a 7.4% growth gathering pace notably in the second quarter after a relatively slow start in 2022. This was achieved despite the pandemic still disrupting parts of both Southeast Asia and China. Despite high comparables in 2021, Latin America kept performing well, the Middle East contributed with strong growth levels as well and Asia Pacific remains a mixed bag with below the usual average growth rates.

In mature markets, we grew a healthy 5.4%. The strong demand in Fine Fragrances and the further recovery of food service fuelled the strong recovery in Europe as the economy there reopened later than most of the regions in the last few months.

North America reported a slight decline in sales due to the combination of high comparables and the supply chain ongoing challenges towards the first half of this year. The markets of Asia, notably Japan and Australia, remain affected by the pandemic. Our presence in high growth markets has always been a key driver for our growth and continues to be one of our key strategies for 2025.

Structural demographic trends, the ever-growing middle class and the strong organisation trends will continue to support the growth of these markets, especially in Asia where globalisation and the middle class are still below average. Our market position and our operations footprint give us a unique exposure to this high growth markets in which we continue to invest both with additional talent and new facilities to service the wide diversity of our clients.

However, we have seen in the past months how critical our geographical balance is creating natural hedges against the crisis or economic downturns where the timing or the intensity of the recovery can be very different across geographies as seen over the last few quarters.

Please now turn to Slide 7. I'd like to highlight the sales development by region for the Group.

As you can see, EAME, Europe, Middle East and Africa, have delivered a very strong growth followed by Latin America. EAME grew a record 13.7% supported by the strong recovery of most product segments. It's also worth mentioning that the Middle East has also enjoyed a very high growth rate within the region.

Sales in Latin America continued to perform well despite high comparables with a growth rate of 9% driven mainly by Argentina, Mexico and Chile. The growth in Asia Pacific was 2.7% with flat growth in China against the very high double-digit growth rates in 2021 seen in China, high-single-digit growth in some major markets including India and Indonesia and more subdued growth in other parts of Southeast Asia, notably, Vietnam, Thailand and the Philippines and then the mature markets like Japan and the Pacific area.

Finally, North America was... grew a negative 1.5% like-for-like against the high comparables of the first half of 2021, which experienced a strong and early rebound of the economy and consumer demand and had equally some supply chain challenges still ongoing in 2022.

Let's turn now to Slide 8. The Fragrance division grew 4.7% on a like-for-like basis against the strong comparable growth of 10.1% in 2021 and a growth of 5.3% in Swiss Franc for the first half of 2022. The good growth was driven by the double-digit growth in Fine Fragrances and in Fragrance Ingredients and consumer products returned to growth in the second quarter.

Fine Fragrances sales increased by 17.9% on a like-for-like basis already against a very strong first half in 2021 where sales in Fine Fragrances increased by 34.5%. Therefore, the CAGR of 3 years for the 6 months period is 10.2%. This performance is driven by new business wins, notably in the Prestige segment.

Consumer Product sales increased by 0.4% on a like-for-like basis against a prior year comparable of 4.1%. On a 3 years basis, the 6 months CAGR amounts grew 5.1%. This performance was driven by local and regional clients.

Sales of Fragrance Ingredients and Active Beauty grew by 8% on a like-for-like basis against a high sales growth of 14.4% in the prior year, particularly in Active Beauty. The performance in the first half 2022 reflects the continued strong demand for Fragrance Ingredients and Premium Actives in Active Beauty.

Now let's turn to the next Slide number 9. Taste and Wellbeing sales were 2 billion Swiss Francs, an increase of 7.6% on a like-for-like basis and an increase of 10.9% in Swiss Francs. Whilst the sales performance was still affected by the impact of the COVID-19 pandemic across many countries, as well as supply chain challenges, a very good business momentum was seen and maintained across all regions.

On a regional basis, sales were driven by Europe, SAMEA and Latin America. In Europe, sales increased by 14%, in South Asia, Africa and the Middle East sales increased by 16.9%. In Latin America, sales increased by 17.1% and in Asia Pacific sales increased by 5.1%.

In North America, sales decreased by 0.9% on a like-for-like basis against a relatively high comparable of 6.1% a year ago. The Food Service segment continued to experience a strong recovery and is now back… almost back to pre-COVID levels, therefore the 2019 levels. In the key strategic focus area, sales increased double-digit in Plant-Based Proteins, Health and Wellness and a very solid single-digit growth in Naturals. Finally, from a segment perspective, the positive sales performance was mainly driven in beverages, sweet and snacks.

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

Tom Hallam
Thank you, very much, Gilles. I would also like to welcome you all to our conference call. As always, Gilles has taken you through the main business performance of the Group and also the market and the regional developments. On the following slides, I would like to focus on the Group's operating performance and those of the 2 divisions.

Let's start with the performance highlights on Slide 11. So, as Gilles mentioned, the Group's sales for the first half of 2022 were over 3.6 billion Swiss Francs, an increase of 6.2% on a like-for-like basis, which excludes the impact of acquisitions, as well as any currency impacts.

In Swiss Francs, sales increased by 8.3%. The reported EBITDA increased to 816 million Swiss Francs, compared to809 million Swiss Francs in 2021 and the underlying EBITDA margin was strong at 22.5% despite higher input costs and inbound supply chain disruptions.

Net income was 440 million Swiss Francs or 12.1% of sales and as Gilles has mentioned, free cash flow as a percentage of sales was minus 4%, mostly driven by higher working capital requirements to support our supply chain and our customers in an extremely challenging operating environment. Net debt to EBITDA was 3.45 times, compared to 2.97 at the end of 2021.

In the following slides, we will cover the Group's performance in further detail, as well as the operating performance of both divisions. If we turn to Slide 12, we can look at the exchange rate development. The global political environment and the economic uncertainties causes Swiss Franc to fluctuate against some of the major currencies in which the Group operates, particularly during the first few months of the year. This had a significant impact on other operating expenses which I'll comment on later. However, our operational and geographical spread has offset the up and down currency fluctuations and therefore continues to provide good natural hedges which protects our EBITDA margin.

Please turn to Slide 13, which shows the Group operating performance. In 2022, the Group's gross margin decreased due to the gross margin dilution effect of the pricing actions, as well as the impact of higher raw materials, energy and freight costs. This resulted in a gross margin of 40% in 2022, compared to 43.9% in 2021.

As I mentioned, the EBITDA increased to 816 million Swiss Francs in the first 6 months of this year. In the period, the Group incurred 4 million Swiss Francs related to acquisition and restructuring cost compared to 7 million Swiss Francs in the previous period.

On an EBITDA level, we continued to maintain a tight cost control on operating expenses, which partially absorbed the impact of the lower gross margin. This resulted in an underlying EBITDA margin of 22.5%, compared to 24.2% in 2021.

On the next 2 slides, I'd like to spend a moment on the operating performance of our 2 divisions starting with Fragrance and Beauty. Fragrance and Beauty sales increased by 4.7% on a like-for-like basis and 5.3% in Swiss Francs to 1.6 billion Swiss Francs. The division recorded 362 million Swiss Francs of EBITDA in the first 6 months of the year, compared to 375 million Swiss Francs in 2021.

The EBITDA margin was 22% on a reported basis and 22.2% on an underlying basis.

As commented by Gilles, the sales growth was driven by a strong volume increase in Fine Fragrance, as well as double-digit growth in Fragrance Ingredients. The margins however, have been impacted by higher cost inputs seen in the first half of 2022.

If you now turn to Slide 15, we will continue with Taste and Wellbeing. The Taste and Wellbeing division recorded a high sales increase of 7.6% on a like-for-like basis and 10.9% in Swiss Francs. The sales increased to over 2 billion Swiss Francs for the first time and in the first half of this year.

The reported EBITDA increased to 454 million Swiss Francs from 434 million Swiss Francs last year as a result of strong cost discipline to offset the inflation of higher raw materials and higher expenses due to supply chain issues. The reported EBITDA margin was 22.6% and the underlying EBITDA margin was 22.7%.

The income before tax decreased to 512 million Swiss Francs from 566 million Swiss Francs in 2021 caused by higher non-operating expenses compared to the prior year, namely 119 million Swiss Francs in 2022, compared to 47 million Swiss Francs in 2021.

Although financing cost remains stable, the Group incurred higher realised and unrealised losses on FX derivatives given the volatility of currencies and interest rates, particularly in the first few months of the year. In addition, there was a 50 million Swiss Francs non-cash shrink in the value of the company's financial assets.

The net income was 440 million Swiss Francs or 12.1% of sales. The Group's effective tax rate decreased to 14% in 2022, compared to 15% in June 2021. Basic EPS was 47.74 Swiss Francs in 2022, compared to 52.19 Swiss Francs in the first semester of 2021.

Please turn to the next slide, the cash flow performance. During the first half of 2022, Givaudan had a negative free cash flow of 147 million Swiss Francs or minus 4.4% of sales, compared to 5.5% of sales in 2021. The operating cash flow for the first 6 months of the year was 131 million Swiss Francs, compared to 415 million Swiss Francs in 2021.

The decrease in the operating cash flow is mostly driven by the higher cash investment in working capital driven by the need to manage the inbound supply chain disruptions that the Group has been facing in order to continue to deliver and satisfy to a high level the needs of our customers.

The Group also continued its investments to support the growth in our markets. As such, total net investments were 164 million Swiss Francs in the first half of the year and as a percentage of sales were 4.5% in 2022, compared to 3.6% in 2021.

Working capital increased to 29.6% of sales, compared to 28.3% in 2021 with higher accounts receivable and higher inventory levels related to the good sales growth and the supply chain challenges that I have already mentioned.

Please turn to Slide 18 to look at the amortisation of intangible assets. At the end of 2021, we showed you the forecasted amortisation of intangibles. The projection has now been updated as we've completed the purchase price allocation for the 2 last acquisitions we made in 2021, notably, Custom Essence and DDW and this table gives you a perspective of the future expected amortisation.

Please turn to Slide 19 where we will cover the debt profile of the Group. The Group continues to have a well-balanced debt profile with a weighted average effective interest rate of 1.34%, which is a slight decrease from last year.

Furthermore, on this slide, you will find the maturities of our debt profile, as well as the respective average interest rates for each debt maturity. In June 2022, the Group refinanced its multibank committed credit facility for an amount of 1.25 Swiss Francs for a period of 5 years with 2-year extension options and the possibility to upsize the facility during its term. This renewed facility is also the first financing event completed under the Group's sustainable linked financing framework.Net debt compared to EBITDA was 3.4 times, compared to 2.9 times in December 2021 and 3.16 times in June 2021.

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

Gilles Andrier
Thank you, Tom. 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 and places customers at the heart of our business supporting them to grow and create products that are loved by consumers.

Let me remind you the main foundations of our current strategic cycle. The 2025 strategy is focused around 3 growth drivers, first one, expand the portfolio, the second, extend customer reach and the last one focused market strategy.

And it is supported by 4 growth enablers which are aligned with the company's process domains, namely creations, nature, people and communities. These 3 growth drivers and 4 enablers are all underpinned by the commitment to excellence, innovation and simplicity in everything that we do.

Let's turn now to Slide 22 that reminds you the performance commitments of the 2025 strategy.

We are actually in the second year of our 5-year strategic cycle and as I mentioned earlier, so far business trends, customer trends and consumer behaviour in an environment impacted by the pandemic are confirming and reinforcing our strategic choices.

Ambitious targets are an integral part of Givaudan's 2025 strategy with the company aiming to achieve an 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-year period strategic cycle. In addition, the company aims to deliver on key non-financial targets around sustainability, diversity and safety linked to the Givaudan's purpose.

I am confident we are on the right path to deliver on those ambitions and now like to turn to Slide 23. Let me give you some facts about the coming months. We clearly remain focused on delivering on our pricing actions to compensate for input cost inflation and I can confirm today that overall raw material inflation in the P&L for 2022 will be around 9%.

Given the current challenges around energy supply, notably in Europe, we are planning for business continuity in order to ensure the right adaptability of our production set up. In operations, our focus lies on maintaining operations and supply chain performance at high levels to support our customers and on the continued cost discipline throughout the business.

The integration of acquired companies on to Givaudan's operating platform continues to make good progress and we are progressing further with the implementation of the 2025 strategy. Finally, we are making further progress on our broad based ESG agenda whilst effectively managing the current business priorities.

With this, Ladies and Gentlemen, many thanks for your attention. Tom and I are now looking forward to your questions.