Givaudan
Human by nature

Transcript

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2023 Full Year Results
Conference call and live webcast

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

Gilles Andrier
Ladies and Gentlemen, good afternoon, good evening to Asia, and good morning to the Americas. Welcome to our 2023 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.

All relevant documents related to the full year end results, including the slides which will be presented now, have been published this morning and are available in the results centre on our website.

So I'm very pleased to present to you a strong set of figures with a sustained growth and a record high free cash flow for 2023. This has been achieved despite the challenging environment that we have faced throughout the year with de-stocking in end markets, the impact of inflation and the sustained high raw material costs. Those results have been achieved, thanks to the strategic choices which have consistently guided us for the long and the short term.

To name 3 of them, our focus on high value-added, consumer differentiating supported by continuous innovation, ingredients, and solutions. Our natural hedges across customers, geographies, and product segments, which help deliver consistent results in the turbulent market. And finally, the proactive steps that we have taken to adapt to the broader environment and deliver a strong financial performance.

Let's start on slide 3 to comment on our performance highlights. We have delivered total sales of 6.9 billion Swiss Francs, a solid like-for-like growth of 4.1%, supported by the strong contribution of high-growth markets growing at plus 10%, and the implementation of price increases to fully compensate for the increases in input costs in 2023. With the strengthening of the Swiss Francs against all currencies, sales declined 2.8% in Swiss Francs.

The reported EBITDA in Swiss Francs remain stable at 1.473 million Swiss Francs compared to 2022, despite the strong currency headwinds, measured in local currencies the EBITDA increased by 8.8%. This means the comparable EBITDA margin increased by 150 bps to 22.4% on the back of the positive contribution from the price increases across all businesses, the performance improvement program which we implemented early in 2023, and the continued effective cost management across the business.

Last but not least, we have reached a record high free cash flow of 920 million Swiss Francs, corresponding to 13.3% of our sales, and with that delivering on our target range of above 12%. Tom, will elaborate in more detail on the financial results shortly.

Finally, the Board of Directors will propose a dividend of 68 Swiss Francs at the AGM of 21st of March 2024 which marks the 23rd consecutive dividend increase for our shareholders.

Let's have a more detailed look on the top-line performance on slide 4. In an operating environment which continue to be challenging in some key markets and segments, we sustain good business momentum in both divisions. We are very happy we are able to deliver on the things we can control, our pricing actions, our focus on performance improvement, and our project pipeline as well as our win rates.

The like-for-like sales growth for the group of 4.1% consists of the strong pricing element of 6.3% and a balance of 2.2% in volume decline. The reasons for the volume decline are well known.

De-stocking, shrinkflation, lower consumption, elements reflected in the numbers published by our own clients. The positive news is that volume development in both divisions has sequentially improved in the second half. The group sales increased by 7.9% on the like-for-like basis in the fourth quarter.

The strengthening of the Swiss franc continued to have the substantial negative translation effect of over 500 million Swiss Francs, or 7.3% on our sales. On a like-or-like basis, our fragrance and beauty division grew strongly at plus 7.6% and our taste and wellbeing division was slightly up at 1.1% for the full year 2023 with similar pricing contributions across the 2 divisions.

The diversions between the 2 divisions volume growth can partially be explained by the fact that inflation in food and beverage prices has been particularly strong, and in fact there are easier alternatives in the home kitchen than for fragrance and beauty products such as laundry, household, or personal care. We'll get to more details by division shortly.

But first, let's have a look at the performance from a geographic standpoint, starting on slide 5. One of the differentiating traits of Givaudan that we have already mentioned is really our natural hedges which come across the portfolio of product segments, regions, and markets. They allow to provide balance and protection in a difficult environment. Our strong global presence allows us to cope with the singular market issues which may occur from time-to-time, whilst at the same time benefiting from the sustained excellent growth that we have seen in certain high-growth markets.

So the continued strong like-or-like growth at plus 10% in high-growth markets was driven by Latin America and the Middle East, leading to a novel sales share of 46% of group sales. Our presence in high-growth markets has always been a key driver for our growth and continues to be one of our key strategic pillars for 2025.

Mature markets, like-for-like sales, were slightly down by minus 0.6%, almost entirely driven by North America. On a positive note, we have seen continued solid growth in Europe, in particular driven by strong demand for fine fragrances in France, Iberia and Italy.

Slide 6 shows the geographic sales development on a more granular basis by region for the group. As mentioned before, Latin America continued its strong growth trajectory at plus 15.1% supported by key markets like Brazil and Argentina in both divisions. Like-for-like sales growth in Asia-Pacific remained modest at plus 3.9%. The double-digit growth in India and the mid-single-digit growth in China was combined with a soft growth in Southeast Asia, mainly driven by the weakness in taste and wellbeing.

The like-or-like performance in North America was minus 6.8% for the full year, with similar declines in all business segments. We have, however, seen a stabilisation in the second half on the back of easy comparables. Sales was slightly up for both divisions for the fourth quarter over a weak comparable. Overall, our positioning in the US remained strong and whilst it is too early to say when the turnaround will gain traction, we are very well placed to respond when market conditions improve.

Finally, we have seen continued good momentum in the EME region, growing like-for-like at plus 8.4%, even amidst record growth at the previous year of over plus 11% in 2022. As mentioned before, the strong performance was broad-based in mature markets such as France, Spain, Italy, as well as, in high-growth markets such as the Middle East.

Turning to a divisional view on slide 7, starting with fragrance and beauty. Sales amounted to 3,312 million Swiss Francs, up 7.6% on a like-for-like basis and plus 1.7% in Swiss Francs. The strong like-for-like growth was driven by the impressive progression in fine fragrances and an acceleration of volume growth in the consumer products business in the second half of the year, as well as, the positive impact of price increases across all segments.

Fine fragrances show the continued excellent like-or-like growth of plus 14%, a double-digit increase for the third year in a row. We are well positioned across prestige fine fragrances, specialty retail, and we have seen a pickup in solid retail in 2023.

Volume growth accelerated in consumer products in the second half together with the already implemented price increases leading to a sound like-for-like growth of plus 7.1% for the full year. Fragrance ingredients and active beauty increased by plus 1% like-for-like on the back of a strong prior year. The active beauty path continue to show positive growth in the mid-single-digit range, particularly given the high comparables of the recent years.

Let's have a closer look at the performance of the taste and wellbeing division on slide 8. Sales in this division amounted for 3,603 million Swiss Francs, growing 1.1% on the like-for-like basis and a decline of 6.7% in Swiss Francs. The positive pricing impact to compensate for higher raw mats was partially offset by the weaker demand in North America and some markets in Asia Pacific. Overall, the strategic focus areas with high growth markets and local and regional customers continue to contribute positively to the division's performance.

Looking at the regional performance, the way the division is managed; like-for-like sales remained solid for Europe with plus 3% and continue to be very strong in SAMEA, which includes India with plus 13.2%. Latin America increased by 16.8%. And as mentioned before, North America like-for-like sales declined by 7.5% due to destocking and shrinkflation, whilst Asia Pacific declined by 2.6% on the back of consumers opting for solutions from their own kitchen as opposed to packaged food.

From a segment perspective, double-digit growth was achieved in snacks and growth momentum in sweet goods further improved. This was offset by weaker volumes in the other segments.

Let me now move from the financial facts to other highlights around innovation and other purpose led targets starting with slide 9. Innovation is our lifeblood from creating differentiating solutions that address our customers' challenges to leading the way in areas such as biotechnology, sustainability and digitalisation. Responding to more than 300,000 individual customer briefs annually and winning more than our fair share, lie at its core our ability to deliver unique innovations, imperative not only to offset the industry's average 10% erosion, but also to meet our long term sales growth targets of 4% to 5% annually.

Our R&D activities allow us to provide our creation and development teams working on those briefs with novel technologies, differentiating ingredients which will make those bespoke solutions we developed with our customers win the brief and win consumer.

In 2023, we have increased our R&D spend in local currencies by plus 6% corresponding to an absolute amount of 590 million Swiss Francs. So, let me share with you some examples of the outcome.

In taste and wellbeing, we have introduced Oatwell, a unique prebiotic fibre ingredient harnessing the natural goodness of oats to support gut health, with consumers actively seeking ways of optimising wellbeing and increasingly aware of the crucial role of gut health. Oatwell delivers nutritious and delightful food experiences with scientifically proven benefits in every bite.

In fragrance and beauty, we expanded the boundaries of skin hydration, PrimalHyal. Our new cationic hyaluronic acid crafted by white biotechnology is a unique cosmetic active outperforming standard HA hydration benefits by at least a factor of 2.

And finally, we stimulate both divisions with the use of digitalisation and generative AI, for example with e-commerce solutions for local customers, which are being piloted in Indonesia and China for the use of proprietary AI model supporting the creativity of our perfumers and flavourists.

Let me share now some highlights on our ESG achievements on slide 10. In addition to the financial targets, we also aim to deliver on key non-financial targets around sustainability, diversity safety, linked to Givaudan's purpose. Let me highlight today our progress against our nature, ambitions targets.

At Givaudan, we are committed to being the change that we want to see in the world and showing our local nature in everything we do. Our decarbonisation roadmap has been in place since 2010. It's an integral part of our purpose commitments to become climate positive before 2050 with clear set interim milestones. And now ambitions are closely aligned with stakeholders, customers and shareholders to the long term incentive plan.

Our climate journey is already well on the way and in 2023, we have made further progress towards those ambitions. Our Scope 1 and 2 emissions have been reduced by 43% compared to the 2015 baseline. Converting to renewable energy sources is also part of our emissions reduction strategy. And by the end of 2023, we reached a level of 94% renewable electricity being used across all our sites.

We are proud to have achieved and received the prestigious Enterprising Leader Award at the RE100 award in New York in 2023, recognising our leadership in the industry by embarking the renewable electricity journey.

And with that, I now hand over to Tom for more details on the financial results.

Tom Hallam
Thank you, Gilles. I would also like to welcome you all to the call. On the following slides, I would like to focus on the group's financial performance and those of the 2 divisions.

Let me start with the financial highlights on slide 12. Group sales increased this year to 6.915 million Swiss Francs, an increase of 4.1% on a like-for-like basis, and a decrease of 2.8% in Swiss Francs. The decrease in Swiss Francs is solely due to the currency impact of the strong Swiss franc in comparison with the other major currencies the group operates in, as we will see on the following slide in the presentation. If we exclude the effect of currencies, sales growth in local currency would have been 5%, including acquisitions.

The net income increased to 893 million Swiss Francs, an increase of 4.3% compared to 2022, and an increase of 14.3% when measured in local currency. The net income margin was 12.9% of sales. As Gilles mentioned, the group achieved a record free cash flow of 920 million Swiss Francs or 13.3% of sales. Our net debt to EBITDA was 2.9 times at the end of the year, compared to 3.7times at June 2023 and 3.1 times at December 2022.

Please turn to slide 13, which shows the exchange rate development. This slide shows a comparison of the exchange rates in 2023 versus 2022. In the current year, mainly due to the ongoing geopolitical instability, and the economic uncertainty. The Swiss franc has continued to strengthen against most of the major currencies, in which the group operates with an impact on the sales in Swiss Francs as previously mentioned.

Overall, the impact has been limited because of our operational and geographical spread, which continues to provide good natural hedges and our EBITDA margin remains well protected against currency fluctuations. For instance, EBITDA increased by 9% on a currency neutral basis, but was flat on a reported currency basis.

Please turn to slide 14, for an overview of the operating performance of the group. The gross margin increased from 38.8% in 2022 to 41.2% this year.

The gross margin dilution effect of the pricing actions to compensate for higher input costs, as well as, a lower cost absorption due to lower volumes were more than offset by the price increase and by the margin improvement measures taken by the group's performance and program… improvement program launched at the beginning of the year.

On an EBITDA level, the margin improvement measures taken also resulted in an EBITDA margin increase from 20.7% in 2022 to 21.3% in 2023. In absolute numbers, EBITDA was 1,473 million Swiss Francs in 2023 compared to 1,476 million Swiss Francs in the prior year.

We had a number of one-off items in the year amounting to 74 million Swiss Francs, all related to restructuring and project related expenses are mainly related to the group's performance improvement program and footprint optimisation. The underlying EBITDA margin was 22.4% this year, compared to 20.9% in 2022. Operating income increased to 1,116 million Swiss Francs in '23, compared to 1,112 million in 2022, an increase of 0.3%, which represents an excellent increase of 11% when measured in local currency terms.

On the next 2 slides, I will spend a few minutes on the operating performance of the 2 divisions.

If you turn to slide 15, we will start with fragrance and beauty. So fragrance and beauty recorded a sales increase of 7.6% on a like-for-like basis, 1.7% in Swiss Francs, mainly driven by the continued excellent growth of fine fragrance, and an acceleration in volume growth in the consumer products business and price increases in all units. EBITDA for the division in 2023 was 769 million Swiss Francs, compared to 698 million Swiss Francs in 2022. The underlying EBITDA margin was 24.7% in 2023, compared to 21.6% in 2022.

If you now turn to page 16, we will cover the performance of taste and wellbeing. Taste and wellbeing recorded a sales increase of 1.1% on a like-for-like basis, and a decrease of 6.7% in Swiss Francs. Sales continued to be good in Europe, South Asia, Middle East and Africa, as well as Latin America, but are challenging in North America and Asia Pacific. The division faced lower cost absorption due to lower volumes and recorded an EBITDA of 704 million Swiss Francs in 2023, compared to 778 million Swiss Francs in the prior year. On a comparable basis, the underlying EBITDA margin was 20.3% flat when compared to 2022.

Please turn to slide 17 for the net income. The net income before tax was 989 million Swiss Francs in 2023, compared to 928 million Swiss Francs in 2022, with the increase due to lower non-operating expenses compared to the prior year.

Although interest expenses increased, the group incurred significantly lower realised and unrealised losses on FX derivatives. The effective tax rate increased to 10% in 2023, compared to 8% in 2022.

Net income was up to 893 million Swiss Francs in 2023, which is a solid increase of 4.3%, measured in local currency net income increased by 14.3%. Net income margin was 12.9% in the year and basic earnings per share was 96.81 Swiss Francs, compared to 92.83 Swiss Francs in 2022.

Please turn to slide 18, which shows the free cash flow. I'm particularly happy with a strong improvement in our free cash flow driven by the various actions that we've taken in the year.

This resulted in a free cash flow conversion of 13.3% in 2023, compared to 6.7% in 2022.

The increase is mostly explained by the lower cash investment in working capital, especially the positive impact of inventory management as part of the group's performance improvement program.

During 2023, the group generated a record 920 million of free cash flow, compared to 479 million Swiss Francs in 2022. Total net investments were 270 million Swiss Francs and as a percentage of sales net investments was 3.9% compared to 4.1% in the prior year, as the group continues to invest in growth opportunities. Working capital was 24.1% of sales compared to 26.8% in 2022.

Slide 19 has been updated to include the final acquisition values of Amyris acquired in 2023. And it gives you a perspective of the future expected or amortisation for '24 and '25.

Please turn to slide 20. Since the year 2000, the company has generated a cumulative 11.7 billion Swiss Francs of free cash flow, including the proposed dividend for 2023 Givaudan has returned 7.6 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 shareholders. The Board of Directors will propose a further increase of the dividend to 68 Swiss Francs per share from 67 Swiss Francs in 2022, an increase of 1.5%.

Please turn to slide 21 to look at the debt profile of the group. This slide shows a well-balanced and stable debt profile as in the prior year, with interest rates which have been locked in at attractive rates. At the end of the year, net debt was 4.3 billion Swiss Francs with a weighted average interest rate of 1.7% at the end of the year, compared to 1.7% in 2022.

Finally, please turn to slide 22, which shows the net debt to EBITDA ratio.

At the end of the year net debt to EBITDA was 2.9 times, a significant improvement compared to 3.7 times in June 2023 and 3.1 times in December of 2022. We continue to focus on deleveraging the balance sheet using our stronger profitability and lower working capital to reduce our net debt.

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

Gilles Andrier
Thank you, Tom. So let me now come back to our 2025 strategy and the outlook for 2024 on the next coming slides. As a reminder, allow me to highlight the key features of our 2025 ambitions.

We are committed to growth with purpose, creating for happier, healthier lives with love for nature, while placing customers at the heart of our business, supporting them to grow and create products that are loved by consumers.

The 2025 strategy is focused around 3 growth drivers. Expand the portfolio, extend the customer reach and focus market strategies. In accordance with the company's purpose 4 growth enablers are defined, 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 look now at the performance commitments of the 2025 strategy on slide 25. We have now completed 3 years of our 5 year strategic cycle, and our performance thus far reconfirms our strategic choices. Givaudan's 2025 strategy consists of ambitious targets aiming to achieve like-for-like average sales growth of 4% to 5%, and free cash flow above 12% of sales on an average basis. Now both measured over the 5 year period in averages.

In addition, the company aims to deliver on key nonfinancial targets around sustainability, diversity and safety, linked to Givaudan purpose. Our focus remains on implementing our 2025 strategic focus areas guided by our purpose, we remain confident in our plan and have the right foundations in place to continue growing with our customers.

Let me finish now with the 2024 outlook on slide 26. We are very well-positioned with our capabilities, the quality of our portfolio and our creative strengths to deliver on our 2025 strategy. Our natural hedges across the portfolio segments, regions, clients and markets provide balance. For 2024, the increase in input costs for the group is expected to be minor, however, with continued pressure in some key naturals.

Our proactive approach with the performance improvement program delivered fast results in 2023. We will maintain a strong focus on operational excellence reviewing the manufacturing footprint, supply chains, particularly in taste and wellbeing in the next 2 years of the strategic cycle, whilst emphasising business continuity to navigate in a volatile geopolitical environment. We expect for this and associated costs of around 50 million Swiss Francs in 2024.

With that, we arrived now at the end of our 2023 full year results presentation. And let me hand back to the operator for the instructions to open the Q&A. Tom and I, look forward to taking your questions.