

## **Transcript**

20 July 2023

# **2023 Half 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, welcome to our 2023 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 '23 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 2023 half-year report on our website.

I'd like now to start going through the presentation. I invite you to turn to slide 3 to go through the performance highlights. So I am pleased to report a solid performance in the first half of 2023, with particularly strong sales growth in 3 areas, Fine Fragrances, high growth markets and Europe.

In an environment where we are still facing demand challenges in some key markets and business segments, I am very happy with our continued strong focus on supporting the growth of our customers around the world.

With sustained higher input costs in 2023, Givaudan continue to implement price increases in collaboration with our customers to fully compensate for those increases. And finally, I am happy with our delivery against our profitability improvement initiatives.



As always, these results also demonstrate the resilience of our business supported by our natural hedges be it across product categories, across types of customers, or thanks to the balanced geographic footprint Givaudan has.

I'd like to highlight that the 2 largest potential growth areas we chose for our current 2025 strategic cycle are delivering to our expectations. Over the last 2 years, local and regional clients have averaged a growth twice as big as for the globals.

They represent now 55% of our sales. And in the same way, the second strategic area, which are high growth markets have averaged a growth 4 times faster than the mature markets.

In the first half of 2023, we reached sales of 3.5 billion Swiss Francs, a growth of 2.4% on the like-for-like basis, and a decrease of 3.2% in Swiss Francs. As I just said, this performance was led by Fine Fragrances, high growth markets and Europe against high comparables. Our pricing actions to recover the absolute amount of input cost inflation have been effective and they included 2 parts in the first half.

The first part was the carryover effect from '22, as well as, the price increases for 2023, which were effective at the start of the year. As a consequence, pricing was the major driver for our like-for-like growth, a little more than 6% average price increases for the group and a 4% decline in volume for the group as well.

Decline in volumes was notably strong in North America, driven by a combination of customer destocking and weak consumer demand. We achieved a comparable EBITDA of 803 million Swiss Francs. In local currency terms, this comparable EBITDA grew by 4.6% versus the prior half in 2022. It represents an underlying EBITDA margin of 22.7% compared to 22.5% in the first half of 2022.

In January, we presented specific actions to help us recover by 2025, our margin ambition both at the gross margin level and at the EBITDA margin level, respectively, in the range of 42% to 44% and 22% to 24%. 6 months on, I can say that we have made good progress with those performance improvement initiatives, delivering both at the gross profit margin level and the EBITDA level.

Finally, our initiatives to restore a good cash conversion translated to a significant improvement of our free cash flow, which is reaching 104 million Swiss Francs in the first half, which represents 2.9% of our sales. So overall, I'm pleased with the solid performance of our business, demonstrating the resilience of our company, our focus on supporting our customers and our ability to capture opportunities.

Let's now turn to slide 4. On the like-for-like basis, our Fragrance & Beauty division grew 6.4% and our Taste & Wellbeing division was slightly down at minus 0.9% versus the same period in 2022. As mentioned earlier, these numbers include a strong pricing elements, reflecting the ongoing recovery of our input cost inflation. By the end of 2023, we will have fully achieved our pricing objectives for both 2022 and 2023.

Part of the difference in growth between the 2 divisions is explained by the difference of comparables, a record 7.6% for Taste & Wellbeing, and a more normal 4.7% in the first half of 2022 for Fragrance & Beauty. The other reason is the strong exposure of the Fragrance & Beauty division to the very dynamic beauty and luxury sector, which shows in the double-digit growth of our Fine Fragrances business.

Let's turn now to slide 5. In the first half of 2023, high growth market delivered 8.9% growth, maintaining a good momentum since the start of 2023. Despite the high comparable in 2022, Latin America kept performing very well, the Middle East contributed with strong growth levels as well, in Asia Pacific, we achieved a strong performance in India, partly offset by a slow recovery in China and the soft growth in Southeast Asia.

In mature markets, sales decreased overall by 2.6%, almost entirely driven by the decline in North America, while the strong demand in Fine Fragrances fuelled the good performance in Europe, particularly in France and Italy. North America has been experiencing a decline in sales due to customer destocking in the context of an improving supply chain, compounded by the shrinkflation and weaker consumer demand overall for both divisions.

Our presence in the 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 urbanisation trends will continue to support the growth of these markets. Our market position and our operations footprint give us a unique exposure to these high growth markets in which we continue to invest both with additional talent and new facilities to service the wide diversity of our clients.

Please now turn to slide 6. I'd like to highlight again the sales development by region for the group. As you can see, EAME has delivered a very strong growth followed by Latin America. EAME grew 8.5% on top of a record 13.7% in the first half of 2022 when it was supported by the strong post-COVID recovery of most product segments.

It is also worth mentioning that Middle East is contributing to this performance and has enjoyed continued very high growth within EAME for both divisions.

Sales in Latin America continued to perform well despite another high comparable in 2022 with the growth of 11.1%, driven mainly by Argentina and Brazil.

The growth in Asia Pacific was 3.2% with flat sales in China, double-digit growth in India and a more subdued growth in other parts of Southeast Asia, notably Indonesia, Vietnam, and Thailand, and the mature markets of Australia and Japan.

Finally, North America growth was a negative 10.6% like-for-like sales performance in 2022, while similar trends for both divisions... with similar trends for both divisions. I have already mentioned the reason for this volume decline which affects the 2 divisions in all parts of the business.

Let's turn now to slide 7. Fragrance & Beauty sales were 1.672 million Swiss Francs, an increase of 6.4% like-for-like and an increase of 1.6% in Swiss Francs. The good growth was driven by the very strong performance in Fine Fragrances with sustained high levels of new business, as well as, the positive impact of price increase across all businesses.

On a business unit basis, Fine Fragrances sales increased by 16.2% like-for-like against a high prior year comparable growth of 17.9%. This strong growth was maintained across prestige both in Europe and in high growth markets with regional customers, as well as, a good traction in Travel Retail.

Consumer product sales increased by 3.7% like-for-like with some improved momentum in the second quarter and sales of Fragrance Ingredients and Active Beauty increased by 4.4% on the like-for-like basis against a high comparable of 8%.

Now let's turn to the next slide 8. Taste & Wellbeing sales were 1.863 billion Swiss Francs, a decrease of 0.9% on the like-for-like basis and a decrease of 7.1% in Swiss Francs. On a regional basis, sales in Europe increased by 3.6% on the like-for-like basis. In South Asia, Africa, and the Middle East, sales increased by 19.1%. In North America, sales decreased by 11.7%. In Latin America, sales increased by 10.5%. And finally, Asia Pacific sales decreased by 5% on the like-for-like basis impacted by the weaker performance in Southeast Asia and the strong comparable of the prior year.

Within the product segments, there was strong double-digit growth in snacks and good momentum in sweet goods, whilst weaker volumes in other segments resulted in a reduced sales level compared to the same period in 2022.

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

## **Tom Hallam**

Thank you very much, Gilles. It's also my pleasure to welcome you all to our Conference call. As always, Gilles has taken you through the solid business performance of the group as well as the main aspects of the market and regional development. I would like to focus on the group's financial performance and those of the 2 divisions in the first 6 months.

So let me start with the performance highlights on slide 10. Group sales for the first half of 2023 were over 3.5 billion Swiss Francs, an increase of 2.4% on a like-for-like basis, which excludes the impact of acquisitions as well as the currency impact. In Swiss Francs, sales decreased by 3.2% all due to the impact of currency.

The reported EBITDA decreased to 763 million Swiss Francs compared to 816 million Swiss Francs in 2022. However, the underlying EBITDA margin remains strong and increased to 22.7% in 2023 compared to 22.5% in 2022. Net income was 449 million Swiss Francs, an increase of 2% compared to 2022. When measured in local currency, net income increased by an excellent 9%.

The free cash flow as a percentage of sales was 2.9% in the first 6 months of the year compared to minus 4% in the first 6 months of 2022. Absolute free cash flow was 104 million Swiss Francs, which is an outstanding improvement of 250 million Swiss Francs.

Net debt to EBITDA was 3.7 times compared to 3.1 times at the end of the year and 3.45 times at the end June 2022. In the following slides, we will cover the group's performance in further detail as well as the financial performance of both divisions.

Please turn to slide 11, which shows the exchange rate development. This slide shows the comparison of the exchange rates in the first half of 2023 versus the same period in 2022. In the current year, mainly due to the ongoing geopolitical instability and economic uncertainties, the Swiss Franc has continued to strengthen against most of the major currencies in which the group operates with the corresponding impact on the sales in Swiss Francs as mentioned earlier.

However, overall from a profit perspective, the impact has been limited, because our operational and geographical spread continues to provide a good natural hedge and our EBITDA margin remains solid and well protected against currency fluctuations.

Please turn to slide 12, which shows the group operating performance. In 2023, the group's gross margin increased to 41% compared to 40% in 2022.

The gross margin dilution effect of the pricing actions to compensate for higher input costs as well as the lower cost absorption due to lower volumes was offset entirely by the first results of the profit... performance improvement program announced and initiated at the beginning of the year. The program is aimed for operational excellence and margin improvement through organisational simplification, working capital improvement as well as footprint optimisation.

The EBITDA decreased to 763 million Swiss Francs in the first 6 months of 2023. However, in this period, the group incurred costs of 40 million Swiss Francs mainly related to the group's improvement... performance improvement program. Excluding these costs, the underlying EBITDA margin improved to a solid 22.7% in 2023 compared to 22.5% in 2022, an increase of 5% on a currency neutral basis.

On the next 2 slides, I would like to spend a moment on the performance of our 2 divisions, starting with Fragrance & Beauty on the next slide. Fragrance & Beauty sales increased by 6.4% on a like-for-like basis and 1.6% in Swiss Francs to 1.7 billion Swiss Francs. The sales growth was driven by a continued strong performance in Fine Fragrances as well as the impact of price increases across all businesses to compensate for the higher input costs. The division recorded 383 million Swiss Francs of EBITDA in the first 6 months of the year compared to 362 million Swiss Francs in 2022. The EBITDA margin was 22.9% on a reported basis and an excellent 24.3% on an underlying basis.

If you now turn to slide 14, we will continue with the Taste & Wellbeing performance. The Taste & Wellbeing division recorded a decrease of 0.9% on a like-for-like basis, and 7.1% in Swiss Francs due to lower volumes in 2023. Total sales recorded were 1.9 billion Swiss Francs.

The reported EBITDA decreased to 380 million Swiss Francs from 454 million Swiss Francs in 2022. The reported EBITDA margin in 2023 was 20.4% and on an underlying basis, the EBITDA margin was 21.3%. The margin was impacted by lower volumes, which could not be fully compensated with other savings.

Please turn to slide 15, which shows the net income of the group. Income before tax increased to 516 million Swiss Francs from 512 million Swiss Francs in 2022, as a result of lower non-operating expenses compared to the prior year. Although interest rates... although interest costs increased due to higher borrowing costs, the group incurred significantly lower realised and unrealised losses on FX derivatives.

The net income was 449 million Swiss Francs or 12.7% of sales. The group's effective tax rate decreased to 13% in 2023 compared to 14% in June 2022. Basic earnings per share was 48.69 Swiss Francs in 2023 compared to 47.74 Swiss Francs in the first semester of 2022.

Please turn to slide 16 for the cash flow performance of the group. During the first 6 months of 2023, Givaudan demonstrated an outstanding free cash flow when compared to the same period last year. The group recorded a solid free cash flow of 104 million Swiss Francs or 2.9% of sales compared to minus 147 million Swiss Francs or minus 4% of sales in 2022.

The operating cash flow for the first 6 months of the year was 340 million Swiss Francs compared to 131 million Swiss Francs in 2022. The increase is partly explained due to the improvement in working capital cash flows, which is one of the aims of the performance improvement program.

The group also continued its investment to support the growth in all markets. As such, total net investments were 128 million Swiss Francs in the first 6 months of the year, and as a percentage of sales, net investments was 3.6% in 2023 compared to 4.5% in 2022.

Working capital increased to 31.2% compared to 29.6% in June 2022 with the increase mostly due to the negative currency effects of the reported sales in Swiss Francs. When measured in local currency, net working capital was 29.3% of sales, therefore an improvement compared to the prior year.

Please turn to slide 17 to look at the amortisation of intangible assets. This slide simply gives you a projection of the perspective of the future expected amortisation as we stand at the end of June 2023.

Please turn to slide 18 to look at the debt profile of the group. The group continues to have a well-balanced debt profile with a weighted average effective interest rate of 1.83% compared to 1.74% at the year-end. Furthermore, this slide shows you the maturities of our debt profile.

In 2023, the group exercised its first option to extend its multi-bank committed credit facility for an amount of 1.25 billion Swiss Francs with one additional year until June 2028.

And if you turn to the next slide, slide 19, you will see that the net debt-to-EBITDA was 3.68 times compared to 3.07 times in December 2022 and 3.45 times in June 2022.

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

## **Gilles Andrier**

Thank you, Tom. So as a reminder, the company's 2025 ambition is to deliver sustainable value creation for all stakeholders. Givaudan's 2025 strategy is fully in line with its purpose and places customers at the heart of our business, supporting them to grow and creating 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; Expand the portfolio of products, extend the customer reach and focus market strategies. It is supported by 4 growth enablers, which are aligned with the company's purpose domains, namely creations, nature, people and communities. These 3 growth drivers and the 4 enablers are all underpinned by commitment to excellence, innovation and simplicity in everything we do.

Let's turn now to slide 22 that reminds you of the performance commitments of the 2025 strategy. We are actually at the midpoint of our 5 year strategic cycle, and as I mentioned earlier, so far, business trends, customer needs and consumer behavior 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 of 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 our Givaudan's purpose. I am confident we are on the right path to deliver these ambitions.

Let's turn now to slide 23. Our company purpose is about creation in the first place, the cornerstone of which is innovation.

The core of our innovation is about working on the more than 300'000 briefs a year and winning more than our fair share is the only way to compensate for more than the average 10% erosion of our business so that we can deliver our average sales growth meeting the 4% to 5% long-term targets.

We continually seek new ways to anticipate consumer needs and help solve our customers' challenges and create value for them.

While developing creations that contribute to happier and healthier lives and reduce the impact on the environment. In 2022, we invested 522 million Swiss Francs in R&D among the highest in our industry.

Let me give you a selection on our most recent innovations. In Taste & Wellbeing, it is about shaping the future of food and creating food experiences that consumers love. The first one Cereboost an American Ginseng extract delivering scientifically substantiated cognitive health benefits with 3 published clinical trials, Cereboost impacts the gut-brain axis, activates the brain during cognitive tasks and have shown improved mood and cognitive performance.

The second one, Sense It helps bridge the gap between what consumers perceive and what they are actually able to express. Consumers know if they like or do not like a product but have difficulty explaining the why. The strength of the Sense It language is that it allows usage in virtual environments when alternatives to in-person consumer testing are needed.

In Fragrance & Beauty, sustainability is a key driver for creativity and innovation. The first one, Geogaia features Phytogaia, capturing the well-being benefits of molecules emitted by forest trees and Thalassogaia mimicking the composition of the marine environment developed according to our Naturality Guide principles and fully biodegradable.

Myrissi actually a company we had acquired is a new way of translating scents into colour patterns with the unveiling of its consumer-centric artificial intelligence technology. As e-commerce remains the privileged channel for customers, we must answer their need of an effective digital experience, something impossible to address until now. We allow, therefore, consumers to smell visuals and colours that elicit the same emotions as the perfumes they are facing.

Customer Foresight, as an important part of its 2025 digital strategy, today, Givaudan has launched lastly, the Customer Foresight.

This exclusive proprietary future-scaping platform built in-house at Digital's, Digital Factory in Paris, leverages Givaudan's human expertise, big data and AI to anticipate tomorrow's challenges, foresee consumer expectations and create winning food experiences.

And finally, the B-Biome Score, a microbiome-friendly and scientifically demonstrated method, allowing beauty brands to quickly understand the impact of active ingredients on the skin microbiome.

Let's turn now to slide 24. New Climate and Innovation Act was passed on June 18, 2023, in Switzerland. All Swiss companies, whether listed or not, should develop a decarbonisation roadmap or potentially review and strengthen their existing plans. Our decarbonisation roadmap has been in place since 2010. It's an integral part of our purpose commitments being climate positive before 2050 with interim milestones that you can see on this slide. As well as meeting stakeholder expectations and increasing customer requirements.

Finally, it has been part of our long-term incentive plan for 2 years now. Our KPIs on carbon reduction are disclosed on an annual basis. Looking at our 2022 achievements, we are on track with our ambitions and reductions shown in this slide, which highlights our progress compared to our 2015 baseline, both on Scope 1 and 2, but more importantly, we are progressing very well with Scope 3 reductions based on the robust raw material model and collaboration with the CDP supply chain to engage our suppliers in this climate journey. So minus 35% on Scope 1 plus 2, and minus 1% on Scope 3. We are now at 90% renewable electricity. We confirm that input costs should...

Let's turn now to slide 25. So let me now give you some thoughts about the coming months. We remain very well positioned for delivering on our 2025 strategy. Our brief pipeline to support the growth of our customers is currently very strong. We confirm that input costs should increase around 5% for the full-year of 2023. And as you held through this plantation, we are delivering on the pricing actions to compensate for higher input costs.

In terms of our performance improvement program, we are maintaining a strong focus on operational excellence, reviewing the manufacturing footprint and reducing inventory levels as supply chain pressures is out. Our organisation simplification will be completed

by 2023. As indicated in January, restructuring costs of up to 60 million Swiss Francs are expected for the full year 2023 with 40 million in cash and 20 million non-cash.

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