Givaudan
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Transcript

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2024 Full Year Results
Conference call and live webcast

Company representatives
Gilles Andrier, Chief Executive Officer
Stewart Harris, Chief Financial Officer

Gilles Andrier
Dear Ladies and Gentlemen, welcome to our 2024 full year end results conference call. Stewart Harris, our CFO, will be with me on this call today, and we will take you through the presentation before answering your questions at the end. All relevant documents related to the 2024 full year results, including the slides we are presenting just now, have been published this morning and are available in the results centres on our website.

So I'm very pleased to present to you an outstanding set of results. Looking at the two ends of our P&L, a very strong top line growth and another record free cash flow for 2024. But before moving into the numbers, let me first talk about the change in the executive committee which has been announced this morning.

Antoine Khalil, currently Commercial Head of Taste and Wellbeing in North America, has been appointed as President of the Taste and Wellbeing Division, effective 1st April 2025. He succeeds Louie D'Amico, who will retire. And to ensure a smooth transition, Louie will remain available until the end of September 2025 to provide management advice and support on strategic projects.

With Antoine Khalil, we have another homegrown talent taking over. He brings over 21 years of commercial leadership and a broad industry experience with him, all of which has been with Givaudan, spanning from Fragrance and Beauty, where he started in 2004 in Paris, to Taste and Wellbeing, where he led initially the region Africa and Middle East and later SAMEA, before he became Commercial Head of North America in 2023.

Givaudan International SA
Chemin de la Parfumerie 5 · 1214 Vernier · Switzerland
Phone +41 22 780 91 11 · www.givaudan.com

Antoine has a profound expertise across both businesses, customers and regions, successful at every step of his development.

Louie will retire following a distinguished 35 years career in the flavour industry, culminating in his eight-year tenure as President of the Taste and Wellbeing division at Givaudan. He played a pivotal role in driving Givaudan's successful growth in the flavours business, leading the integration of several strategic acquisitions and expanding the portfolio beyond flavours and taste to include functional health and nutrition solutions. He has also developed a strong team of leaders to continue running the division successfully. Again, he demonstrates the strong continuity we have in succession planning at Givaudan.

Now let's have a look at the performance highlights on slide three.

As I mentioned, I'm very pleased with the excellent set of results for 2024, driven by a high level of volume growth across all markets, segments and customer groups. These industry-leading results once again confirm the unique position of Givaudan. We are proud of the entire Givaudan organisation in delivering these outstanding results.

So first, sales amounted to CHF 7.4 billion, with a strong increase of 12.3% on a like-for-like basis and 7.2% in Swiss francs. Our strong performance was achieved across all markets, with high-growth markets achieving an impressive 19.5% growth and also mature markets growing by 6.4% on a like-for-like basis.

Reported EBITDA amounted to CHF 1.765 billion, an increase close to CHF 300 million, almost 20%. Comparable EBITDA margin improved to 24.5% compared to 22.4% in 2023. This was mainly driven by the operational leverage, thanks to the strong growth in volumes, alongside a generally benign raw materials price environment and some residual benefits from the performance improvement programme which we initiated in 2023, and finally, thanks to our continuous focus on cost control.

Net income reached CHF 1.090 billion, an increase of 22% over 2023 and leading to a net profit margin of 14.7%. And finally, we achieved another record free cash flow of CHF 1.158 billion, representing this year 15.6% of sales. Finally, the Board of Directors will propose a dividend of CHF 70 at the AGM in March 2025, which marks the 24th consecutive dividend increase for our shareholders. Before Stewart will provide more details on the operational performance, let me focus on the sales performance on the following slides.

The excellent sales growth in 2024 was very broad-based, across all markets, all segments and all customer groups, leading to a strong growth in both divisions. The over 20% like-for-like growth was driven by a high level of volume growth of almost 10%, while pricing contributed to less than 3%, almost entirely from FX pricing, mainly due to Argentina. As expected, the real pricing effect was minor. While the 12.3% like-for-like growth is indeed impressive, it is important to contextualise these outstanding results.

First, the strong growth has been driven by fundamental factors, including the continuous strength in fine fragrances, a focus from our customers on innovation and a higher investment in scent and flavours from our customers to create consumer-differentiating products. In addition, the sequential improvement in our Taste and Wellbeing performance during the second half of the year highlights our resilience and ability to adapt to market dynamics.

Second, we benefit from our great balances or natural hedges around customers and regions. This year, we have seen good performance across all our customers, however, as in recent years, with the continued outperformance of the L&R, which today makes up 57% of our sales. In addition, high-growth markets contributed significantly to this performance, as we will see in more details on the next slide.

Lastly, in 2024, we have been facing a relatively low comparison base from the previous year of like-for-like 4.1%, however, with a minus 2.2% volume decline in 2023. The very strong balances in our business between segments, geographies and client groups enable us to achieve consistent results over time, reflected in the average sales growth of 7.2% for the period 2021 to 2024, above our average sales growth target of 4% to 5% on a like-for-like basis for the strategic cycle 2021 to 2025.

Now, coming back to the geographic performance in more detail on slide five. High-growth markets continued the excellent performance at a rate of 19.5%, and now represent 47% of our total sales. In particular, key markets such as China, the Middle East, India, Southeast Asia and Brazil all continued to grow double-digit. This year, also the mature market showed a very solid growth of 6.4%, led by continued resilient performance in Europe and a good recovery in North America. For a more granular view by geographies, let's turn now to slide six.

Latin America continued to show the highest like-for-like growth of 26.1%, driven indeed by FX pricing in Argentina. But as you can see, we also continued to grow in Swiss francs, which is a good proxy for the underlying growth. The volume growth indeed in LATAM was close to 10%. In Asia-Pacific, like-for-like sales growth continued with good momentum at 11.4%, with all key markets contributing, except for Japan, which had a low-single-digit growth, and with ongoing double-digit growth in China particularly driven by Fragrance and Beauty.

The EAME region grew 12.6%, on top of a strong 8.4% in the prior year, and the strong performance continued to be broad-based in mature markets like Italy, Iberia, as well as in high-growth markets such as the Middle East and Africa, which today make up one quarter of the region. And the encouraging positive like-for-like growth in North America continued this year at 5.9%, with solid growth in both divisions.

Turning to a divisional view on slide seven, starting with Fragrance and Beauty. Sales amounted to CHF 3.660 billion, up 14.1% on a like-for-like basis and 10.5% in Swiss francs.

The strong growth was driven by another impressive growth, 18.4% increase in fine fragrances, supported by sustained high levels of new wins and backed by the thoroughly discussed fundamental drivers related to geography, consumers and market expansion.

It's quite remarkable that today, our fine fragrances business is 50% bigger in actual Swiss francs and 80% bigger on a like-for-like basis than compared to the pre-COVID year of 2019. But to pick on one of the drivers of fine fragrances, the SAMEA region has become the second-largest region for fine fragrance sales. It has tripled over the last three years and added an incremental CHF 100 million to our fine fragrance business.

We also saw a strong 13.5% increase in consumer products in 2024, to which all product segments contributed. Increased dosage of fragrances, some growthflation, the reverse of shrinkflation, as well as our continuously increasing exposure to L&R contributed to the strong growth. As it relates to our growth with L&R, it is worth mentioning that it is a combination of them growing fast, but also us having an increased penetration with both existing clients and new L&R clients.

Fragrance ingredients and active beauty sales increased 11.1% like-for-like, with double-digit growth in both segments. I want to emphasise the remarkable success we've achieved in developing the active beauty business over the past decade, growing it from zero to over CHF 200 million in sales. With the addition of b.kolor that we acquired at the end of last year, we are expanding our growth opportunities in the beauty space, a beautiful space, and further enhancing the balance and natural hedges within our portfolio.

Now let's move on the Taste and Wellbeing sales performance on slide eight. Sales amounted to CHF 3.752 billion, up 10.7% on a like-for-like basis and 4.1% in Swiss francs. As mentioned before, we are very happy with the sequential improvement in our Taste and Wellbeing performance in the second half of the year, despite the increasing comparable.

All product segments contributed to this strong growth, reflecting positively on our strategic choices to expand the portfolio towards more natural but also health and wellbeing, which today make up a very significant part of our portfolio. These offerings allow us to create unique solutions that address customer challenges, driving growth beyond traditional flavours, whilst enabling us to outperform the market. On a regional basis, particularly SAMEA, which includes South Asia, Africa, and the Middle East, including India, showed an impressive growth acceleration to 20.9%, on top of a strong 13.2% growth in the prior year. It actually passed the CHF 1 billion mark in 2024.

In addition, we see encouraging growth momentum in North America in the second half of the year, leading to a solid like-for-like growth of 5.5% for the full year 2024. Europe showed a solid like-for-like increase of 5.9%, and Asia Pacific of 8.8%. The strong double-digit growth in Latin America of 27.3% continued to be driven by FX pricing, but also with a strong underlying volume growth.

Transitioning from our financial achievements, I want to highlight again that innovation is our lifeblood. It enables us to create unique solutions that address customer challenges and positions us as leaders in biotechnology, sustainability and digitalisation, to name a few spaces. Our R&D investment of almost 8% of our sales is an industry-leading number, but effectively directed on a focused portfolio. This investment empowers our team to leverage novel technologies and ingredients, enabling us to develop bespoke solutions that truly resonate with consumers. Let me highlight a few examples.

In Fragrance and Beauty, we have launched Bloomful Splash, a groundbreaking innovation in fragrance technology. This advancement allows our perfumers to define and measure what we call the bloom effect, enhancing the sensory experience of water-diluted products by showcasing how a fragrance unfolds and develops when mixed with water. It has many applications in home care and personal care.

In Taste and Wellbeing, our innovative offerings, such as Amaize Orange Red and the TasteCollections Fire, illustrate our future-proof portfolio, helping our customers to address increasing regulations and the need for reformulation and catering to consumer desires for more natural ingredients. Our digitalisation efforts are highlighted by

GivaudanPerfume.id, an e-commerce solution which enables us to better serve local customers and address fragmented markets, piloted in Indonesia and China successfully. Additionally, we leverage our secure proprietary generative AI tool to boost efficiency, while placing human creativity at its core.

Let's also have a look at our non-financial performance progress on slide ten. At Givaudan, we are proud to report significant progress on our ambitious non-financial targets, which align seamlessly with our group's purpose to create for happier, healthier lives, with love for nature. Let me give you some highlights of this year's progress.

Related to our nature ambition and our target to be climate positive before 2050, we have achieved a remarkable 48% reduction in Scope One and Two emissions compared to our 2015 baseline, and an 8% reduction compared to 2023, all while experiencing strong volume growth.

And we have already met, in 2024, our 2025 target by converting our entire electricity supply to fully renewable resources. In line with our goal to responsibly source all materials and services by 2030, we have increased our responsible sourcing of natural ingredients to 85%, up from 76% last year. This shows our commitment to ethical sourcing practises that benefit both our business and the communities we support.

Looking at our progress on people targets, I'm pleased to share that as of 2024, 32% of our senior leadership positions are held by women. We were at 28% in 2023, so a significant step improvement. We are committed to transparency in climate-related financial disclosures. For the first time, we have included our climate-related financial disclosure in line with the TCFD in our integrated report, featuring a climate scenario analysis to assess the impacts of climate change on our business.

Additionally, we have recently announced that our net-zero targets have been validated by the Science-Based Targets Initiative, SBTI, aligning with their Net-Zero Standard and committing us to achieve net-zero greenhouse gas emissions across our value chain by 2045. And with that, let me hand over to Stewart for more details on the financial results.

Stewart Harris
Thank you, Gilles. I would like to add my warm welcome to all of the participants on the call. On the following slides, I would like to give an overview of the group's operating performance and that of the two divisions, as well as the financial performance of the group. Let me start with the financial highlights on slide 12.

As Gilles has given an in-depth review of the sales performance, I will focus more on the financial results in my section of the presentation. As we have seen, group sales in 2024 increased to CHF 7.4 billion, an increase of 12.3% on a like-for-like basis, and an increase of 7.2% in Swiss francs. This strong result also includes the sales of b.kolormakeup & skincare from the date of acquisition in July 2024.

Driven by the excellent operating profitability, the net income increased to CHF 1.090 billion, an increase of 22.1% compared to 2023, and an increase of more than 32% when measured in local currency. The net income margin was 14.7% of sales. The group achieved a record free cash flow of CHF 1.158 billion, or 15.6% of sales, compared to 13.3% in 2023.

As a result of our strong cash generation, the net debt to EBITDA ratio improved further to 2.3% at the end of 2024, compared to 2.9% at both June 2024 and December 2023. Please turn to slide 13, which shows the overview of the exchange rate development in 2024.

This slide shows the comparison of the average exchange rates in 2024 versus 2023. In the current year, the Swiss franc has continued to strengthen against most of the major currencies in which the group operates, with an impact on the group results as reported in Swiss francs. The impact is however limited because of our operational and geographical spread. It continues to provide good natural hedges, and our EBITDA margin remains well protected against currency fluctuations. Please turn to slide 14 for an overview of the operating performance of the group.

The gross margin increased from 41.2% in 2023 to 44.1% this year, with the improvement resulting from higher cost absorption due to the strong volumes, minimal impacts from input costs overall, as well as the continued contribution from the performance improvement programme which we launched in 2023. The solid improvement in the gross margin is evident in both operating divisions.

On the EBITDA level, the EBITDA was CHF 1.765 billion in 2024 compared to CHF 1.473 billion in 2023, an increase of 19.8%, or 29.1% when measured in local currency. The comparable EBITDA margin after adjustment for non-recurring costs of CHF 51 million was 24.5% compared to 22.4% in 2023. On the following two slides, I will spend a few minutes on the operating performance of the two divisions. And if you turn to slide 15, we will start with Fragrance and Beauty.

Fragrance and Beauty recorded an excellent sales increase of 14.1% on a like-for-like basis and 10.5% in Swiss francs, driven by the strong volume growth across all business segments, geographies and customer groups. The EBITDA of the division in 2024 was CHF 985 million compared to CHF 769 million in 2023, an increase of 28%, whilst the comparable EBITDA exceeded CHF 1 billion, with a comparable EBITDA margin of 27.8% in 2024 compared to 24.7% in 2023. If you now turn to page 16, I'll take you through the operating performance of Taste and Wellbeing.

Taste and Wellbeing recorded a sales increase of 10.7% on a like-for-like basis and an increase of 4.1% in Swiss francs, with a sequentially improving performance throughout the year and a strong contribution from our strategic growth pillars. The division recorded an EBITDA of CHF 780 million compared to CHF 704 million in the prior year, a solid increase of 10.8%. On a comparable basis, after restructuring costs of CHF 19 million, the comparable EBITDA margin improved to 21.3% compared to 20.3% in 2023. Please turn to slide 17 on the net income of the group.

The net income before tax was CHF 1.313 billion in 2024 compared to CHF 989 million in 2023, an increase of 32.8%, driven by the strong business performance and lower non-operating expenses compared to the prior year. The effective tax rate increased to 17% compared to 10% in 2023. The lower tax rate in 2023 was largely due to one-time effects of tax changes in Switzerland, and excluding these one-time effects, the effective tax rate would have been 17% also in 2023. It is further noteworthy that in 2024, the global minimum tax regime under the OECD Pillar Two framework came into effect, with a minimum corporate tax rate of 15%, including in Switzerland.

The net income rose to CHF 1.090 billion in 2024, an increase of 22.1% in Swiss francs and 32.1% when measured in local currency. The resulting net income margin was 14.7% in 2024 compared to 12.9% in 2023. Basic earnings per share were CHF 118.17 in 2024 compared to CHF 96.81 in 2023, an increase of 22.1%. Please now turn to slide 18, which shows the free cash flow performance.

In 2024, the group generated a record free cash flow, passing the milestone level of over CHF 1 billion or 15.6% of sales compared to 13.3% in 2023. Total net investments were CHF 280 million in 2024, representing 3.8% of sales compared to 3.9% in the prior year as the group continues to invest in its growth. Net working capital was 23.4% of sales in 2024, improved compared to 24.1% in 2023, with the group continuing to have a strong focus on the effective management of all aspects of working capital. Please turn to slide 19.

Since Givaudan became a public company in 2000, the company has generated on a cumulative basis CHF 12.8 billion of free cash flow. Including the proposed dividend for 2024, the 24th consecutive increase, Givaudan has returned CHF 8.4 billion to shareholders in the form of dividends or share buybacks, clearly underlining the strong commitment of Givaudan to shareholder returns. The board of directors will propose to the annual general meeting of shareholders a further increase in the cash dividend to CHF 70 per share from CHF 68 in 2023, an increase of 2.9%. Please turn to slide 20 to look at the net debt profile of the group.

This slide shows that the group continues to have a well-balanced and stable debt profile, with interest rates which have been locked in at attractive rates. At the end of the year, the net debt was CHF 4 billion, with a weighted average interest rate of 1.75%, compared to 1.69% in 2023. Finally, I'd invite you to turn to slide 21, which shows the net debt to EBITDA ratio development.

At the end of 2024, the net debt to EBITDA ratio was 2.3 times, representing a significant improvement compared to 2.9 times in both June 2024 and December 2023.

This strong improvement in leverage is a result of our sustained focus on the balance sheet, whilst continuing to invest in the growth of our business and in shareholder returns. This concludes my section of the presentation. I would like to thank you for your attention and now hand it back to Gilles.

Gilles Andrier
Thank you Stewart. Let me now come back to our 2025 strategy and the outlook on the next slide. We are entering the last year of our 2025 strategic cycle, so let me reflect on the transformation of Givaudan. Over the last strategic cycles, we have been expanding beyond a core fragrance and flavours house, moving into spaces such as health and wellness, becoming the number one in naturals, and adding adjacent functional food ingredients, providing value-adding integrated solutions to our customers.

We have substantially grown our fine fragrance business, benefiting from positive market trends, but even more so capitalising on our strategic choices to extend our customer reach by strengthening our business with local and regional customers and focused market strategies in high-growth markets. We have expanded the portfolio and built a high-precision active beauty business and, most recently, stepped into colour cosmetics, all in accordance to the company's purpose, and underpinned by a commitment to excellence, innovation and simplicity in everything we do. Let's move to slide 24 and look at our performance commitments for the 2025 strategy.

Givaudan's 2025 strategy consists of ambitious targets, aiming to achieve like-for-like sales growth of 4% to 5% and free cash flow above 12% of sales, both measures as an average over the five-year period. We have now completed four of our five-year strategic cycle. With our financial performance, we are fully on track to deliver on our commitments.

In addition, the company aims to deliver on key non-financial targets around sustainability, diversity and safety, linked to Givaudan's 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 with the 2025 outlook on slide 25.

As just mentioned, we are fully on track to deliver on our 2025 strategy. With average like-for-like sales growth of 7.2% for the period 2021-2024, Givaudan is highly likely to exceed the upper end of this average five-year sales growth target of 4% to 5% on a like-for-like basis for the five-year period.

Our natural hedges across the portfolio, segments, regions and markets provide balance and give us confidence in our ability to grow, despite very high comparables that we will be facing in 2025. In 2025, we see a firmer outlook for input costs and expect an increase of around 4% on growth level, with continued pressure particularly in naturals in both divisions, for example, ingredients like patchouli and citrus, which go mainly in the fragrance consumer products.

We will maintain a strong focus on operational excellence, reviewing the manufacturing footprint, particularly in Taste and Wellbeing, in the last year of the strategic cycle, whilst emphasising business continuity to navigate in a volatile geopolitical environment. Related to this, we expect costs of around $30 million for acquisition, restructuring and other project-related expenses in 2025.

With that, we arrive at the end of our 2024 full year results presentation, and I'd like to hand back to the operator for the instructions to open the Q&A. Stewart and I look forward now to taking your questions.