Givaudan
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Transcript

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2024 Half Year Results

Conference call and live webcast

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

Gilles Andrier
Dear Ladies and Gentlemen, welcome to our 2024 half-year results conference call. The company news on our half-year results have been published earlier this morning on our website, where you will also find the slides for today's presentation and the half-year report. Tom Hallam and myself will take you through the presentation before we answer your questions at the end.

Now, I'd like to start the presentation with the highlights and invite you to turn to page three. Before moving to any numbers, first things first, and let me start with the last bullet first. As you've seen the announcement this morning, Tom Hallam has decided to retire and will hand over the CFO position to Stewart Harris, effective August 1st, 2024.

Along with my colleagues, I have very much enjoyed the great partnership with Tom as CFO over the last eight years, driving our industry-leading financial performance. Many of you on this call know Tom and can testify the great CFO he has been for Givaudan. I'm very confident it will continue with Stewart, who has grown in Givaudan over the last 15 years in many functions of our finance organisation. And over the more recent past, driving the numerous acquisitions we made to their successful completion. Finally, it demonstrates the strong continuity we have at Givaudan in succession planning. Let's move now to the numbers.

I'm very pleased to present to you a strong performance in the first half of 2024, driven by a high level of sales growth in volumes across all markets, all segments, and all customer groups. Which translates into a broad set of industry-leading financial results. These results once again highlight the unique position of Givaudan and the strategic choice that we have made to focus on an extensive range of highly value-added products and solutions, which matter to consumers and hence support the growth of our customers around the world.

In the first half year of 2024, we have reached sales of 3.7 billion CHF, a growth of 12.5% on a like-for-like basis, and 5.7% in Swiss franc. The strong like-for-like growth was mainly driven by volume growth, hence supporting a high level of profitability and cash generation. Our comparable EBITDA amounted to 929 million CHF, lifting the EBITDA margin to 24.8% from 22.7% last year. Our net income increased by almost 31% to 588 million CHF, and our free cash flow amounted to 197 million, corresponding to 5.3% of sales. Before Tom provides more details about our operational performance, let me focus on the sales performance in more depth on the following slides. Let's turn to slide four.

On a like-for-like basis, our Fragrance & Beauty division grew at a stellar 15.3%, and our Taste & Wellbeing division grew at a strong 9.9%. As mentioned, the growth was mainly driven by growth in volumes at 9.2%, while the remainder of the growth was almost entirely the FX pricing, almost entirely due to Argentina. Real pricing was minor. Let's turn now to slide five.

The sales evolution by market type shows the continued excellent performance in high growth markets. At the rate of 20.5%, high growth markets continue to outgrow mature markets by three to four times, and now represent 46% of the total sales. In particular, almost all key high growth markets, namely China, Southeast Asia, Argentina, Brazil, Africa, the Middle East, and Eastern Europe continue to grow at a strong double digit, while the remaining high growth markets, such as Mexico and India grew at the high single digit.

The mature market grew like-for-like 6% against the low base of comparison, led by the continued resilient performance of Europe and a good recovery in North America. This demonstrates, once again, how Givaudan's geographical balance contributes to its natural hedges against demand cycles, where timing and intensity can differ by geography. For a more granular view by region, let's now turn to slide six.

Latin America continues to show the highest like-for-like growth with 31.5%, driven by FX pricing in Argentina. But as you can see, we also continue to grow in Swiss francs, roughly 6.4%, which is a good proxy for the underlying growth. In Asia Pacific, like-for-like sales growth continued to an excellent momentum at 11.4%, with all key markets contributing to this growth, except for Japan. This good growth was achieved across both divisions. The EMEA region grew 11.4%, on top of a strong 8.5% in the prior year.

The strong performance continues to be broad based in mature markets like Italy and Iberia, as well as in high growth markets, such as the Middle East. Finally, it's also encouraging to see North America posting positive like-for-like growth in the first half of this year. We have seen improving trends in the Consumer Products business in Fragrance & Beauty since late 2023. And now we also see that coming through in our Taste & Wellbeing business.

Let's turn now to a divisional view on slide seven, starting with Fragrance & Beauty. For this division sales amounted to 1 billion 826 million, up 15.3% on the like-for-like basis, and 9.2% in Swiss francs. The strong growth was driven by continued excellent growth in Fine Fragrances and Consumer Products. Fine Fragrances continue to grow double digit against the strong comparable of last year, with strong contribution from both the existing business and the high level of new wins.

The strong like-for-like growth of 17.3% in Consumer Products is driven by volume growth, a strong level of new wins, and achieved across all customer segments and all regions.

The combined Fragrance Ingredients and Active Beauty sales increased 8% like-for-like with good demand for our Ingredients speciality, and continued solid good growth in Active Beauty. Let's now have a look on the performance of the Taste & Wellbeing Division on slide eight.

Sales in the division amounted to 1 billion 911 million, up 9.9% on a like-for-like basis, and 2.6% in Swiss francs. On a regional basis, sales in Europe showed a solid like-for-like increase of 5.5%. South Asia, Africa, and Middle East, including India, continue to show a strong like-for-like growth at 12.5% on top of the strong double-digit prior-year period. It's very encouraging to see positive like-for-like growth in North America, delivering 4.5% and Asia Pacific at 9.3%. Latin America continued to show strong double-digit growth, driven by FX pricing, but also with very solid underlying volume growth.

From a segment perspective, double-digit growth was achieved in snacks and beverages, and good momentum in sweet goods, dairy and savoury. Let me now move from the financial facts to other highlights around innovation and how we are addressing customer needs and consumer trends on slide nine.

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. 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 develop with our customers win the brief and win the consumer. Let me highlight a few examples.

In Fragrance & Beauty, we have launched Scentaurus Vanilla, consolidating the broadest collection of fragrance precursors in the industry, creating long lasting and high performing, non-colouring vanilla notes specifically designed for liquid detergents. We launched Nympheal, a game-changing ingredient to create white floral fragrances, now available on our perfumers' creations.

In Taste & Wellbeing, we continue to work on new ingredients for alternative dairy, enabling our customers to use natural proprietary ingredients that provides creamy mouthfeel and body for both alternative dairy, and reduced fat and sugar dairy products. And we stimulate both divisions with the use of digitalisation, for example, with our customer-centric health and nutrition hub, a new digital platform boasting co-creative, innovative wellness experiences that consumers will love.

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

Tom Hallam
Thank you, Gilles. It has been a privilege to work for such a great company and with fantastic people. I wish Stewart all the best in the role. As always, Gilles has taken you through the strong business performance of the group, as well as the main aspects of the market and regional development. I will focus on the group's financial performance and those of the two divisions. Let me start with the performance highlights on slide 11.

Group sales for the first half of 2024 were over 3.7 billion CHF, an increase of 5.7% in Swiss francs. The reported EBITDA increased to 906 million CHF, compared to 763 million CHF in 2023. The strong EBITDA improvement also resulted in an impressive improvement in the underlying EBITDA margin, which increased to 24.8%, compared to 22.7% in 2023.

Net income was 588 million CHF, an increase of 30.9% compared to 2023. The free cash flow as a percentage of sales was 5.3%, compared to 2.9% in 2023. The absolute free cash flow was 197 million CHF, which is a great improvement of 93 million CHF. Net debt to EBITDA was 2.9 times, compared to 3.7 times at the end of June 2023 and 2.9 times at the end of 2023. 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 12, which shows the exchange rate development for the period.

This slide shows the comparison of the exchange rates in the first half of 2024 versus the same period in 2023. The Swiss franc has steadied against most of the major currencies in which the group operates, even though it continues to strengthen. Overall, from a profit perspective, the impact has been very limited, because our operational and geographical spread continues, as always, to provide good natural hedges, and our EBITDA margin remains strong and well protected against currency fluctuations. Please turn to slide 13, which shows the group operating performance.

In 2024, the group's gross margin increased to 44.1%, compared to 41% in 2023. The gross margin in the first half of 2024 improved as a result of higher cost absorption due to the higher volumes, as well as the margin improvement measures taken under the group's performance improvement plan initiated in the first half of 2023. EBITDA increased to 906 million CHF in the first six months of the year.

However, in this period, the group incurred costs of 23 million CHF, largely related to costs incurred for the footprint optimisation, as well as the competition authority investigation in the fragrance industry. Excluding these costs, the underlying EBITDA margin improved to an impressive 24.8% compared to 2020, compared to 22.7% in 2023.

On the next two slides, I would like to spend a minute on the performance of our two divisions, starting with Fragrance & Beauty on the next slide. The division recorded 500 million CHF of EBITDA in the first six months of the year, compared to 383 million CHF in 2023. The EBITDA margin was 27.3% on a reported basis, and an excellent 28.1% on an underlying basis, driven by the extremely strong volumes. If you turn to slide 15, we will continue with the Taste & Wellbeing performance.

Reported EBITDA increased to 406 million CHF from 380 million CHF in 2023. The reported EBITDA margin was 21.3% in 2024. And on an underlying basis, the EBITDA margin was 21.7%. Please turn to slide 16, which shows the net income of the group.

The income before tax increased to 700 million CHF from 516 million CHF in the first half of 2023, as a result of lower non-operating expenses compared to the prior year, due to lower mark-to-market adjustments on marketable securities and a reduction in foreign exchange losses compared to the prior year. The net income was 588 million CHF, or 15.7% of sales. The group's effective tax rate increased to 6% in 2024, compared to 13% in June 2023. Basic earnings per share was 63.76 CHF in 24, compared to 48.69 CHF in the first semester of 2023. Please turn to the next slide for the cash flow performance of the group.

During the first half of 2024, Givaudan showed a strong free cash flow when compared to the same period last year. The group recorded a solid free cash flow of 197 million CHF, or 5.3% of sales, compared to 104 million, or 2.9% of sales in 2023. The operating cash flow of the first six months of the year was 427 million CHF, compared to 340 million CHF in 2023, an increase of 25.6%.

The group continued its investment to support the growth in all markets. As such, total net investment was 127 million CHF in the first half of the year, and as a percentage of sales, net investments was 3.4%, compared to 3.6% in 2023. Working capital decreased to 29.1% of sales, compared to 31.2% in June 2023, as the company continued to focus on reducing inventories whilst managing all other working capital items. Please turn to slide 18, which shows the debt profile.

The group continues to have a well-balanced debt profile, with a weighted average effective interest rate of 1.96%, compared to 1.83% in June 2023. Furthermore, this slide shows the maturities of our debt profile. Net debt to EBITDA was 2.9 times, compared to 3.7 times in June 2023, and was flat against December 2023.

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

Andrier Gilles
Thank you, Tom. let me now come back to our 2025 strategy and the outlook on the next slide. 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. We are placing customers at the heart of our business, supporting them to grow and create products that are loved by consumers. The 2025 strategy is focussed around

three growth drivers. Expand the portfolio, extend the customer reach, and focussed market strategy.

Now, let me highlight the expand portfolio. As we recently announced, the full acquisition of b.kolor in Italy. Givaudan has already a strong exposure to the, quote/unquote, beauty world, with leading positions in the key traditional categories of fine fragrances and personal care. Ten years ago, we entered successfully in the space of skin care, with active ingredients and, as such, building a business of roughly 150 million.

With the addition of b.kolor, we continue expanding in skin care, but we will also now enter in the remaining space of beauty, makeup. This presents an exciting growth opportunity for Givaudan to leverage its deep market knowledge and established relationships in the fragrance industry with our clients.

On slide 21, you find the performance commitments of the 2025 strategy. We have completed now 3.5 years of our five-year strategic cycle, and our performance thus far reconfirms our strategic choices. Givaudan's 25 strategy consists of ambitious targets aiming to achieve like-for-like sales growth of 4 to 5% and free cash flow above 12% on an average basis over the five-year period.

In addition, the company aims to deliver on key non-financial targets around sustainability, diversity, and safety linked to our 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 22.

We are very well positioned with our capabilities, the quality of our portfolio and our creative strength to deliver on our 2025 strategy. Our natural hedges across the portfolio segments, regions, and markets provide a healthy 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 programme delivered first results in 2023. We will maintain a strong focus on operational excellence, reviewing the manufacturing footprint, particularly in Taste & Wellbeing, in the next two years of the strategic cycle, whilst emphasising business continuity to navigate in a volatile geopolitical environment. We expect the associated cost to this programme of around 50 million in 2024.

With that, we arrive now at the end of our 2024 half-year results presentation. Let me hand back to the operator for the instructions to open the Q&A. Tom and I look forward to taking your questions.