Transcript

25 January 2023

2022 Full Year Results

Questions and answers conference call and live webcast

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

Operator
We will now begin the Question and Answer Session. Anyone who wishes to ask a question or make a comment may press * and 1 on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question or a comment may press * and 1 at this time.

The first question comes from the line of Heidi Vesterinen from BNP Paribas Exane. Please go ahead.

Heidi Vesterinen
Good afternoon. So, I have a first question on organic growth, I know you don't give annual guidance, but given the very low visibility out there for most of us listening to this call, could you help us with any hints or thoughts on volume growth in 2023, please?

And then as a related question, could you talk more about what happened in Taste & Wellbeing North America, please, because it seems to be down double-digit, it's quite unusual to see that from Givaudan. What sort of categories in customer types were affected? And is this volume decline likely to continue? Is that happening in Q1?

And then lastly, perhaps your current thinking on M&A, please? And do you have large potential targets? Thank you.

Gilles Andrier

Many questions, Heidi. Thank you. So, organic growth you know, essentially to have... as you know, we commit on an average growth for 5 years, and we don't give any specific guidance on the given year, not that we are hiding anything, it's just that the visibility not just in 2023, but always in every year is limited. The only thing we can control is the pricing actions that we have in place. And the other part that we control is the amount of new wins that we win in a given year, which will have a positive effect on the volume growth the following year.

But the third element, which is the erosion of the existing business, which essentially is the result of how good our customers are doing around the world, there is no crystal ball to do that.

The only way to do that is actually to look at the historic sales that the historic volume growth of Givaudan, which in fact if you look at 3 years, 5 years, 10 years, 15 years, whatever the horizon you take is actually quite steady, because we contribute to products, which are consumed on a very regular basis around the world. And Givaudan has always delivered on the continuous volume growth. So, that's basically my best answer to you, Heidi.

So, on the price increase, I can be a bit more specific. First, I mentioned that in 2022, we have encountered in the P&L an additional total 360 million Swiss Francs of input costs, which include 270 million Swiss Francs of additional raw mats and 90 million of everything, logistics, freight, and energy. What we have always said is that we are in a good position to actually recover 2/3rds of those 360, which we actually did, because that's part of the 5.3% growth that we have recorded in 2022. So, you have roughly 4% of price increase in 2022, which amounts to 270. So, that means the remaining 90 million or 100 million have been already negotiated, because it was part of the negotiations in 2022 and that will come in 2023 in full.

The second pricing element has to do with the guidance we are giving on the input costs that we forecasting a 5% increase of raw mats for the group in 2023, and that all actually have been already negotiated entirely and that will kick for the full year in 2023. So, that's going to be another 160 million. So, basically, you have already 260 million of price increase in 2023, which is roughly exactly the same amount actually as 2022 in absolute terms.

Then in terms of new wins, you know, we track that especially for Fine Fragrance, Consumer Products and Taste & Wellbeing. And we have a very good inflow of new wins, which will come into 2023. The only thing I can say about the volume…the remaining volume growth is to talk more about the natural hedges of Givaudan.

We are… and it's in 3 dimensions, as you know, Heidi. From a geographic standpoint, we are everywhere. And you can see, again, the natural hedges across Europe is playing in 2022 because yes, everybody has been focusing on the decline in North America, but I actually had no question about why we have 11% growth in Europe. So, one is actually more than compensating the other. And it's true also for high growth markets versus mature markets. So, yes, we have the confidence level in 2023, but to give an exact figure is not easy.

The second hedge, natural hedge is that we are across clients. So, now we have 55% of our sales, which are with the local and regional clients that you don't have any figures because they don't usually are publishing their numbers since they are usually family-owned companies.

So, this part, most people don't see, but we see it in our figures and I can testify for the strong growth that we have again delivered with this segment of clients in 2022, which are compensated for the actual volume decline that most of our global clients have published over 2022. So, that's another natural hedge dimension that is important to remind.

And then across segments, across segments you know, across segments that's essentially… we are across all types of applications, but also all types of price points, whether you have an expensive shower gel, a more affordable soap or the affordable snack versus the premium product in food, we are on all sides. So, wherever consumers go down you know, trading or are going for more affordable and so forth, we are on both sides. So, that's also the natural hedge that it creates.

So that's the best answer I can give you. Givaudan is the best protected across whatever happens up or down, but difficult to get an exact growth figure for the volume. Lastly, yes, you know, all those products actually 80% to 90% of all the things that we do are consumed every day for basic essential needs as you know that consumers have.

Then specifically about Taste & Wellbeing North America, you know, so overall, we have roughly a 6% decline for Taste & Wellbeing. It's true that… it's because… that shows because obviously Taste & Wellbeing we report by region. But what you don't actually see is that the Consumer Product start off fragrance, which we don't report by region, also include sales in North America, which have also shown a decline. So, a decline overall for the year, which is more or less in the same range as Taste & Wellbeing.

So, what it shows is that, yes, there is… it is a combination and difficult again to give an exact… it's not an exact science, but certainly a combination of consumers having consumed less at the end of the day on the back of a good growth in 2021, but as it relates to the comparable growth quarter-by-quarter where, yes, in the fourth quarter, the decline was stronger than in the early part the year, especially for Taste & Wellbeing that certainly has to do with the fact that as supply chains were incurring disruptions and clients were quite nervous to actually not miss sales, maybe there's been a certainly a bit of safety stock building in the course of 2021 into 2022, which as consumers consuming less, you know, those inventories were driven down by our clients. So, yes, there's a fair amount of building up and building down in terms of inventories, but what's the split between de-stocking and consumption, nobody knows, including our clients. So, on a long-term basis, the US, will grow. The question is you know, basically by what amount and when.

Finally, on acquisitions, you know, essentially, we are always looking at opportunities. We're looking at… we're active on every opportunity. The number of opportunities has certainly declined, because most of the valuations have also declined, so maybe people are waiting for better time, but we are still actively looking in an opportunistic way.

I hope it covered your 3 big questions, Heidi, but you can always come back.

Heidi Vesterinen
Very comprehensive. Thank you.

Operator
The next question comes from the line of Charles Eden from UBS. Please go ahead.

Charles Eden
Hi, good afternoon. Thanks for taking my questions. Just a quick follow-up on the volume question and I fully appreciate your help or commentary there. But just in terms of Q1, I know we've only had maybe 3 weeks of trading, but is there signs to destocking is done in North America, I guess, given how quickly you've managed to get the full year results out for us that you've got fairly live systems on the order tracking. So, any comments around that would be helpful?

And then secondly on margins for 2023, I understand the 5% raw material inflation and also the arithmetic impact from pricing policy. But could you also discuss how you see some of the other major cost buckets, like freight, energy, and wages developing this year? Maybe that's a question for Tom?

And then very quick, sort of follow-up on the restructuring program, which I assume also results in some job cuts. Are you able to sort of comment on where these job cuts are coming from? Is it sales personnel, R&D, head office staff or based across all of those buckets? Thank you.

Gilles Andrier
So, on the volume questions though, one, I can't really disclose where we stand in January for 2 reasons; one because I'm not allowed, and two because it's only as you say, 2 or 3 weeks, so very difficult to see. And again, you know, the best way to predict Givaudan, as you look more on a mid…on a multiple month basis. So there, I can't you know, answer this question.

On the second one, on the margin… on the margin profile, I mean, I just will pass over to Tom, but I think you know, in very simplistic, but high level way, which I think is the best way to read our financial figures. As I said in 2022, the total input cost included almost 10% raw mats increase, which is roughly 270 million Swiss Francs, plus a 90 million, which includes the, sort of almost abnormal increase in logistics, freight and energy, which came in and impacted 2022.

So, that's a total 360 million, which again we compensated with pricing increase, which amounted by 270 million and 90 million of frugality essentially without as people might have asked the question without cutting on our research and development capabilities.

As it relates to 2023, we have…we basically have… I will let Tom add, but essentially to talk on the restructuring program. So, essentially, this is because obviously I can't give details. That has to be obviously discussed, validated with the different employee representative in the different countries, but will go actually quite fast. And this is really across the different divisions and support functions, but not impairing significantly our ability to grow with and to innovate with our commercial research and development resources.

But Tom, maybe you want to add?

Tom Hallam

Yes. Thanks, Gilles. Charles, on the... if you look on the long-term margin and I think we've discussed this many times together, our free cash flow...our long-term guidance is free cash flow as a percentage of sales, more than 12%. You know the numbers as well as I and that that requires a certain EBITDA level. If you look historically where we've been, we've been somewhere between 22% and 24% and that's the sort of expectation that we would have if we talk about our 2025 guidance. So, of course, the restructuring or the reorganisation that Gilles just referred to is part of that getting back to where we've been historically.

Of course, we've talked about the pricing actions that we've taken. And as the supply chain has started to ease, we see that we are now able to accelerate the integration of the acquired companies. You see it already in our 2022 numbers in terms of the investments that we've been making on the digital side. And as we just announced today, we have some restructuring costs, which is non-cash, which is actually related to supply chain and footprint optimisation. So, I would see really a 2 to 3 year journey in terms of recovery of what we would call our fair share of both gross margin and EBITDA margin.

Charles Eden

That's helpful. Thank you.

Operator

The next question comes from the line of Isha Sharma from Stifel. Please go ahead.

Isha Sharma

Hi, good afternoon. I just have 2 left, please. Your R&D and admin costs are meaningfully down in the second half. Tom you also mentioned on the amortisation slide a little bit, but could you elaborate more on that? Is this a level that is sustainable that we should think of going forward?

And the second one is, on the restructuring costs, in general, you guided us that for the acquisitions that you have made recently, we should assume a 50 million integration costs on the special items line? Is this 60 million coming on top of that or does it include also the integration charges?

Thank you.

Tom Hallam

Yes. So just Isha on the R&D, which is the number that I have top of mind, I think overall, there's about a 40 million reduction, if you look at the face of the P&L in R&D, 20 million of that or nearly 20 million is amortisation. Actually about 10 million is currency. Again, we show the currency slide just to remind you that we are a global business and it depends very much on where our R&D facilities are located. Just as a reminder, we have a large R&D facility in the UK and in Ashford.

And of course, with the weakening pound that has an impact on the reported R&D, but not on the underlying structure of the business. And that's about another 10 million. And then we have various smaller cost savings on R&D, but we are not, and Gilles has referred to it a couple of times, and you see again the innovation pipeline and the number of projects that are coming through.

We are absolutely convinced that we need to invest a certain amount of R&D, so that we can differentiate in the market and our clients can differentiate in the market as well. So, no cut on the underlying research and development. So, that was the first question.

Sorry on the second question, can you just…Yes. On the implementation…sorry, on the implementation cost. Most of the implementation cost this year is on the people side as we mentioned. So, then we have about 20 million of non-cash, which is related to site closures.

Isha Sharma
Right. I was just wondering if the acquisition is the integration costs that you incur in general close to 40 million, 50 million is that something that you're going to postpone for later or how does that?

Tom Hallam
That will probably come into 2024, to be honest Isha. What we've talked about so far this year is the reorganisation that Gilles referred to.

Isha Sharma
Perfect. Thank you so much.

Operator
The next question comes from the line of Matthew Yates from Bank of America. Please go ahead.

Matthew Yates
Hey, good afternoon, Gentlemen. We touched on this a bit already, but really star contrast in your taste performance between Europe and America. I think you've explained

the American impact in terms of customer destocking. Just curious why we haven't necessarily seen that in Europe?

Well, were buffer stocks never built up to begin with or is that still to come in the coming quarters?

And then maybe this one's for Tom, just around the cash flow, you said you chose to strategically invest in working capital to support the customers, which obviously makes sense, but I was a bit surprised by the 15% decline in payables. I was wondering if you could just explain that a little bit and whether that means you're sitting on excess inventory within Givaudan at the moment?

Gilles Andrier
Yes. Thank you. So, yes, the performance of Taste & Wellbeing is as unusual in Europe as it is in the US, I must say.

And actually it's not something actually specific to Givaudan because if you look at the space of ingredients in total, the growth in Europe has been strong. So, it's not just about Givaudan, even if we are performing very well and gaining shares and so forth. And yes, you could argue that why is Europe not slowing down? Actually the outlook in Europe from an economic standpoint now turns out to be positive again. So, really the only thing I can say is that we've been growing across all clients, across all segments. So, there is nothing specific about types of products or types of clients. And I would say that even if they would have been… the building stock cannot expand 11% and certainly we have not seen destocking. So, that's my best answer.

Essentially, it's a great result. We believe that even if there's been a bit of stock piling up, maybe. Even if there is destocking, the impact will be minimal. The big question is, you know, will the consumption at the retail continue to be strong. That's more the bigger question. Any destocking or up-stocking is only temporary, but… and reflects basically the consumer demand, what's happening at the retail side. So, that's more of the bigger question. Are we going to see a sustained volume as it relates to consumption in Europe?

The only difference between Europe and the US though is that in Europe, we include obviously a certain amount of high growth markets in there that you don't have in the US, which obviously are always operating at high growth rates, like Eastern Europe, like the Middle East and so.

Tom Hallam

Yes. And Matthew, on the working capital, we can go through the technical aspects of it when inventory is received and accrued and paid and so on or we can just, sort of stay at the high level, which I think is probably the simplest. Fundamentally, we had high levels in 2022, it's as we both…both Gilles and I have mentioned in order to support our clients as the supply chain was so disrupted. Our total working capital is at the end of the year 26.8% of sales. There is absolutely no issue on the underlying accounts receivable under… on the underlying accounts payable. It's really a question of inventory. And if you look overall at where we would expect to be over the next 2 to 3 years and Gilles in particular referred to the supply chain, let's say, optimisation now. We would target somewhere between 23% and 24% of sales for working capital over the next 2 to 3 years. So, we're 26.8% at the end of the year. We want to get back to that 23% to 24% over the next 2 to 3 years, and that is fundamentally reduction in inventory levels.

Matthew Yates

Thank you, both.

Gilles Andrier

So, I think we're about to take the last question. Operator?

Operator

The last question comes from the line of Lisa De Neve with Morgan Stanley. Please go ahead.

Lisa De Neve

Hi. Good afternoon, and thank you for taking my question, Gilles and Tom. So, I leave it to one.

So, can you please share what your customers' appetite is at… is going for innovation and new launches, I mean the last 1 to 2 years may have been in some cases innovation or new launches may have been held back by a variety of supply chain challenges on your level and on the customer level. So, would you please share what you're seeing at your customers today and how you expect the launch cycle, sort of to ramp up over the next 12 months?

Thank you very much.

Gilles Andrier

Yes. Thank you. So, I think we don't… we cannot have a single…the same answer for all product categories, because it all depends, you know usually the rate of new launches depends on how the market is actually doing. So, if you take obviously Fine Fragrances, actually there's been many, many new launches in which actually Givaudan was always very happy to contribute with great perfume. So, actually the number of launches is correlated to the buoyancy of the market and that's true for Fine Fragrances. And the reverse is true, when there was the pandemic, you had almost actually no launches of new fragrances. And then when there was an economic downturn in 2008, that was the same.

So, you see that for Fine, you see that for Active Beauty, which is doing very well on skincare and so on. A fair amount of... if you look across Taste & Wellbeing, obviously, a lot of promising launches around beverages, which continue to be a strong category, around plant-based proteins with new food solutions. So, essentially, we have an aggregated good number of new launches, but in any case, if you have less new launches, usually, you also have less erosion because obviously new launches replace erosion. So, at the end of the day, what matters is how much consumers consume and whether that's through existing businesses, existing products or new products, that's the net consumption, which matters. So, that's really what we can say, but essentially, we are not in a position to say that across geographies, clients are becoming reluctant to launch new products.

We don't see that.

Lisa De Neve
Thank you very much.

Gilles Andrier
Okay. So, that was the last question. I thank you everyone for your attention, for your questions. I'd like to remind you that we publish our Q1 2023 sales results...the first quarter sales results on 13th of April, and you are welcome to register to our Annual Investor Conference, which will be held in-person, finally back in-person in venue close to Geneva and Switzerland. Thank you very much.

Operator
Ladies and Gentlemen, the Conference is now over. Thank you for choosing Chorus Call and thank you for participating in the Conference. You may now disconnect your lines. Goodbye.