Givaudan
Human by nature

Transcript

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2023 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, 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. Anyone who has a question, may press * and 1 at this time.

Our first question comes from Celine Pannuti from JP Morgan. Please go ahead.

Celine Pannuti
Thank you and good afternoon, Gilles and Tom. My first question is on the volume outlook as I think about 2024. Gilles you mentioned that there were 3 issues that you face destocking, shrinkflation and lower consumption as far as volume is concerned. Can you talk about those 3 pillars as I look into '24? Do you expect some form of restocking? What could be the benefit from the reverse shrinkflation? And then overall, how should we think about consumption when some of your customers seem to be facing weaker demand?

And my second question is on the margin improvement. That has been quite impressive, especially on the fragrance side. But taste and wellbeing has been flat, you mentioned that you are focusing on manufacturing footprint in the division. But at the same time, I see that there will be some cost pressure on the natural side. So can you talk about how we should think about the margin progression across the 2 divisions as we look into the next few years? Thank you.

Gilles Andrier
Thank you, Celine, I see that you're already in '24 commenting on '23. So the outlook, whereas you know, we don't give a given outlook. But responding to your questions on the 3 things which we have seen explaining the volume decline in '23. I would say that we can expect that destocking and shrinkflation are things which are one time things in a way. Because at some point you cannot decrease inventories to... our clients cannot decrease inventories to a certain point and shrinkflation, it's a bit the same. So, yes, in Q3, we saw a bit the end of... the end of the sort of the stabilisation of the destocking, but also the shrinkflation, and then conserving Q4, by seeing an improvement in the volume growth. So you know, we could say that, obviously, those 2 things are over.

But one thing to mention, which I think is important, and especially well, essentially for the destocking, there is an interesting analysis, if one does it, is that if we look actually at our sales in 2021 for actually both businesses, taste and wellbeing and consumer products, our growth was actually very strong, and actually is much stronger than our own clients when you compare the 2 volume development. And in a way, and we can only know that now is that somehow there was a substantial up-stocking in '21, which was essentially consequent to issues around if you remember the supply chain and our freights and all of that, which essentially turned out to be a destocking in '23. So let's not consider the destocking of '23, followed by enough stocking in '24, you know, basically, we have a plus in '21, and then minus in '23. And then from now on, at least, you know, from what we can expect is coming back to a sort of a no more normalised growth, but with no elements of going back to 2 higher inventory levels.

Shrinkflation, let's see how that develops, because obviously, this... the shrinkflation is consequent to prices that have been increased by our clients in the first place. So, let's see how that develops, you know, do we come back to normal sizes and so on, yet to be seen, that would be I would say more than cherry on the cake than anything else. So, going forward the volumes, we should see and hope no for normal sort of volumes development. One indication, as you know, we don't have a portfolio of orders that take us beyond 4 to 5 weeks. So the truth... one indication that we always is a good proxy is the amount of briefs that we work on, which testifies and supports the obviously the innovation, the appetite for our clients to innovate, to launch new products, and also, I would say testifying basically how they see the future in terms of what is development.

And so for us, really the risk pipeline is very good. We have also our win rates, which are also very good you know, showing the clear competitive, let's say differentiations, that the Givaudan brings in this competitive world.

So this is also a positive indication going forward. The lower consumption that we mentioned, obviously, that's more the uncertain path, because that can continue going on. But we remain optimistic looking also at 20 years of volume growth for Givaudan, again and the natural hedges, we have always managed to deliver consistent results, as it relates to the margin development.

So, we are happy with the sort of step improvement that we have seen for the group EBITDA, yes, with a differentiated margin… EBITDA margin between the 2 divisions. But that means the way we look at EBITDA and we have said that a few times now, as well on multiple road shows is that we are aiming at coming back to sort of an entitled EBITDA of 24% EBITDA margin through the improvement of the gross profit margin. So, we have made a step change there, and we have yet to further improve our gross profit margin and that is especially on the taste and wellbeing division. And that too by walking as I said, on the manufacturing footprint, you know, costs and the supply chain, we have some opportunities to be better there.

But let's not forget something, the fact that even on the taste and wellbeing division, which is actually delivering an EBITDA margin, very, very, you know, reflecting the highly specialised business we are in. If I look at it from a competitive standpoint, holding a 20.3% EBITDA margin, when you have such a decline in volume has been quite an achievement that I feel very proud that the team has achieved, because, as you see… as you know, the operational leverage to improve EBITDA margin on the back of growth is always a reality for us. But it can also work the other way.

And despite that, we have managed to hold on the comparable EBITDA margin. So, we are very much committed and focused on improving that furthermore, and there are works to be done on the footprint on the supply chain going forward. And I'm confident we will get there.

The input cost, yes, you know, it's really sort of stable mild increase with pluses in some naturals, you know, slight minuses on other part. But it will not have… it will not create material headwinds for the EBITDA of the taste and wellbeing division. That it's way to naturals. So, next question.

Operator
The next question comes from Nicola Tang from BNP Paribas. Please go ahead.

Nicola Tang
Hi, everyone, thanks for taking the questions. And first, I was intrigued Gilles by your comments on in Asia Pacific consumers switching to kitchen solutions versus packaged foods.

Do you see any risk that this trend could emerge in other markets outside of Asia either because of… from a cost perspective or perhaps because of consumer awareness around health and wellness and processed foods? And what do you think needs to happen to get the consumers in APAC to switch back?

And then the second question on consumer products, you know, you noted the volume acceleration and sequentially in H2 last year. Do you see this as a restocking trend or is it more reflective of underlying demand? And should we expect continued acceleration into H1 as well? Thanks.

Gilles Andrier
Thank you, Nicola. So on Asia Pacific, you know, obviously, we have this idea of competing as we say with the kitchen is yes, it's an explanation to explain you know, sort of the lower consumption on packaged foods, we don't think it's a long-term trend, it's really a sort of a singular response when you have inflation… I mean, sharp inflation on food and beverage, because at the end of the day, there is still a fundamental thing where convenience for consumers is very important and especially when you have your urbanisation people working, I mean, more people working in cities and so on convenience is important. So we see it as maybe sort of obviously a temporary trend in Asia Pacific and especially in countries where income are very low. So that's one thing.

And the health and wellness products. So, the switch that… is not due to health and wellness, actually health and wellness is a very good trend for us when client… when consumers switch to health, diet, and so forth, we are also there with as we call them taste modulators to help those products taste good and also all the phytoactives, health natural products, which is a very nice portfolio that we have from Naturex are also helping getting there. So, health and wellness is not competing, like explaining some of those trends when you go back to the kitchen and this is yet very specific to some countries in Asia Pacific.

On the consumer product side, the acceleration that we have seen is, I would say more the stop of the destocking coming back to actually normal volume growth. And from what we see this has nothing to do with the idea of restocking again, take into consideration that the stocking up or the restocking or whatever we call it happened in '21. And somehow the destocking is basically which happened in '23 for both taste and consumer product. We see it as coming back to sort of the more normal inventory levels that were prior '21. So again, the idea of restocking going forward is not the assumption. It is more about coming back to a normal sort of consumption pace for both consumer products and taste.

Operator
The next question comes from Arben Hasanaj from Vontobel. Please go ahead.

Arben Hasanaj
Good afternoon, Gentlemen. I would have 3 short questions. First of all on free cash flow, so there I was wondering, kind of what kind of levers can you still pull there, because it seems like in terms of networking capital, you've already come a long way. So apart from general increase in profitability, where do you see still potential there?

Then the second question will be around M&A, I mean, can we assume that M&A is now again higher on the agenda? Given that free cash flow has bounced back? And also net debt, yes, has gone or has decreased a little or can we assume that 2024 will be really focused on footprint optimisation before you consider any additions there?

And then, a final short question on fine fragrances, I mean, to... given the growth that you've seen there, are you planning specific capacity extensions for a fine fragrances or can you accommodate the growth kind of given the footprint that you have right now? Thanks.

Tom Hallam
So thanks Arben for the questions. Maybe I'll take the free cash flow part of the M&A and I'll hand it to Gilles for the complimentary part of the M&A and then fine fragrance. So free cash flow you know, 13.3% in the year what were the 2 biggest drivers as you've seen, it's really an improving EBITDA margin and a reduction in the working capital as a percentage of sales. And Gilles already referred to the EBITDA going forward over the next couple of years, we believe that we have opportunity to increase the margin. And on

working capital, we also believe we have margin, we finished the year 24.1% of sales. If you look at where we've been historically, we've been somewhere between 22% and 23%. So really, those are the 2 levers is increasing the EBITDA margin and reducing the working capital.

On M&A, look, I mean, we've never seen our debt. And our net debt EBITDA as a ceiling or something that's blocking us. The M&A pipeline has been quiet, you know, Gilles, I think we'll refer to the areas we're interested in. But we've always been active, we're active in '23, you remember, we did the deal with Amyris at the beginning of the year. And we continue to look for opportunities, you know, it's more that there's not so many sellers in the market. But I'll pass it to Gilles to compliment on M&A and then on the fine fragrance.

Gilles Andrier
Yes, some stated. So obviously, we are more in an increasingly more comfortable position to do M&As. But even though it's not a hurdle for us and never been, it's really a question of assets... valuable assets. Let me remind some of the themes under, which we screen potential opportunities. One is obviously still around our core business; you still have assets around I would say pure players around fragrance makers, as well as, flavours makers around local and regional clients.

So opportunities there to increase again our footprint in certain countries, which are... which actually allow us to go and engage with new sets of local clients. Actually, I'm very happy with the track record we have had in terms of creation... value creation with all those I would say small midsize players Foil, Expression Parfumée, Drome, Custom Essence in the US as examples. So we'll continue in this direction.

The second direction has to do with expanding in the field of those, again high value-added ingredients which go beyond flavours around... remember that we expanded on colours. We can be on naturals, it can be on things around health and wellness. So those themes are still quite valid. And then the sale direction can be in terms of further a bit integrating on some ingredients that we buy that we would make rather than buy. So those are examples of the things we look at. I forgot, active beauty which is also a fantastic success stories over the last few years. But yet we have to find sellers, so basically it takes two to dance and when multiples are slightly depressed you know, maybe you have less sellers and transactions.

And then I'll finish with your question on fine fragrances. Yes, I'm going to say we are very happy and very proud of this growth. Yes, it's a question of the market, you know, the market has been growing when you look at some of our clients growing strongly in Fine Fragrances, but it has also to do with I would say the market share gain, that we have done in Fine Fragrances and we'd say the third reason is also which something which makes a bit again Givaudan special is that we are in every part of Fine Fragrances meaning that yes, it's about prestige, Fine Fragrances, and we've seen tremendous successes with some of the new launches. But it's also fine fragrance clients in SAMEA, which has been a spectacular growth over the last few years. Actually, SAMEA for us is as big as LATAM now in Fine Fragrances. We started from zero 15 years ago. And then the end market or rather 2 end market. On one side, the sort of more specialty retailers must Fine Fragrances as well as the prestige. I mean, niche, what we call the niche high end fragrances, so we are really in all different markets, and many of them are growing strongly. So in terms of production capacity, obviously Fine Fragrances doesn't take as much volume as what you see on consumer products. And so, we are well-equipped to continue growing and fine with the production capacity that we have.

Arben Hasanaj
Alright. Thank you very much.

Operator
Your next question comes from Gunther Zechmann from Alliance Bernstein. Please go ahead.

Gunther Zechmann
Hi, good afternoon, Gentlemen. Couple of questions from my side, okay, hope you can hear me alright. Firstly, Gilles, would you mind talking us through the stabilisation you've seen in taste and wellbeing in North America, especially in Q4, incrementally. That will be really helpful in terms of the CAPEX rate and the customers where you've seen adapting. That's the first one.

Secondly, any comment on supply chain disruption, I know it's early days, but are you looking for implementing any third parties because of Red Sea disruptions similar to what we've seen with Suez Canal ships getting stuck in the house, for example.

And then if I can sneak one more in, could you please provide us with an update on the investigation of anticompetitive behaviour by the CMA and other authorities, which have recently extended to personal operation?

Gilles Andrier
Okay, so it was very patchy. So I guess I got some help to understand your questions maybe I. So yes, the first one around I would say the stabilisation of taste and wellbeing in Q4, you know, actually, and you could argue the stabilisation as well on consumer products. Actually, we have seen mild growth in Q4 finally, obviously, in all honesty, we have a lower comparable in Q4 2022. But at the same time, it's a good signal that maybe we come back to normal times. We have seen on the positive side in terms of the pipeline, the briefs, the win rates, we have a very encouraging position in North America in both taste and wellbeing and consumer products. So that's really the path as you know that we can always control or at least well, by focusing on win rate that can help compensating for higher levels of erosion. So there you know, that gives us confidence.

Then on the supply chain disruption, I think you are referring maybe to the Red Sea. Obviously, what we see is that delays have increased you know, to actually get we have quite substantial flows... material flow going through these routes. So lead times have increased with some additional challenges but yet, which are, let's say controllable and minimised.

And then your final question on investigation. Well, essentially, I don't have much news other than repeating what we have already said. It's a worldwide investigation with all US, European committees, Switzerland and the UK. And it involves all the key players. But we have... and we are fully collaborating with all of them. With no idea about the outcome yet, but it will take time.

Operator
The next question comes from Daniel Bürki from Zürcher Kantonalbank. Please go ahead.

Daniel Bürki
Yes. Good afternoon, everyone. I have a question on this factory optimisation program. Could you give us more details? You mentioned it will take 2 years, 50 million of cost, will we also see some costs in '25? And what could be possible benefits savings out of this program? Thank you.

Tom Hallam
Yes. So thank you, Daniel, for the question. So the cost that we outlined in the 50 million is for 2024. I expect that we will also have costs in '25, as well.

In terms of the benefits, I mean, I think Gilles already elaborated on what you should expect to see on the taste side, because most of the optimisation is expected on the taste division. We expect in the long term to have very, very consistent margins. And historically, the 2 divisions have had very, very similar EBITDA margins. So you know, there you… you can already factor in, we will calculate the benefits that we would expect to see from those 2 programs. And that's very similar to what we've done in the past. If you look back, and I'm sure you remember, the period 2012 to 2015, we had similar programs. And over those 3 or 4 years, we were able to increase the margins, back to the levels that Gilles was talking about before.

Daniel Bürki
Thank you.

Operator
Ladies and Gentlemen, this concludes the question and answer session. I hand back you over to the management for any closing comments.

Gilles Andrier
Thank you. So, dear, Ladies and Gentlemen, thank you for your interest and your questions.

I'd like to remind you we will publish our Q1 '24 sales results on April 11th of this year, and welcome you to register to our investor event on the same day. This year, we'll break with tradition and we will hold the event in Kemptthal close to Zurich. And with that, I thank you very much.