Givaudan
Human by nature

Transcript

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2024 Full Year Results
Questions and answers conference call and live webcast

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

Operator
We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their 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 star and two. Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume of the webcast while asking a question. In the interests of time, please limit yourself to two questions. Anyone who has a question may press star and one at this time. Our first question comes from Alex Sloane from Barclays. Please go ahead.

Alex Sloane
Yes, hi. Thanks for taking the questions. Two from my side, please. Just the first one on consumer products, obviously a bit of a slower Q4 on a much tougher comp. But still, the full year, 13.5%, very strong versus most listed major customers. You flagged increased dosage as a key driver, as well as growthflation. Any change in those drivers in Q4 or January so far? And do you think they can continue to be drivers in 25? And how do you assess your customers' stock levels versus history in this area? That would be the first one.

Second one, just in terms of the Taste and Wellbeing side, we've obviously seen red dye number three banned now in the US. Presumably, this could be a nice tailwind for Givaudan, given your natural colours footprint, but also with any flavour change that's required with this reformulation. So the question is, do you have sufficient natural colours capability at the moment to take advantage of that, given the fire in Kentucky? Thank you.

Gilles Andrier
Yes, thank you for your two questions. So the first one, quite simple actually. If you do simple math, it's all about comparables. If you add the growth for each quarter for 23 and 24, it's a perfect Swiss clock, where you get 20%. So that means when you add the growth, Q1 to Q1 and so on, for the fourth quarters, you have exactly 20%. So the reason for what you call a slowdown in Q4 is basically just the comparable.

But to add more colours on CP, yes, you mentioned growthflation. It comes on the back of... Obviously, and that's true for CP and Taste and Wellbeing, by the way, as our clients completed the cycle of price increase, to help them growing until 22, 23, the whole momentum around driving innovation, driving volumes, was basically across the whole portfolio of our clients.

And that translated for us into more briefs, more wins, more innovations, but also, as I mentioned, basically the opportunity taken by clients to reinvest back into the fragrance. Because at the end of the day, as we do, they all believe that fragrance is the key driver of liking of any CP product, but also fine and so on. So that's basically the underlying trend that we've seen, with a good amount of new wins.

One thing I did not mention is, obviously, let's see where our competitors are at the fourth quarter, but if you just look at the three quarters, our growth of 12.3% for the group is also very much driven by market share gain, if we look at the nine-month sales of our two or three largest competitors, and CP has been part of that.

And the thing about the inventories, it's certainly not the case, both when we look at our figures, but also asking clients, and I think global clients. And just to mention, if you take the L&R clients of CP, it's about 57% of our sales. None of them have a strategy of building stocks and so forth. So, let's say, the up and downs of destocking/restocking does not really apply on L&R. So we are quite confident that there is no build-up, or significant build-up, of inventories in the course of 2024.

So then on, yes, the red dye, basically, we are very well positioned, as you said. As you mentioned, we are the leader in natural colours. And actually, as I mentioned, one of the innovations on the red colour is actually we have a replacement, a natural replacement of that. So for us, it's an opportunity. It's an opportunity as well to reformulate, yes, and to basically grow our colours business in this space.

Actually, the whole trend, I can even argue in the US, about the trends around ultra-processed food and so on, are opportunities for Givaudan because of the position that we have with naturals, the position that we have with things which actually make things taste better when you reformulate. All of those things we see as opportunities for us.

Alex Sloane
Thank you.

Operator
The next question comes from Celine Pannuti from JP Morgan. Please go ahead.

Celine Pannuti
Thank you, and good morning, Gilles and Stewart. My first question is on growth. Gilles, if I look at the last two years, the volume average for Givaudan is 2.8, 2.9, excuse me. If I look at the average for the past five years, it's 3.8. So is that, do you think, the Swiss-clock level at which Givaudan should be driving volume growth in 2025? And on the same question on FX-driven pricing, which was quite a contribution in 2024, whether you could help us understand whether there will be some of that coming through from especially Latin American currency weakness in 25. That's my first question.

My second question is on margin. Taste and Wellbeing margin is still shy of the 22% to 24% bracket that you aim to achieve for the group by year 25, but I think as well for that division. So should we expect you to be in that bracket this year, thanks to the savings and despite some of the cost inflation, and how sustainable the Fragrance and Beauty margins are, please, at this very high level? Thank you.

Gilles Andrier
Okay, so you had two questions in your first question.

So basically, yes, the growth, what I can give you, because I don't land with the same figures you just mentioned on volume growth, actually if you look at the average growth of volumes for the first four years of this strategic cycle, we are 3.6%, which is basically a good level and incrementally better than in the past cycles.

Then, on FX pricing, it's always a bit difficult to project FX pricing. But we consider, based on the projection that we have on the exchange rates and inflation and so forth, that it will tune down, yes, basically north of zero, but south of one, basically.

Then your question on the EBITDA margin. First, as you know, we don't give a guidance on the EBITDA for a given year. The only promise is basically to be above 12% of free cash flow over five years, though we give indication of where we want to be, to be able to sustain the 12%. And indeed, it's this range of 22% to 24%. Today, in 24, we are above 24% EBITDA for the group, and we have confidence that we can sustain that in 2025. So that's what I can say.

Now, how are the two EBITDAs going to develop individually on the two divisions? I won't articulate any figures, but I can give you some indications. So, yes, on the Taste and Wellbeing, we want to continue to uplift it. And there are opportunities to do that, but it doesn't mean that all the things are going to add up, because we have a bit of headwind also on the raw mats on the fragrance side, with... So basically, that's a bit the trend. It's always good to have, as you see, two divisions, two divisions because it creates a natural hedge. But the only thing I can say is to remain confident that we can navigate, to continue navigating above the 24% line in 2025.

Celine Pannuti
Thank you.

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

Charles Eden
Hi. Morning. Thanks for taking my questions. Two for me, please. Firstly, I guess the first one is a follow-on from Celine's question. But on the free cash flow, obviously trending just in line with the strategy target for free cash flow, but 15.6% of sales for free cash flow in 24 very impressive. I guess if margins aren't going to go backwards, which seems to be the communication, and understandably, I guess working capital is not going to be a major change, nor is CapEx.

Is there any reason or anything to call out, Gilles or Stewart, in terms of what may be an offset to a very similar year on free cash flow in 25 compared to 24? That's my first question.

And then secondly, on the raw material inflation, is the expectation that you will fully offset that in terms of Swiss franc terms through pricing? And is a lot of that pricing already negotiated with your customers at this stage of the year? Thank you.

Gilles Andrier
Okay. So I'll start with the second question. On raw mat, it's obviously 4%, it's mild. It's basically as we project it now. But as a difference to previous cycles where we saw significant raw mat increase, where it was really across the board, here you're talking about more selective raw mat increase in different supply chains. And we'll see how much we can actually pass on and compensate for that with our price increase. But again, it's going to be relatively mild. I don't understand why you're saying that we're going to go backwards on EBITDA if I just said that we're going to continue to be above 24%. So I'm not sure I understand your question.

Charles Eden
No, sorry, Gilles, I was saying no reason why you should. So I guess that was the question. Is it margins don't go backwards?

Gilles Andrier
Yes, so the…

Charles Eden
Given free cash flow surely is at a similar…

Gilles Andrier
Okay, yes. So basically, yes, if it doesn't go backwards. But obviously, you have had in the working capital steps improvements in 2024, reducing inventories level. And then you navigate at this level. So whenever you have steps or improvements, you don't get it a second time. You get it once. And so basically, we are very confident to continue navigating or cruising at the level of the percentage of working capital, but again, without decreasing it, so that, in fact, you don't get a second time the benefit. But all in all, it means we are confident to be above the 12% line for our free cash flow and meet the meet our targets.

Charles Eden
Thanks.

Gilles Andrier
You're welcome.

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

Daniel Bürki
Yes, hello. I would have two questions first on the accident you had in Kentucky. Could you give us an update? Did you have already some financial implications in the year 24, or what could we expect for 25? And then maybe a second question. Could you give us a reminder on the dividend policy?

Gilles Andrier
Yes. So, Stewart. First, I would like to remind, it's obviously a very tragic accident beyond the financial implications. We have been quite active, supporting the families, supporting the communities. The investigation in the reasons and the root cause of what has happened are still ongoing. So we have no conclusion yet. Obviously, we also have what we call always business continuation plans, so the sales impacts have been minimal. And we are looking in the near future at the options on how to rebuild such a factory. But I'll pass on to Stewart on the financial implications.

Stewart Harris
Thanks for the question, Daniel. So the investigations are still ongoing. In the financial statements for 2024, we've recorded an impact of CHF 10 million, which represents about CHF 9 million in the impairment to the assets which were located on the site in Louisville, and about a further CHF 1 million related to the write-off of inventory losses. So that's what we've recorded so far. And it's too early to assess any impact on the following years, because, as I say, the investigation is still ongoing into the root cause, and then the associated financial consequences related there too.

With respect to your second question on dividend, I think we've seen a consistent dividend practise at Givaudan, 24th consecutive increase in the dividend, CHF 70 per share. And I think that shows that we have continued to have a balanced view of investing in growth, balance sheet care, and also returns to shareholders. And that continues to be the balanced focus we will have going forward.

Daniel Bürki
Thank you.

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

Arben Hasanaj
Good morning, Gentlemen. I would have two questions. First, if you could update us on how far along you are with your footprint optimisation, and maybe also the savings level that you've already achieved by the end of last year, and maybe what you expect for this year. And the second question around APAC, which seems to have had a bit weaker trends towards the end of last year, if you could comment the trends that you see there also in the near term. Thank you.

Gilles Andrier
Yes, thank you. So when we say footprint optimisation, obviously it includes also a lot of portfolio optimisation, meaning streamlining some low or negative margin ingredients. And we have obviously shut down a plant in Spain, and we basically continue to look at optimising and reshuffling some of the manufacturing of ingredients that we have, essentially functional and natural ingredients that we have in Europe. We don't disclose actually the actual savings, but as you've seen, they contribute to basically the improvement that we have seen in Taste and Wellbeing, and also the forward-looking improvement that we expect also on the Taste and Wellbeing for 2025 going forward.

On Asia-Pacific there is no... Basically, we have been growing 11.4% in on a like-for-like basis. So I don't see that really as a slowdown. Always take into account that Asia-Pacific, you have about 25% to 30% which are mature markets, which include Japan, Korea, but also Oceania, Australia and so on, which were actually flat or low-single-digit growth. But when we look at China, for example, we are above a double-digit growth. When we look at the whole Southeast Asia, another double-digit growth. And what else?

Then we have also India, which has also a very nice double-digit growth. So actually, all the high growth markets where we are investing in APAC are showing great growth.

Arben Hasanaj
Thank you.

Operator
The next question comes from Georgina Fraser from Goldman Sachs. Please go ahead.

Georgina Fraser
Hi. I'm just about still morning. Thanks very much for taking my questions, Gilles and Stewart. The first one is, we've heard from a couple of other industries the implication that there might have been some pre-buying by customers at the end of 2024, ahead of a

potentially evolving tariff environment. Just wanted to get Givaudan's view, if that's something that's supported the 4Q figures.

And then my second question is, you mentioned that China was delivering double-digit growth, which seems a bit healthier than what many MNC customers have been experiencing. Is this a region where you're especially seeing outperformance from your local and regional customers? Thank you.

Gilles Andrier
Okay. So on tariffs, absolutely not. It doesn't apply for us for a number of reasons. Well, the first one is that as it relates to the US, if I take some of the words of the president, we actually make in the US all of the things that we sell in the US. So actually, you don't have anything that we make outside of the US which we do sell in the US. So actually, tariffs don't apply at all to any finished goods that we sell in the US, across the whole businesses that we do.

The only thing that could happen with tariffs, and there we don't really have any indications and so forth, would be the ingredients, some of the ingredients that we actually have to buy outside the US. You don't have, to my knowledge, patchouli and jasmine growing in the US. So basically, all those naturals which are single source in many countries around the world have to be sourced into the US. And therefore, if ever there would be some tariffs which would be applicable to those, then we would have to pass on that to our clients. But essentially, it means that absolutely not, no clients bought anything because of the tariffs coming in.

And then China. Well, China, again, I think there is a bit of misunderstanding whenever some of our clients publish figures on China. Let me give you a bit of perspective. First, to talk about luxury, because I think there is a lot of misunderstanding around luxury. So first, China as it relates to beauty is a skincare market, as it relates to beauty, and not a perfume market there.

So in fact, if I take fine fragrances as an example, fine fragrances is in a trend. Actually, fine fragrances are doing very well, not only for us with many local and regional clients, but also for large clients who actually sell fine fragrances and perfumes in China, because the starting point is very low. So we are in a penetration mode in terms of attracting new Chinese consumers and so forth for perfumes.

The second thing is basically that we have a lot of local and regional clients in China in consumer products, in Taste and Wellbeing, which you don't see anywhere because they are not published, because they are usually private or family-owned companies. And we benefit from those because we have a high degree of relationships. And we also go after the tail end with some of the e-commerce platform I just mentioned. So that means, basically, we end up being at more than 12% in China, overall, for all our businesses. So we really don't have the view of China that you can read from our large clients.

Georgina Fraser
Thank you.

Gilles Andrier
Was that the last question?

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

Nicola Tang
Hi, everyone. Thanks for taking the questions. I wanted to ask about fine fragrance, which hasn't really come up so far in the Q&A. Gilles, you referenced China there being a strong source of growth. But I was wondering if you could talk a little bit more about the pipeline and the outlook for 2025, and to what extent you think the strength that we've seen in the past couple of years has been driven by the strong market versus market share.

And then the second question, maybe sticking with fragrance, we saw last year Unilever announcing this €100 investment in building in-house fragrance capabilities. I was wondering if you're seeing any other customers doing anything similar, either on the fragrance or the flavour side. And do you see this as a competitive threat, or is it actually an opportunity to engage more with those customers? Thanks.

Gilles Andrier
Thank you, Nicola. So yes, okay, on fine fragrances, yes, it's not the second year that we are growing double digits. It's the fourth or fifth year, actually. So we are growing double digits. And that's why we end up 80% more in like-for-like, 50% more in Swiss francs. So again, I'll list a bit the converging trends which explain such a strong figure.

First, if I start overall for Givaudan, because I'm talking about Givaudan in fine, it's a combination of market growth, but also Givaudan gaining substantially market share. Now, what are the drivers in terms of the market growth? Clearly, what we said is that, yes, there is a growing interest. There is a whole cohort of new consumers, Gen Alpha, Gen Z, young consumers, who actually have basically gained, yes, I think to the surprise of everyone, of our clients, and including us, attraction into perfumes, into fine fragrances, into exploring new scents, into spending their weekend afternoons exploring and smelling things in shops and so forth, but also supported and echoed by influencers on social media and so forth.

So essentially, the way we see it is that there is clearly an increasing interest into expressing oneself with perfumes, which includes new consumers, especially in the younger generation. And again, that has been supported by the second trend, which is the whole e-commerce influencers, which in a way is a bit the consequence of the COVID where nobody could actually shop in stores and duty-free shops. So that has brought, with e-commerce and influencers, basically this whole new cohort of consumers.

The other trend which is very important in terms of market trend is the whole SAMEA region, which basically, again, it's a combination of market share gain and market growth for Givaudan. But we've added 100 million in the last two years just with SAMEA on the business of fine, which represents 10% of the total sales. So you can imagine how much that is, and with a lot of local and regional clients. So that's also another cohort of new consumers, new clients coming in that you don't see when you read basically the reports of the large fine fragrance clients. So that's another trend.

And then we talked a bit about China. Asia in fine fragrances is still quite... When we talk about Asia in fine, it's just the local clients of fine, because all the sales, all the perfumes which are being sold in China, for example, go through our large clients who buy our fragrances in Europe, because everything is manufactured in Europe for China. So what I'm talking about in Asia are all the emergence of new clients, new companies, entrepreneurs going into perfumes, going into beauty, which is also something that has emerged over the last three to four years.

So then the market share again, clearly, yes, when we look, and you know how we measure that for fine, but we also measure that across all our businesses, it's the ability to win more briefs than the others. It's a bit as simple as that. And we've seen an increase in our brief wins and pipeline in fine, but also in CP, but also in taste, which basically also explains the market share gain for fine but also the other segments. So then the question is, how sustainable is that? Well, first thing, there is no stocking up or anything on perfumes and so forth. And when we look at the retail and NPD and all of those data, it seems that there is a good momentum out there.

Then your question on Unilever investing 100 million, first, we don't know if it's OpEx, CapEx and so on, so that's a bit… The second point is really about the fact that it shows, it's actually a very good signal, that Unilever, but alongside those of many other clients, invest into fragrances. And we call that putting value into the jar, meaning better and, in a way, more expensive. And we see that with… I'm not talking Unilever there, I'm talking the whole briefs pipeline. We see an increase in terms of the value of price point on briefs, meaning that clients want to put more juice into the jar.

So this investment of Unilever, this increased interest of Unilever shows also that they are committed to fragrances. They see that as a great lever. But it's not with 100 million that you can integrate the whole fragrance that they are buying. Far from it. And this model is not new. Actually, it's not new to Unilever. It was called Quest 30 years ago, that we actually acquired in 2007, by the way. And it's also, you have some others doing this model. So let's see how it evolves. But we are very enthusiastic and very happy to see that development. So basically that, I think, answers your two questions.

Nicola Tang
Yes, it does. Thank you.

Operator
Ladies and Gentlemen, this concludes the question and answer session. I would like to pass over to Mr Gilles Andrier for any closing remarks.

Gilles Andrier
Okay. So thank you very much for your interest and your numerous questions. Let me remind you of some of the next, upcoming events. We look very much forward to welcome you on 20 March 2025 to our Annual General Meeting in Geneva.

But even more importantly, on 10th April 2025, we will publish our first quarter sales, and hopefully can welcome many of you to our spring investor conference this year, which will be back in Geneva, in Vernier, where we will have a focus on consumer products and their everyday growth opportunities. Thank you, and I wish you a great day.