Givaudan
Human by nature

Transcript

23 July 2024

2024 Half 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 star and one on their touch-tone 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. Participants are requested to use only handsets while asking a question. Anyone who has a question or a comment may press star and one at this time.

The first question is from Nicola Tang from BNP Paribas Exane. Please go ahead.

Nicola Tang
Hi, everyone. Thanks for taking the questions. And, Tom, big congratulations and wishing you the best. The first question is on the margins. I was wondering if you could just remind us of the usual half-and-half seasonality, because I think H2 margins tend to be a bit weaker than first half. Should this same seasonality apply this year or not? Are there other factors around catch-up on net pricing and self-help still coming through in the second half, which might change that H-on-H dynamic?

And specifically, in Fragrance & Beauty, I think you typically have less half-on-half margin seasonality, On the Taste & Wellbeing side, should we expect that to be the case this year? Or are there exceptional impacts driving that super strong 28% EBITDA margin in the first half?

And then maybe a second one. Perhaps you could talk a little bit about volumes. We've talked about how customers this year are really focussed on driving volume growth. I was wondering whether you think any of the H1 strength might be linked to customers stocking or buying up ahead of promotional activity. Or whether you think this is really a recovery in terms of underlying volume demand. Thank you.

Tom Hallam
Maybe, Nicola, I will take the margin first, and then I hand back to Gilles on the volume. You're absolutely right, in what we would call a normal year, we normally have a stronger margin in the first six months than we do on the full year. For a very, very simple reason, that of course there's less invoicing days in December.

If you look historically, our margins have been about 100 bips lower on the full year compared to the half year. And as I said, I think we're more in a normal year environment. There's nothing exceptional to come in the second half of the year. We had a small tailwind of around 20 million in the first six months of the year, which was really related to the improvement programme that we put in place at the beginning of last year. Just as a reminder, we had 14 million in the second half of last year and 20 million in the first six months of this year.

On the on the fragrance margin, as you say, it's really an exceptional performance. I think there's really two factors to consider. The volume growth is really significant, and that helps on the operational leverage. The second reason is, as you know in our business model, we have quite a churn in the portfolio. And particularly on the Fine Fragrance business, where the churn is higher. And this allows us to, what we call, reset the margin much more quickly on the fragrance side than we would expect on other parts of the business. That's really the reason why the margin is so strong, the operational leverage and the churn of the portfolio.

On the outlook for Fragrance & Beauty, we've talked about it in the past, and I think we're very happy with where we are on the margin on Fragrance & Beauty. We have more work to do on the Taste side. I think on the Fragrance & Beauty side, it's now more about investing in the growth opportunities. And we will continue to do that, as we've always done in the past. And with that, I'll hand it back to Gilles on the volumes.

Gilles Andrier
Nicola, thank you for your question. On the volume growth, I think, rather than trying to generalise what's happening in the first half for the whole of Givaudan.

I think what can be helpful is to split Givaudan in different paths, which behave in different ways. Meaning if you take the Fine Fragrance part, as you know, which is roughly 10% of Givaudan, this is not a business where clients stock up. This is all driven basically by growth. I think the double-digit growth that we have seen for the last four years is reflected by what our clients sell, reflected by what consumers consume. And given the fact that there was no destocking in Fine Fragrances last year, you cannot argue that there is an up-stocking or anything. The dynamics are very different.

And as you can see, the momentum we see on Givaudan with this double-digit growth still around 15%, again reflects a great performance driven by the market, but also driven by the fact that Givaudan has a very unique position where we are exposed to different areas of growth, whether on the prestige side, on the speciality side in the US, or LatAm and especially EMEA, which is growing very, very strong double digit with a lot of local and regional clients. Again, it's a healthy growth, which is very specific.

Then you have, I would say, the whole space of what I would call the things which we sell as ingredients. That includes the Fragrance Ingredients, plus Active Beauty, plus the Taste & Wellbeing ingredients which are sold as ingredients, and in a way, which are very much a business, which is not a just-in-time business, which is really following a different business model than the compounds on Fragrance and Taste. And this part is also very much driven especially by the supply chains of our clients. And I would not see them as was not impacted by any destocking last year and up-stocking this year, or whatever those types of models. And that accounts for roughly, I would say, another 10% of Givaudan.

Then you have the compounds business, both on Taste & Wellbeing and Fragrances. And there I would say that, again, we have to split between Taste & Wellbeing, where you remember, we saw a lot of destocking. Volumes were negative last year for the division. The growth that we see now over a three-year period, gets us into a normal pattern of volume growth. I would say that it's not about destocking, restocking. It's over time, you see that we are back to a more normalised growth of volumes in Taste & Wellbeing.

And then the final part, which is Consumer Products in Fragrances, which had less destocking last year. Actually, it was almost breakeven. We see a very strong market with our clients in HPC, in personal care. The growth that we have reflects a bit what our clients are seeing. That's a bit what we can say.

And the thing about the other element promotion that you mentioned and so forth, which I call the reverse of shrinkflation, two for one, and those types of promotional, we benefit a lot from that, because obviously, as opposed to shrinkflation, where if you reduce the quantities in the product, there we got impacted last year. It's the reverse of the shrinkflation where we benefit, so that's also something that is very much beneficial for us.

To finalise the answer, how much is restocking and so forth? Yes, maybe there is a bit of restocking, because our clients believe that they need obviously to grow in volumes, certainly, that has an element. But is that unhealthy? I don't think so. And also, to finish on this, don't forget that we also have half of our business, actually, more than half now, 55% of our sales are with local and regional clients. And for the vast majority who don't publish their figures, and those clients are growing very much. Even though our global clients are growing, I would say that it doesn't reflect the entire dynamics of the market, and we are growing very strongly, again, with the [unclear 00:33:16].

I hope it gives you a bit of a picture there on what's going on. But I think it's better to split the whole of Givaudan into at least three or four slices.

Nicola Tang
That's great. Thank you so much.

Operator
The next question is from Alex Sloane from Barclays. Please go ahead.

Alex Sloane
Morning, Gentlemen. Thanks for taking the questions. Two from me, please. Tom, congrats and best wishes on your retirement. I noticed Stewart, as a background, also in chairing a start-up in pet care. I wondered, could we read anything into this in terms of increased appetite from Givaudan to become a bigger player in supplying this end market? And any implications for M&A more broadly, given his background?

The second one, just in terms of the packaged food end market, volumes here continue to be quite weak, despite relatively easy comparatives from that destocking last year in terms of the end market. Do you expect improvement in market volumes in the second half on the back of increased promotion, investments by your customers? And do you think there's anything more fundamental behind the weakness in packaged food end market volumes, perhaps relating to more scratch cooking, avoidance of processed foods, or the GLP-1 weight loss drugs? Thanks.

Gilles Andrier
On the first question, pet food, as you know, it's an interesting space. We are in pets, but not in pet food, through in the Fragrance & Beauty division we take care of cat litters and

applications such as that. It's really, on the pet food side, an interesting space which is growing strongly as you know. So, yes, we could have some appetite, not necessarily to acquisitions, but it can be for innovations and basically offerings that we could make around that. I can't comment more about that.

On the packaged food, as I said, we obviously have low comparables on the volume growth, and today, we are plus 6, 7% in volumes in Taste & Wellbeing, which is very encouraging. I would say let's see, we're always publishing before our peers, before our clients, so let's see what they publish in terms of reporting on the food and beverage clients, how they do on the sales. But again, be very cautious that those publications only give a very partial view of the market, because those usually are large clients, and you can't see what the local and regional clients are doing, where we have a lot of exposure.

Givaudan exposed to packaged foods, but again, it's also exposed to anything related to healthy food, nutrition, and all of that, where those trends are very strong. And that's why we are very confident in our positioning in the Taste & Wellbeing division going forward.

Alex Sloane
Thanks very much.

Operator
The next question is from Celine Pannuti from JPM. Please go ahead.

Celine Pannuti
Good morning, and thank you for taking my question. First of all, I would like to relay, as well, my gratitude to Tom for being a great CFO and a great partner to the market. I wish you, Tom, a very good retirement. And congrats to Stewart. My first question for Gilles. I wanted to know, given what you said on your comprehensive answer to the first question, if I look at the four, five year stack on the volume side, it would mean that we should see still a strong volume growth in H2 above the mid-single digit growth that probably we see midterm for Givaudan. Would you agree with that?

And then my second question may be more for Tom. The Taste & Wellbeing margin is rather weak, even though there has been volume growth, and you mentioned some of the cost saving activities.

Could you explain exactly what's happening there and when we're going to see maybe an uptick in this margin? And also, could you help us understand the FX impact on pricing? Because the Argentine peso has been still weakening year-on-year. If I look at Q2, the weakness versus Q1, there's been a sharp deceleration. If you could explain that to us and how we should look at the full year impact on that basis. Thank you.

Gilles Andrier
Thank you, Celine, for your questions. On the first one, as you know, we don't and we can't give a precise outlook for H2, if that is your question. Obviously, we started very strongly with the first half of this year. The things I can say, because we measure them and we have a view on them, two or three things.

One is the fact that the business momentum continues as I speak. Now, it doesn't mean that it will be at the same pace of six months, because I don't know. But based on the order intake, based on the activity, based on the outlook that we have, it remains strong. The second thing I can say is that not only the bridge pipeline, but what we call the projected new wins, meaning all the new wins that we win, are substantially increasing on both divisions.

And that testifies for two things. One is the activity of our clients and their confidence in the future, because you innovate, you launch new products, you have confidence in the future. And two is the ability of Givaudan to basically win more than our fair share in terms of briefs, which is let's see how competitors are doing with the first half. But obviously, if you look at Q1, clearly we are gaining market share. We are confident that continues in the Q2. But the amount of new wins is also a good indication, good proxy. And that's what we are committed on, is to outgrow the market as well.

That's the elements. We control the elements, we measure the elements we know. Now, your comments on the four to five years back, I'm not too sure I understood your question, but it's true that if you look at the long period of time, the category is like a Swiss clock, there is a lot of regularity. Even if you take out price increases, we are always delivering, actually today more than 5%. That gives us a lot of confidence into the future. And also because of the unique position that Givaudan has.

Tom Hallam
Thank you, Gilles. And Celine, thank you for the comments and the two questions. Firstly, on the EBITDA margin for Taste, and perhaps a bit of a comparison to Fragrance & Beauty.

The first point to really mention is, and I think Gilles already highlighted, if you look on the volumes on Taste today, we've got a fantastic growth. But of course last year we had negative volumes, so we're really just back to almost a normal level in terms of capacity.

Compared to Fragrance & Beauty, where we have really a very strong growth, and that helps on the operational leverage. On the Taste side as well, even in the first six months of the year we have a small amount of price increase because we have raw material inflation, mainly on naturals. And so, there's a slight dilution on the margin, simply as we are protecting the absolute EBITDA.

Now, to your question on the outlook, and I think we've been pretty consistent on this. We are taking a number of steps, and Gilles outlined them already, in terms of the footprint. We expect the margin to improve over the next 18 months. Historically, the two divisions have had similar margins. Now, I don't think you should be putting Taste margins at where the Fragrance margin is today. But if you look over the long term, where our sweet spot is in terms of the margin, and that's typically somewhere between 22 and 24% over the long term.

On Argentina, maybe I just give you the numbers, so that it's transparent for everybody. In Q1, we had FX pricing of 3.4%. In the half year we had FX pricing of 2.9%. That implies that for Q2, the FX pricing was around 2.5%. I think what we said in the Q1 conference was if the peso stays where it is, and that's a big if, then we would expect something like 2 to 2.5% for the full year in terms of FX pricing.

Gilles Andrier
And to add on Tom's comment, that also means that we have a sequential improvement in volume growth in Q2 versus Q1.

Operator
The next question is from Daniel Buerki from ZKB. Please go ahead.

Daniel Buerki
Hello. Tom, congratulations on your great career you made at Givaudan. Now to my questions. First, on non-operating income. This is always difficult to model. It was 30 million plus. Could you elaborate a little bit on this? What can we expect for the second half and maybe also for 25?

And then regarding the optimisation of the footprint so far, you just announced that you sold a factory in Valencia. Will you announce more measures, or is this just something happening in quiet over the next 18 months? Thank you.

Tom Hallam
Thanks, Daniel, for the two questions. On the non-operating, perhaps I split between the financial expense, which is mainly interest. And for this, you can more or less take the

first six months and double it for the full year. Then on the other non-operating, as you said, it's mainly FX, so you're right, we had a 13 million gain in the first six months.

If we look at the positions that we've taken today and where we stand from a balance sheet perspective, that probably is going to be something like 45 million for the full-year income. But it depends then what's going to happen from a currency perspective over the next six months. But where we sit today, that 30 million income would be 45 million for the full year.

Then on the footprint, as you said, we mentioned one closure, actually the sale of a site. What we tend to do is we've done some silent closures. We will have probably some more public announcements over the next few months. It's a bit of a mixture, but we have a very, very clear footprint plan that we plan to execute over the next few months. And that's, as I said, what we're working on from a margin perspective today.

Daniel Buerki
Thank you.

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

Arben Hasanaj
Good morning, Gentlemen. And also from my side, best wishes to you, Tom, for your retirement. I would have two questions. The first one would be around the North American market in Taste & Wellbeing. There, I was wondering if you can provide any colour on the channels, especially retail and food service, if there are any differing trends there and what is the exposure of Givaudan in terms of those channels?

And the second one related to those improvement measures. Do you have any run rate of savings that you expect by the end of this year, and maybe also next year, if you can share anything?

Thank you.

Gilles Andrier
Thank you.

On North America, the exposure, basically, what are we doing? We are, essentially, again, acting on what we can influence and control, which is really the activity on briefs, on pipeline, and winning those projects with our clients, and winning more than our fair share. And this is really very instrumental and the only way to do better than what the market does. And we are making great progress on that with all the wide range of clients. This is very encouraging.

In terms of market, the channels you are referring to. What I see, what we hear is that there is a bit of softness on the out-of-home type of consumption, which deals with, obviously, foodservice. But as you know, anything that we flavour, when foodservice slows down the in-home, in-house packaged foods increases, one compensates the other in a way. But the amount of foodservice versus the rest is actually not minimal. But it's really the minority of what we do in the US and overall in the world. That's a bit what we can say. Still a lot of activity also around packaged food, but really about the health and wellness type of platforms.

On nutrition, yes, the whole protein, obviously, alternative proteins had slowed down in 23, but more on the animal proteins replacement, as opposed to the dairy proteins replacement, which is still very active and where we have a lot of projects. That gives you a bit of colour, quite good momentum overall, not only in the US, but around the snacks and the beverage segments of the Taste & Wellbeing division.

Tom Hallam
And just on the margin, we try and keep it simple for ourselves and for you as well. Maybe the best indicator is what we've said in terms of where we want to be on margin. We like to be at this sweet spot of somewhere between 20 to 24% on the margin. We expect to get there over the next 18 months. And, as I've mentioned quite often, that's in both divisions. We have opportunity on the Taste side, and I think we've got a strong track record of delivering on what we say. And if you look at our results, even over the last 18 months, we took some actions in the first half of last year, and we delivered the savings. And as I said, we're continuing to do that on the Taste side as we speak.

Arben Hasanaj
Thank you.

Operator
The next question is from Georgina Fraser from GS. Please go ahead.

Georgina Fraser
Hi. Thank you. Hi, Gilles, hi, Tom. Also to extend my thank you to Tom, and all the best for the next chapter. I've got two questions. The first is could you please talk about your raw material procurement strategy, highlighting if you've got any particular geographical

dependencies and where you're buying raw materials from? And if there are any measures that you're already taking, given the rising possibilities of global tariffs of goods around the world?

And then my second question is, looking at the balance sheet, would you agree we're making quite a good dent in improving your leverage position this year? Tom, you're handing over to Stewart quite a healthy looking balance sheet. If you could just talk us through how Givaudan's thinking about its capital allocation priorities in the context of delivering very strong growth. What would you see as the best usage of your balance sheet going forward? Thank you.

Gilles Andrier
Thank you. I'll take the first question. Our raw materials procurement strategy, first what you have to take into account is that we are in an industry which is highly specialised. Ourselves, we buy 15,000 different ingredients. But for any of those ingredients, you don't have a thousand different sources. Obviously, every natural, you have to source it from very specific countries, because that's basically what nature governs, in a way. And on the synthetics, obviously there is a high dependency on China, where you have a lot of suppliers, but you see a lot of diversification on the synthetic sourcing with India or even in Europe.

Because it's so specific, the way we do it is that the first criteria is not necessarily the geopolitics. It's really to make sure that we build alternative supplies, that we have backup plans, to actually make sure that not only we protect our supply chain, but we are also effective at creating a competitive environment with our suppliers. That's really what we do with the procurement strategy. It doesn't mean that we don't look at geopolitics, because we interrupt our supply chains.

We are, if you remember the whole situation, which was not driven by geopolitics, but the [unclear 00:52:28] a few years ago really put the whole industry upside down. And therefore, we had to find a lot of alternatives. We are doing that on a continuous basis, proactively building business continuity plans, alternative supply chains and so forth. And so far, I think we've been very good, protecting our clients in the first place, making sure that the service levels are not dented by any disruptions in our supply chain. And Tom, on acquisitions.

Tom Hallam
Thank you, Gilles. Georgina, thanks for the question. I hand the purse strings over to somebody like yourself, a fellow Scot, so in very, very safe hands. You're absolutely right

on the balance sheet, we've continued to de-lever, even in the first six months. It's reassuring to see the strong cash flow generation. The net debt EBITDA is 2.9 times, which is actually flat compared to December 2023. Normally, the net debt goes up because we pay the dividend, but actually, we're flat net debt June to December.

Now, in terms of capital allocation going forward, I think the first one is you've seen historically a very, very strong practice of returning cash to the shareholders with a year-on-year increase in the dividend. Then the second element is really the bolt-on acquisitions. And I think we've had a fantastic track record of the M&A. If you look at where we're focussed from an M&A perspective, three areas. The first is local and regional clients, as Gilles mentioned a couple of times. We've had fantastic growth in the first six months of the year, driven by local and regional customers. And that will continue to be an area of focus for M&A.

On the on the Fragrance & Beauty side, b.kolor is a great example of us moving more into the beauty space where we see growth opportunities. And then on the Taste side, natural ingredients, again, consumers spending more on natural ingredients, and this is a great space to be.

Then, clearly I can't comment for the long term, but if you look historically, if you go back ten, 15 years, when we de-levered the balance sheet below a certain level, at a certain point, with no M&A opportunities, we, of course, increased the dividend to shareholders.

Gilles Andrier
With this, I think we'll take the last question.

Operator
Today's last question is from Matthew Yates from Bank of America. Please go ahead.

Matthew Yates
Thanks very much for fitting me in. I think it was in response to Nicola's question earlier, you encouraged us to dive into a little bit of the sub-segmentation, so I wanted to follow up on that, on two aspects. The first was beverages with the double digit growth. Is there any thematic driver behind the strong growth in the category and areas where Givaudan is particularly well positioned to capitalise on that?

And the other part of the business was really Consumer Products within Fragrance. My numbers might be a little outdated, but I think something like 40% of that business was fabric care. Can you talk about that as a category? Are you seeing strong growth in terms of dosage levels, reformulation, or anything that would reassure you that this simply isn't just a restocking phenomenon at play? Thank you.

Gilles Andrier
On the first question on, on beverages, historically actually, it's in the DNA of Givaudan. Givaudan is very strong in beverages, that's not only our legacy, but it dates back many, many years ago. That was really the very strong positioning of Givaudan at its heart. Then we diversified with savoury and with the help of the acquisition of FIS from Nestlé plus 20 years ago. Beverage is really at the heart of Givaudan.

What does it mean? It means the knowledge that we have with our flavours, the application, but also fuelled by all the things that went on, on health and wellness, taking sugar out, sweet, but also nutrition and sports drinks and then alcohol shots that we saw in the US. Basically, it's a space where we have always been very strong, fuelled also by a very strong relationship we have with a lot of beverage clients that we have entertained and maintained for many, many years, so this is really a strong position. The fact that it's double digit has a lot to do also with the fact that the market is growing nicely in beverages. We are very well positioned in an attractive market going forward. It's roughly 30% of the whole Taste & Wellbeing.

On Consumer Products, as you can see, it's a very strong momentum. The fabric care that you mention is less than 40%, it's more one third of the Consumer Products. There Givaudan has also a very strong position around fabric care, fabric detergents, powder, liquid, fabric softeners. And there, I would say that the environment is certainly fuelled by the fact that, as we have, as our HPC clients, looking at volumes growth, understanding fully the importance of fragrance to attract consumers, basically.

And there we don't have the transparency, but we suspect that they increase the dosage level and we also see that they put more value into what we call the juice, because we see that with briefing, pricing points and so forth. There is certainly an environment today, a very positive environment around fabric care, but not only fabric, it applies also with the other segments. Where, as you want to attract consumers, that we want to fuel volumes growth. Smell and fragrance is being the leading attribute for a consumer to re-consume the same product, all our clients are putting their effort there. And that's very welcome and we see that, so there's certainly a very positive trend.

And to that I have to add technology, which applies especially on the fabric care, with two things. One is encapsulation, where Givaudan has a very leading position in encapsulation technologies, and especially biodegradable capsules, which makes the whole fragrance much more effective.

And two, something called precursors. We have at least ten precursors that we launched, new precursors, which are doing the same, seeking the same goal as an encapsulation technology. Where precursors are there to, when they cleave on fabric or even on hair, with health care applications, boost the fragrances. And this is, again, technologies that we have worked for many years and which now come fully embraced by our clients. All of those things gives us a good momentum and a very good position in this space.

Matthew Yates
Thanks so much.

Gilles Andrier
That concludes our Q&A session. Thank you very much for your interest and questions. I'd like to remind you that we look very much forward to welcoming you at our Summer Investor Conference on 28th August 24, in the traditional Widder Hotel in Zurich. This year, we'll talk in more details about our Active Beauty business. I think it's been a formidable entrepreneurial story that we have embarked ten years ago in building a great business, and now embarking into a similar journey with makeup, with the acquisition of b.kolor. Also a very interesting topic to discuss and present you at the end of August.

In the meanwhile, I wish you a very good summertime and inviting you to register for the events on our website or send an email to our investor relations team. Thank you very much.