Givaudan
Human by nature

Transcript

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2025 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 1 on their telephone. You will hear a tone to confirm that you have entered a queue. If you wish to remove yourself from the question queue, you may press star and 2. Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume from the webcast while asking a question. Anyone who has a question may press star and 1 at this time.

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

Celine Pannuti
Thank you. Good morning, everyone. First of all, Gilles, well I wanted to give you my congratulations for those impressive achievements that you showed us just now as you have led Givaudan over the past two decades. And of course, I wish you much continued success as the new role of Chair of the Company. I have not followed 21 years of Givaudan, but a few of those, and I hear you when you say CAGR is your best friend.

So my first question, on trying to understand a bit how to look at 2026 in what you said is a volatile environment, and there's been as well volatility that you guys have experienced in the second half of the year. So if I look at CAGR in volume over the past, I think, five or even ten years, it's around 3.5 to 4. Do you think that's a good proxy as we look into 2026? And how should we think about the pricing element in an environment where you mentioned limited cost inflation?

And then my second question would be on gross margin bridge. I would like to understand a bit the moving parts for 2026. There seem to have been some tariff impact in the second half that hit gross margin as well as extra investment, and I would like to understand how this will phase out in 2026 and whether there will be any offset? Thank you.

Gilles Andrier
Thank you, Celine, for your kind words and supporting Givaudan always for many years, analysing accurately our company. I'll answer your question. So yes, CAGR is your best friend. But especially, what I mean is really when we look at the quarter, you can actually look at the CAGR of the same quarter for many years and in a given year. So that's basically what I mean. It's always helpful to look at the CAGR, looking and projecting the way forward.

Now obviously, 2026, as you know, we don't commit on the number, on an actual number. We commit on the five years of the plan. What I can say though is basically looking ahead, so essentially, we have the Fragrance & Beauty, as you've seen for 2025 but also towards the end of the year, continues to be on a very good momentum.

Probably, Taste & Wellbeing will take a few months to come back, given the softness of some of the multinationals, which are our clients and so forth. Though I would like to remind again because this is a read across, which sometimes people are a bit too fast at doing, looking at the results of a multinational and reading across is what it means for Givaudan.

Today, 60% of our sales are with L&R, and nobody has any visibility on their growth because they are usually sort of companies which are not public. So that means the relative exposure to multinational is lower. So essentially, if we look at comparables on Taste & Wellbeing, they will continue to be a bit tough in the first half, but easing out in the second half, and that's true for the Group as well. There is a 2 or 3 points difference between the two halves, if you really want to dissect quarters and half.

But again, the perspective is for full year. We remain confident basically on one side to have a continued good performance on the Fragrance & Beauty and basically, good recovery on the Taste & Wellbeing on the back of lower comparables. That's maybe the way to look at and interpret my CAGR is your friend. And CAGR is your friend as long as you take three years, two years is not enough.

Then I would like also to give because that's what we usually give. It's basically the tonality on how active our plants are in terms of innovation because that's also the leading indicator on how the year is going to turn out because as you know we have a certain amount of erosion of our business every year, which is compensated by new wins and so forth.

So if we look at those, we are very — we feel very good about the amount of new wins that we have accumulated in 2025, which will roll over in 2026. So that's the first very good positive indicator on all sides of the business, two divisions.

And the inflow that we have in terms of briefs and so forth going into 2026 is also very good, which basically is a testament also to the way our clients view us, again, thanks to the strategic choices we made. So all of those things are positives going forward. So that's basically what I can say about the growth going forward. I will reiterate because maybe I was not so clear enough. When you look at the chart, when we talk about the volatility of the five years, again, this really stands out as a cycle.

And I think people don't realise that. COVID was the baseline creating a ripple effect, where that has created a lot of YO-YOs in our own growth year-on-year. And so this is probably going to normalise and reduce this volatility going forward. But as you see, the average is still 6.8%, which is again one of the best, if not the best average we have had. Then on the GPM – sorry, on the pricing, so yes, there probably would be very mild pricing given the raw materials which are quite stable.

And on the tariffs, well, it's going to depend on how it's going to evolve. But again, this is really – the tariff pricing translation in ourselves is quite minimal, below the 1%. Let's see how it effects pricing. But again, I would like to reiterate something which is sometimes again misunderstood. Pricing, which is my legacy. Pricing is not a growth strategy. It's not a growth strategy like our clients would have a growth strategy and it's not a growth strategy like some of companies selling standard or commodities ingredients when the market goes up.

Our pricing strategy is just to reflect the increased cost that we incur, whether they are raw mats, tariffs and whatever. And basically, one additional pricing is compensating one on the cost side. So 1 minus 1 equals 0. That means on the EBITDA level, it has no effect. On the margin side percent, it does because of the mechanical dilution. So I don't think we should look at pricing with such a myopic view because it doesn't drive real value growth. And then the GPM bridge, maybe Stewart?

Stewart Harris
Yes, I can take that, Celine. So maybe we – thanks for the question on the margin bridge. Maybe we back up to 2025 and then we take it forward from there. So I think the gross margin, as I mentioned, had come off about 43.5% versus 44.1%. And although we don't get gross margin information by the division, I think we have been clear that in this year, we had raw material inflation, which was more slanted towards Fragrance & Beauty than Taste & Wellbeing.

And because of inventory cycles, the raw material effect tends to come through not evenly throughout the year, so a little bit more in second half. As Gilles mentioned, we've got also tariffs coming through more consistently in second half than first. So we've got the mechanical dilution of those two effects.

And then both of us mentioned in our narrative that the margin of Fragrance & Beauty being slightly impacted by the competitive situation around some specific ingredients in the fragrance ingredients portfolio. So that's a little bit at a high level the kind of two topics, the margin bridge in 2025 and the split between H1 and H2 because I know there's been some questions about that.

Looking forward, we don't have a crystal ball particularly around tariffs. I think Gilles has mentioned on input costs, we see minimal impact and we are relatively well covered at least for the first half. So we know relatively well where the cost – the input costs are going in H1. On tariffs, we need to see, of course. And as always, we will reflect any tariff impact with continuing pricing action with our clients. But that gives you a bit of a sense for, I think, what the key building blocks are of the margin bridge and how we would see that going forward.

Celine Pannuti
And would you still expect an impact from the ingredients portfolio to last until we count that in the second half of the year?

Stewart Harris
Yes, I think that's fair to assume that from the second half, we would see a more level playing field year-over-year in relation to the fragrance ingredients effect.

Celine Pannuti
Thank you.

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

Alex Sloane
Hi, all. Thanks for taking the question. The first one on fragrance ingredients. Do you think there's any risk that sustained deflation there could spill over to your larger fragrance compounding businesses or customer negotiations elsewhere? Are you confident that the pressures can be fully contained? And I guess, do you think we're kind of near the peak of those pressures on fragrance ingredients? That would be the first one.

And the second one on Taste & Wellbeing. I appreciate you don't manage it on a quarterly basis. There were some impacts that were temporary like Mexico. But obviously, like-for-like decline in Q4, not consistent with your medium-term aspirations for the business. Just thinking about how we get back there and the pathway. I mean, is it realistic to assume a pathway back to mid-single-digit growth for this business or do you think there could be any structural challenges to any specific end markets that could prevent that recovery? Thank you.

Gilles Andrier
Okay. Thank you for your question. So yes, so again, maybe it's worth explaining the Fragrance Ingredients Business because, yes, Givaudan has a different strategy than maybe some of our peers or the ingredients industry at large. We have a long time ago, made a very conscious decision to, yes, make fragrance ingredients. We have chemical plants. So we are basically in-sourcing a number of chemical ingredients and the – which most of them come out actually of our research.

So it's a way to leverage innovation, to leverage research and to keep the IP on our ingredients and to make those ingredients so that they enrich the palette of our perfumers and then that gives a competitive advantage when you create a new compound, a new fragrance. So that's why fragrance – researching new fragrance ingredients, making them is absolutely key and essential to be competitive on the fragrance side. So that means – what does it mean? It means that by construction, we are – we don't have a fragrance ingredient business just to have a fragrance ingredient business.

It's basically because, obviously, when you find a new ingredient, you develop a new one, you have – you need to be cost-effective and that means large volumes. So at some point, whenever we have what we call a captive fragrance ingredient, we decide to sell it to the outside market and that turns into a third party sales, which becomes the FIB.

So you see it's not that we are looking to have a very large FIB business and then figure out how to use that internally. It's exactly the reverse. So that means that some of those ingredients at some point become attacked by pricing and so forth. So that's the case, one of which last year and clearly some Chinese competition, which dented a bit the performance on the FIB business, but this is not reflecting, I would say, the weakness of the portfolio because actually, we have a very large percentage of our FIB business, which are specialties, which are uniquely made and so forth.

The second reason why though – even though, despite this sort of weakness on one ingredient, we have seen a softness. Well, it's almost a bit ironic, but for me it's a good signal because those ingredients are sold to competition. So the more we gain market share on the compound side, the less we do on the fragrance ingredients. So that's one way to look at it. That's why this weakness comes from the fact that maybe some of our clients in this industry are not growing as fast.

So then back to your question on does it reflect a deflation environment? Not – no, it doesn't because we said that raw materials have become – have been stable. And therefore, it doesn't have, I would say, a read across or an effect on the compounds business where clients would ask for. So basically, that's what we can say. It's quite isolated. And again, it's a very different portfolio mix that we have vis-a-vis competitors. So that means we are less exposed to those volatile – to this volatile environment that you have in ingredients.

On Taste & Wellbeing, on the quarterly basis, essentially, again, back to the CAGR story. So actually, the average volume for Givaudan, if you take out price, is still strong over the last five years. But we can say about Taste & Wellbeing, so over the last five years, we actually grew 5.4%. So obviously, this is greater than the 4% we had from 2016 to 2020. So you see an acceleration.

Yes, there was a bit more pricing, but volume continued to grow. If you go back to your question on the quarter, yes, we don't like to have a minus 1.1% quarter 4 in Taste & Wellbeing. But again, CAGR is your best friend. We were at plus 10% in 2024. And if I even – if I look at 2023, 3 years CAGR, we're actually in the mid of 5% to 6%.

So that basically, again, CAGR is your best friend to understand Givaudan. So going forward, we remain confident on the core business on flavours. We see the strength that we have, and we remain confident that we can grow in Taste & Wellbeing. Obviously, a big reminder that it's pretty obvious. We don't have fine fragrances in Taste & Wellbeing.

So even if fine fragrances accounts for 20% of the division, but when growing at 18% every year, it has a big influence, obviously, on the average. So we don't have something called fine flavours. I think that's it with the questions.

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

Nicola Tang
Hi, everyone. I just wanted to sort of reiterate Celine's best wishes to Gilles. In terms of questions, coming back on the topic of margins, I hear your comments on pricing – or inputs and tariffs. Looking more specifically at the divisions, Taste & Wellbeing is still slightly below your sort of 22% to 25% EBITDA margin sweet spot. Do you expect to get that into the sweet spot range in 2026? And can you explain a little bit what some of the division-specific drivers are?

And then a similar question on the Fragrance & Beauty side. I think you've been increasing targeted investments. So do you expect that to step up again in 2026? And can you explain a little bit some of the moving parts on margins for that division? And then I try a bit on fine fragrance. Could you give us any more detail in terms of regional performance? And any colour in terms of your forward-looking indicators, so your briefing activity in your own pipeline for 2026? Thank you.

Gilles Andrier

Thank you, Nicola. Thank you for your kind words and questions. Okay. So basically, you want to get a bit more colour in terms of the margin evolution between the two divisions. It's true that when you look at what we showed in terms of the average by division, the difference between the two divisions has increased because over the last cycle, you have 3 points of difference between the two divisions when it was 1 point of difference in the – from 2016 to 2020.

I would say some reasons to that. Well, obviously, you have fragrance, which has grown faster than taste. So obviously, you have the operational leverage, which is probably the biggest EBITDA margin driver to explain the difference. The second point is, yes, the fine fragrance has a bit of mix effect, but let's not overstate it or overestimate it. Then I would say that in terms of evolution, what we are giving is a very clear target on the free cash flow, as you know, greater than 12%.

And because we are very nice, we also gave a sort of a sweet spot brand with – on the EBITDA margin, which is 22% to 25% EBITDA margin for the Group without giving a specific target for the two divisions. Though what I can say is that on the Taste & Wellbeing division, you can see the climbing up the mountain from 20% in 2022 to 21.7% in 2025.

So we are making progress. We are making progress, and that will continue to be. So thanks to efforts on the product portfolio margin improvement that we have, some of the ingredients that we have outside taste, on colours or on preservatives or other segments. So this is in works, and we are continuing to deploy some efforts at doing that, thanks to Antoine and his team.

I would say that efforts also on gaining efficiencies in the divisions, in operations. So I'm quite, let's say, confident and optimistic to continue the green line that you see on this chart, improving Taste & Wellbeing. We will not give a guidance for Taste & Wellbeing. But actually, the average for the last 15 years has been 21.5% more or less. So can we do better than this?

Maybe. Can we be at the level of Fragrance & Beauty? Maybe not. On the other hand, it doesn't mean that Fragrance & Beauty, we'll stand down. There is no reason for this to happen going forward. And we remain confident that we can continue on a good profitable growth for Fragrance & Beauty as well. But again, bandwidth 22% to 25%, and you remember that we always commit on things that we can deliver.

So fine fragrances, to give a bit of colour on fine fragrances. So there are many ways to look at it. Today, we broke really something I would never have expected, I said it. SAMEA for Fine is bigger than North America and LATAM combined. So first, that gives you an idea about the breadth of the portfolio in Fine that we have.

But the second element of colour, which I think is important because I've seen too many read across, again, of results of some of the lead beauty clients that we have and translated that into projection on the Fine Fragrance Business of Givaudan. Just to give you an idea, just rough numbers because I won't disclose them, but more or less, you have one third of our Fine Fragrance Business, which are driven by what we call prestige, which are really brands that you see in multinationals and the ones which are really visible and so forth. This has been growing for us mid-single digits, reflecting the market, but also gaining market share because we are doing very well with that. But that's only in a way one third.

The other one third has to do with specialty retail and direct selling, which is a business model itself that you see a lot in the USA and that you see a lot in LATAM. This part has also grown mid-single digit. The third-third, if I may say so, has to do all with local and regional clients across SAMEA, across LATAM, across Asia, plus what we call the Haute Parfumerie, the Parfumerie, the niche, where Givaudan is clearly a leader. Many of you who attend the December Fine Fragrance hosting in Kleber in Paris, you've seen some of the presentations, so you have Fragrance actually, which is growing close to 40%.

So that gives you an idea that – and that part nobody sees because no public reporting for many clients. And that's where also Givaudan is growing very strongly. So yes, maybe some of the multinational, the prices might – is slowing down. But we have the other part, which is continuing to fuel our growth. So that is your perspective on how broad we are in Fine Fragrance both from a geographic standpoint as well as a channel standpoint and as well as the client standpoint.

But I can tell you, the world is spending better and better. When you look at the whole young generation, Gen Z, Gen Alpha, multi-layering, increasing dosage levels. So that's why – and we are doing much better than competition. So that gives you a long story about fine fragrances, but worth it given the numerous questions we get on fine fragrances.

Nicola Tang
All right. Thank you very much.

Operator
Ladies and gentlemen, that concludes our Q&A session. I would now like to turn the conference call over to Gilles Andrier for any closing remarks.

Gilles Andrier
Okay. So that was our last question. Thank you. So closing remarks. Well, ladies and gentlemen, we are at the end of this results call. Before we close, allow me to take a brief personal moment because that's the only time I can do that and the last time probably. So after 21 years of engaging with you, analysts and investors, many of you since my beginnings actually, this will be my last results call as CEO.

And I really want to sincerely thank you for the many insightful discussions, the challenging questions, but which have always been an inspiration to me to think differently, to think ahead, and above all, for the trust and the support and the enjoyment and fun I had you've shown to Givaudan over the years.

It has been a privilege to share this journey with you, to see our company grow and evolve together with your continued interest and partnership. And I'm confident that under Christian's leadership, Givaudan's story will continue to be one of innovation, purpose and sustainable success, along with our more than 16,000 employees. Thank you again for your engagement and for being a part of this journey.

Stewart Harris
Thank you.