Givaudan
Human by nature

Transcript

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2025 Half 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 from the webcast while asking a question. In the interest of time, please limit yourself to two questions. Anyone who has a question may press star and one at this time. The first question comes from the line of Celine Pannuti from JPM. Please go ahead.

Celine Pannuti
Thank you very much. Good morning. My first question relates a bit to the deceleration sequentially in growth that we've seen. And clearly, there's been a bit of a deceleration in pricing. Can you please explain the different component on your pricing? I think that it's FX pricing, which has been a hit, and you are mentioning as well as lower inflation. At the same time, you're also indicating that pricing due to tariff will probably kick in, in the second half. If you could give us a bit of an idea of how much of an acceleration, if any, on the pricing front we will see in the second half of the year.

And my second question relates maybe to volume performance, which has been a bit softer, but as well with a tougher comp. Can we talk about two regions? First, on the US. Clearly, that has been a bit better sequentially.

Can you talk about what has driven that and how confident you are for the second half of the year? And likewise for Asia Pacific. You mentioned Southeast Asia facing tough comparative. Do you expect this to bounce back in the second half of the year? Thank you.

Gilles Andrier

Thank you, Celine. First, as a reminder, let's not dissect too much pricing. Pricing is not a growth strategy at Givaudan, it's something you have to deal with when you have more input costs, whether it's tariffs or raw mats. And on like, maybe other business models, it's not a growth strategy. In the first half, as I said, the whole pricing, if I add up everything, FX plus tariffs plus raw mat input costs, are really shy of 1%. It was slightly greater than 1% in the first quarter, which means slightly lower in the Q2. But again, we are talking decimal points.

The first reason, I would say, is the fact that we had a bit of carryover of pricing, especially in Taste & Wellbeing, from 2024 into 2025. The second reason, and which basically has come to the one-year anniversary in Q2, basically that's first explanation.

The second one is FX pricing, as you mentioned, is much, much smaller, especially when I think about LatAm, for example, where you see the comparable in growth for LatAm was much, much higher in the first half, first quarter, it was fourth in the range of 30 to 40%. FX pricing is the second reason.

The third reason is the fact that tariffs, as we mentioned, again, I remind everybody, everything that we sell in the US, we make in the US. The effect of tariffs are really on the ingredients that we have to buy and import into the US from all over the world. Yes, China, for some fragrant synthetic ingredients, but a lot of naturals from for many, many different markets, many, many different countries. The tariffs have, in a way, as you've seen, been delayed in the way they've been implemented, have been quite minimal for Givaudan, even though we have put everything in place already with our clients to reflect the tariffs increase. They've been minimal, close to zero in the first quarter and slightly in the second quarter. Certainly would accelerate, but yet to be seen, given the discussions which are still ongoing. But we are fully committed and fully confident, again, to reflect the tariffs impact in the second half.

Again, first, we are really slightly below and slightly up a 1% in pricing, which is considered as marginal in the history of Givaudan. Let's not go too deep into that. What's great about the first half overall is that it's almost all volume growth, which is, I think, a great result.

If we look at the two regions that you spelled out, but I'll add one or two, because I think it's pretty strong. I'll start with Europe. In Europe, we are above 8% of growth, which is quite phenomenal, because, again, against high comparables. But if you do the CAGR of Europe for the last three or four years, it's been very strong, and not just led by Fine Fragrances. Because when I look at Taste & Wellbeing, for example, has been doing quite well in Europe for the last few years.

The second one I'd like to call out before I answer your questions is SAMEA. SAMEA, again, we have an 18% growth which is fuelled not just by Fine, but by Fine plus CP plus Taste & Wellbeing. You are close to 18% growth on top of 18%. That becomes obviously one of the largest regions of Givaudan.

Then on the US, basically, I would say that in the US, we are almost flat, 0.4 or 0.5% negative in the first quarter. That means we grew close to 4% in the second quarter, which is encouraging, I would say the first reason is the fact that Taste & Wellbeing is really back on growth. We have a new leadership over there. We are back building the strong relationships with our clients, filling the pipeline or briefs, and so forth. We see a good momentum there.

But also, the other parts are doing are doing well. Nothing special, other than basically coming back to a normalised level of growth in the US.

And Asia Pacific. Asia Pacific obviously, it's not a double-digit growth that we are used to when looking at the high growth markets. We have China, which is doing well in the high single-digit growth numbers, but also Japan, which is not a high growth market. It's really about Southeast Asia. And then if you look at the two largest markets, which are really Indonesia and Thailand, basically, overall, they are facing a very high comparables. You're talking, for example, in Thailand, we had close to 30% growth in the first half of last year, and close to 15%, 16% for Indonesia. We are very confident to basically reverse this trend in the second half and come back to positive territory for the Southeast Asia. Quite confident there.

Celine Pannuti
Excellent. Thank you.

Operator
The next question comes from the line of Fulvio Cazzol from Berenberg. Please go ahead.

Fulvio Cazzol
Good morning. Thank you for taking my questions. I've got two. The first one is on Fine Fragrances, where the business grew by, I estimate, around 19% for the second quarter. Can you provide a split? It can just be ballpark figures on the growth drivers, i.e., how much was driven by market growth, how much was contributed by new business wins? And if there's been any phasing, i.e., customers buying ahead of product launches in the second half. That's my first question.

And then my second question is, you mentioned some growth investments that have contributed to the EBITDA margin contraction in Fragrance & Beauty. Can you just give us some examples of what those growth investments are? Thank you.

Gilles Andrier
Thank you. In Fine Fragrances, basically, to split the market growth versus our growth is a bit complicated. First, because we don't have the numbers of our competitors yet. But if I just look at the first quarter, but even if also I look at the full of 2024, clearly, we are growing much faster for the group, for the two divisions, but also in Fine Fragrances.

The way we indirectly measure our performance is by looking at what we call the published numbers with the NPD, or the retail figures of growth that we have in Europe. And clearly, we are outpacing what we call the sellout market. That's also another indication.

And the third indication is just look at we were at the FiFi Awards in June, and basically, we won with a great majority of all the FiFi Awards. You don't grow your sales with FiFis, but it's a good indication on how much clients love you. Basically, it's also a very strong testimony to the number of large wins that we that we win. Back to your question, the growth of Givaudan, the churn is much higher than the rest of the business. In a normalised year, you are at, let's say, 20% new business versus 15. When you grow 18%, yes, the market is growing more than normal, but the whole engine of growth has a lot to do with the new business.

And lastly, on Fine, it has a lot to do also with the growth in high growth markets, because SAMEA, to call it out, SAMEA in Fine is almost the size of LatAm plus the US, just to give you an idea. We added hundreds of millions of the last five years in SAMEA, not in an artificial way, because a lot of those clients are serving the region, but also today are exporting to the other parts of the world. This is also a phenomena which nobody sees, because those clients are local and regional clients and don't publish their numbers. But this is quite strong as well. But also, to finish on Fine, absolutely zero phasing of whatever tariffs implications. This is all going to basically our clients and reflecting the trend on the sellout.

Growth investments, first you have to put everything relative. I think we are just declining by just a dozen of basis points of EBITDA. We are at a very high level, which is quite satisfactory. On the half year to a half year basis, we went from 28.1 to 27.6, so you're talking 50 basis points. That has a lot to do with when we say investment, it's obviously not CapEx investments. Otherwise, it's not in the EBITDA, but has a lot to do with putting more, what we call in a vulgar way, boots on the ground. Because as you grow, you need, obviously, incrementally, a bit more resources to serve our clients, to serve all those local and regional clients and so forth. But it's also future investments on growth, leveraging the very strong position that we have in the market, the great welcome from our clients, who would like to work with Givaudan. This is really about OpEx investments on sales creation and development.

Fulvio Cazzol
Thank you very much. Very helpful.

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

Daniel Bürki
Hello. I have one question regarding the two thorns in your side, the collusion case on one hand the US accident you had last year. Could you give an update and maybe, looking forward, what might it cost you in the future? Thank you.

Gilles Andrier
The first question is about the investigation from the antitrust authorities. Again, no news, but essentially reminding everyone that it's a multi-jurisdiction investigation. The US, Europe, UK, Switzerland, and a few others. We basically reconfirm that we fully collaborate with the investigation. It's been going on now for a little more than two years, but we have no indication, neither on the timing or on the findings. Basically, I can't say more than just the fact that we are collaborating.

And the US accident, basically, I would hand over to Stewart.

Stewart Harris
Thanks, Daniel, for the question. I think if you remember, in 2024, we had the impairment of the facility in the US. And in the first half of 25 we have around 9 million of costs in relation to essentially the cleanup of the aftermath of the accident. As Gilles

indicated, we expect around the same in the second half, so full year about 20 million CHF for this year. We still have a small portion of self-insured exposure, which will come through in 2026. And beyond that, we should be fully covered by the insurance coverage we have for any remaining costs.

Daniel Bürki
Thank you very much.

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

Alex Sloane
Hi. Morning, all. Thanks for taking the questions. Two from me as well, please. The first one on natural colours. Clearly, a big trend in the US right now. If you can remind us of your capabilities here.

DDW, obviously historically very strong in Caramel Brown, but is it fair to assume that with Naturex and other investments, you have the full spectrum of natural colour offering across blue, red, yellow, etc.? And do you have sufficient capacity to meet the potential needs of your customers in the US over the next few years, if big food companies, which have come out with pledges, really do deliver on those pledges to remove synthetic colours? That'll be the first one.

And the second one, I appreciate you say a smaller business for you, but you called out some slower performance in Fragrance Ingredients. Should we think of that as a leading indicator at all for Fine Fragrance or Consumer Products fragrance and market demand outlook potentially slowing, or is that the wrong read? Thank you.

Gilles Andrier
On the natural colours, I would say perfect timing. But sometimes you have to be a bit lucky in life. What I'm saying is that, first, it has nothing to do with the colours that we manufacture through DDW in the US, around the brown and caramel colours. When I say perfect timing, it's because thanks to Naturex that we acquired back then, in 2017, 18, but also the further developments that we have had that I mentioned, the blue colour. We have the red and the blue, which puts us in a very unique position, because they are all naturals and ready to replace the synthetic version. This is really a good place in time. And we have the full spectrum, basically, in terms of colours to replace synthetic colours. And as you know, we don't have synthetic colours, so we're not cannibalising ourselves, just to mention.

And then on FIP, basically the Active Beauty, as you know we publish our numbers by combining Active Beauty with Fragrance Ingredients. As a matter of reference, Active Beauty is roughly 200 million overall, and Fragrance Ingredients is roughly 10% of the division. What we see is basically a double-digit growth on Active Beauty, which is really very good and very encouraging, because it's fuelled by all those new ingredients, solutions that we provide with our clients, and is a testimony to the position that we have. A leading position that we have on with highly specialised ingredients, which actually do the job, and staying away from commodities.

But FIP is slightly declining, it has nothing to do with the end market. Basically, most of our Fragrance Ingredients are sold… A good majority are sold to our competitors. That might give you an indication on the pace at which our competitors are growing in fragrances.

Alex Sloane
Thank you.

Just on the natural colours, the capacity point, if this switch really does happen, to the extent [overtalking].

Gilles Andrier
The capacity, after obviously this tragic incident, basically, we have managed right away to activate our global network of sites that we already had at DDW. And therefore, yes, we have lost a bit of sales from the US, but we are able to compensate that with other sites that we have to provide the same services. Basically, the impact on us is minimal and we are providing full service to our clients who buy those very specific colour ingredients.

Alex Sloane
Thank you.

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

Charles Eden
Hi, thanks for taking my questions. Also, two for me, but mainly clarifications, please. Firstly, on the pricing, when you talk about 3% more material inflation, also potential tariff headwinds, you're likely to need somewhere between 1.5 and 2% of pricing to fully offset that in absolute terms. Is it fair to assume you're telling us to expect over 2% pricing in

the second half of the year? Or do you think it's going to take a little bit longer to fully compensate for those two buckets of cost headwinds?

And then, again, following up on Fine Fragrances, obviously strong underlying demand, but there's also a structural tailwind from the increasing fragrance oil content in these SKUs, which you helpfully focused on in Paris last year. I wonder if you've done any analysis which shows what percentage of the SKUs you supply have already reformulated to include higher fragrance oil levels over the last, let's say, three years? Ultimately, what I'm trying to get a sense of is where we are along that penetration curve of this shift. Thank you.

Gilles Andrier
I'm not sure I captured totally your question. You're saying the pricing, if you add up the raw mats plus FX plus tariffs, amounts to 2%. Is that what you're saying, when you add up everything?

Charles Eden
I'm just saying, if you've got 3% raw material inflation on a 40%, round numbers, gross margin, then a bit of additional pricing to compensate for tariffs, you're probably looking at somewhere between 1.5 and 2% to fully compensate to keep gross profit flat for those cost headwinds.

Gilles Andrier
First, the raw mats, at worst for the full year, is 3%. That doesn't equate, if you do your math, into a substantial price increase. The second thing on tariffs, I don't know where you're picking the number from, but again, we don't give away the tariffs, but it's not as material as your ending up there, when you add everything together.

On Fine Fragrances, I would say be careful with the tailwind on concentration. Maybe we overplayed... Not overplayed, but... First, a perfume is not, quote unquote, reformulated. Existing Fine Fragrances are not reformulated, like you would see that more in the Consumer Products, where sometimes you increase the dosage level. A perfume which is already sold, you don't change the concentration. But in certain parts of the world, I'm thinking of SAMEA, for example, you see higher concentration of perfume oil for new launches. But with the churn, you need a few years until it has a material effect on the wholesale. The tailwind of concentration is not material enough to explain the 18% that we enjoy today.

Then I would say that, again, it's a combination. If you look at Fine Fragrances and when you think in the first place, penetration, it's I would say almost penetration with three reasons. The first one has to do with the Gen Z, Gen Alpha generations, which really have been a whole cohort of new consumers in all parts of the world, consuming more perfumes. That's one. And I can't tell you how sizeable it is in the whole, in our growth, but I can tell you, it's quite material.

The second reason is about geographies, where the whole SAMEA with a lot of new clients, local and regional clients, have grown tremendously. And that, another cohort of new consumers, which were not necessarily consuming a lot of Fine Fragrances. And then the third reason is basically winning more briefs than the others, which is more about market share. That's really the three core reasons, that's basically it. And I would not see that as a tailwind.

Charles Eden
Understood. Thanks. Maybe next time, I'll ask you what the average weight of fragrance [unclear 00:51:05] is of your portfolio today than a couple of years ago, but I'll leave that for next time.

Thank you.

Gilles Andrier
Thank you.

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

Matthew Yates
Hey. I'd like to ask Stewart about the cash flows, if that's okay. Minus 16 million doesn't sound like a good number as a headline. And when I look at the swing in capital investments and the delta and cash taxes, I think I'm probably only getting about a 75 million delta versus cash flow down about 200. Your statement suggests there's about 150 million swing in other non-cash items. I was hoping you could maybe dissect that a little bit more to understand some of these phasing or lumpiness about it.

And then maybe a second question for Gilles, if I can. Just back on Fragrance Ingredients. Just curious about your strategy towards this business. I'm sure there's some things you produce in-house, some things you source from third-party suppliers. When you look at changes in the supply side landscape, but also the potential tariffs coming into effect, how do you think strategically about the amount of capital that you want to have exposed to the Fragrance Ingredients part of the value chain? Thank you.

Gilles Andrier
I'll let Stewart answer the first question, maybe on free cash flow.

Stewart Harris
Thanks for the question, Matthew. You've obviously looked into the details. As we called out, certainly we've had higher investments in the first half versus where we would expect to land for the full year. Full year, we would expect to be around 3.8% of sales, something in that postcode, versus the 4.4 we have in H1. And similarly, on taxes, about two-thirds of the tax payments that we expect to make in the year we already covered in H1. And that's driven by, as you've seen, the higher tax rate that we have under the minimum tax environment.

The other topics in terms of the movements and the other non-cash items, is technical, insofar as it relates largely to FX movements on the respective lines within the balance sheet elements of working capital. We are not able to attribute those to the individual lines, but that's essentially what that means.

And the last part relates to a further movement in other current liabilities, which to a large extent, relates to the timing of the incentive plan outcomes for 2024, which were settled in the first half. That tries to unpack the core elements of the movements in the free cash flow in H1.

I think if you look at it in simple terms, we are confident, as Gilles said, of getting to your average 12% over the five-year cycle. And in very simple terms, if we generate the same amount of free cash flow in the second half of 25 as we did in 24, then we'll be fine.

Gilles Andrier
Matthew, question on FIP. I don't want to be too long, but it's an interesting topic. You're asking all the right questions. Why do we have a FIP business? You have to start by the beginning, meaning that for our perfumers, you need a great palate to fuel and to sustain their creativity. For that, you need and we have a research which is looking for new molecules, and that includes also the transition, for example, to a biotechnology route, to make some of those ingredients more sustainable.

When we talk about the innovation of Givaudan in fragrances, yes, it's about the creativity of our perfumers, the knowledge of consumer insight, and all of that, but it's also fuelled by our ability to find great molecules, but also to develop new naturals, like we do, for example, with this new investment we have in Grasse on the House of Naturals. Then you end up with new molecules which are patented and so forth, and that by definition, we are the only ones who can manufacture them. And we prefer to manufacture them, in order to protect our IP. That's why we have chemical factories, that's why we have research, and that's why we have chemical factories around Fragrance Ingredients.

And then usually, we prefer to keep them for ourselves than to sell them, because if they are clearly differentiating, we don't want to give that to our competitors, to be basically giving a competitive advantage. We prefer to keep them for a while, as long as possible, for ourselves. And also, we like and prefer to include those, what we call those captives, into compounds, into formulas, than to sell them as individual ingredients. Because the business is more sticky, because it protects more IP, and it also protects our formulations.

That's why we have research, that's why we have manufacturing, and that's why, at some point, we have the commercialisation of those ingredients, when, for example, it's less of a competitive advantage, or we need more volumes to also decrease the total cost.

That's also a way to be more cost effective by selling volumes, which combined with our own internal usage, and basically to drive the cost down. That's why the strategy of Givaudan is to internalise, but not to internalise too much.

And then when you ask your question about capital expenditures around Fragrance Ingredients, a long time ago, we used to let go on what we call commodities. When the fragrance ingredient, at some point, after 20 years, becomes a commodity, we would rather let that go and outsource that, rather than keep that in our chemical factories. But then that was, in a way, slowed down by the fact that we managed to be cost competitive by, for example, creating a joint venture in China, where we were keeping the production of those ingredients, while still being competitive. Or Pedro Escobedo, which is something that we got from [unclear 00:58:09].

We managed to slow down, basically abandoning some of those commodities. That's really what we call the sweet spot, about the capital exposure. We don't want, for example, to internalise more commodities, because if you do that, then we can have a slight cost advantage by internalising production of chemicals. The little problem is that it's market dependent. And you have a big party when the prices go up, but misery when the prices go down, because volumes go down, prices go down, the chemical plants are not fully utilised, and the margin of Givaudan is certainly not the same. That's why the sweet spot is about keeping the production of ingredients overall at the right level, so that we both keep the competitive advantage. But at the same time, are not exposed to this volatility of the market. That's a bit the story about Givaudan Fragrance Ingredients.

Matthew Yates
Thank you both.

Gilles Andrier
Last question.

Operator
Today's last question is from Arben Hasanaj from Vontobel. Please go ahead.

Arben Hasanaj
Hi, everyone. Thank you very much. My question would be if you've seen any meaningful changes in the behaviour of your customers over this second quarter with a lot of macro changes?

And related to that, it seems that many of the global customers, they expect an acceleration in the second half-year based on the growth initiatives that they have, so new product launches, innovations. Is that something that you also see based on the wins that you've had, specifically for the second half year, if there is any meaningful ramp in new product launches that could also impact you? Thank you.

Gilles Andrier
Thank you. I would say that the best read for us is really looking at what you mentioned, the pipeline of briefs that we have, and also the amount of wins that we get. The pipeline for us is very strong. It's very good across all businesses, which, again, reflects the positioning of Givaudan around its score on Taste, on Fragrances, that our clients are really welcoming, and being a leader in terms of a partner. That is really in good shape.

It's also, if I dissect a bit more, for example, I mentioned the momentum that we see in the US, really capturing all the opportunities in the US, or in the other parts of the world, or other parts of the business, like Consumer Products. And obviously, the continuous momentum we see in Fine Fragrances. We see a good momentum. And also, then how does it translate into new wins? For me, that's the most important thing that we look at, at Givaudan, at all levels. And which is basically measuring our ability to be better than competitors, basically. That's the warrantee that we will continue to outgrow. That also is in very good shape across the different segments.

It's about the global clients. But again, the global clients now account for 40%. Don't forget about the 60% of the local regions, where it's fuelled with a lot of different briefs and new wins, which is also quite encouraging.

That was the last question. I'd like to remind everyone before we close the call, we have in a little more than one month, on 27 August, in Zurich, we share our 2030 strategy, which is the next five-year cycle, until 2030. On 7 and 8 October this year, we will host the investor field trip, which will be taking place actually in the US this year. And on 14 October, we will publish our nine-month sales performance.

With that, I look forward to seeing you and hearing you again at one of the events, at each of those events. And I thank you and wish you a great day and a good end of the summer.