Firmenich Full Year 2022 Results

Presentation

Diego Chantrain

Head of Investor Relations

Good morning and welcome to the Firmenich full year 2022 earnings call for the year ended 30 June 2022. We are joined today by our CEO, Gilbert Ghostine and our CFO, Benoit Fouilland.

Before we begin, I would like to inform you that during this call, management will make forward-looking statements that reflect Firmenich's judgement and analysis only as of today. I draw your attention to the Disclaimer slide at the start of this presentation.

Our results are reported under IFRS and today's presentation also includes reference to certain non-IFRS measures. These measures are used internally by management to assess the performance of our business, make decisions on the allocation of our resources, and assess operational management. Unless otherwise stated, revenue growth comparisons are made on an organic basis at constant currency, versus the same period in the prior year. Please look at the definitions in the alternative performance measurements pages in the appendix of today's presentation.

With that, it is now my pleasure to hand over to our CEO, Gilbert Ghostine.

Gilbert Ghostine

Chief Executive Officer

Thank you, Diego. Hello, everyone, I hope that you are all well. I would like to thank you for joining us today. It is a pleasure to present to you our fiscal year 2022 results.

In today's presentation we will cover the following topics. First, I will review the key achievements and challenges of the past 12 months. Then Benoit will provide an overview of our financial performance and finally, we will open the lines for questions.

Before I start, I wanted to say that we are here today to talk about the Firmenich's results. There is no news at this point on the merger with DSM, and so for legal compliance reasons, we won't discuss it today, nor take any questions about it in the Q&A session. Once we have published the offering circular, which is expected in the fourth quarter of the calendar year, we will have something to discuss on this topic again. In the meantime, you could find all the merger related documents, including our joint Capital Markets Day with DSM, on the micro-site: creator-innovator.com.

Let me turn first to the review of the last 12 months. In our fiscal year 2022, we delivered a record set of results, despite multiple macroeconomic challenges, including global supply chain disruption, raw material shortages, and rising cost inflation. We have delivered against our ambitions and our fiscal year 2022 was a year of leadership, and excellence in execution.

Our revenue grew by a record 11%, with double-digit revenue growth across divisions. We are gaining share with our customers, by prioritising their security of supply in a challenging global environment. We have leveraged our breakthrough innovation and our strength in natural and renewable products to win with the winners.

We grew profitably, as we delivered 11% adjusted EBITDA growth, despite rising input costs.

In keeping with our commitment to a strong investment grade credit rating, we achieved a solid cash conversion ratio of 52%.

At the same time, we are proud to continue leading the industry in sustainable business.

Let me now take you through the highlights for our fiscal 2022 year. As I mentioned, we delivered record revenue growth and double-digit adjusted EBITDA growth across our business.

In Taste and Beyond, we continued the strong momentum we experienced in the first half, growing revenue by 11%, ahead of our key competitor. This is the result of our focused innovation and commercial approach with strategic customers.

In Perfumery and Ingredients, we delivered growth of 32.5% in Fine Fragrance, also outperforming the industry. Thanks to our customer intimacy, creativity and commitment to best-in-class service, we have captured the renewed consumption in this affordable luxury category.

Our Ingredients business continues its double-digit growth, up 18%, thanks to strong customer demand supported by our vertical integration and our strength in natural and renewable ingredients. In Consumer Fragrances, we recorded low single-digit growth, outperforming our competitors in the context of industry-wide softness mainly due to a high comparable basis last year and global supply chain difficulties.

As a leading player with global reach, we are positioned to capitalise on structural growth trends in both developed and emerging markets. This year, we grew across all our regions and delivered double-digit growth in the key geographies of Europe and Asia, as well as 9% growth in China and 5% growth in North America.

We are committed to deliver profitable growth and we have increased our adjusted EBITDA by 11%, which translates to an additional 10 basis points of adjusted EBITDA margin.

Firmenich has a track record of innovation driven growth, underpinned by world-class science. We focus our innovation to address the structural trends that drive industry expansion.

This year, we have delivered strong double-digit and even triple-digit growth in many of our key innovation initiatives, including sugar reduction, plant-based proteins, renewable fragrances and e-commerce channel.

Let me give you a few examples on how we have kept leading in innovation over the last 12 months.

Consumer demand for natural, sustainable and renewable products is a structural growth trend in our industry. Our leadership in natural ingredients, our strong vertical integration and our innovation in this space are key points of differentiation for our customers.

As part of our program to develop sustainable new ingredients, we launched Muguissimo. Muguissimo is a new biodegradable lily-of-the-valley ingredient, developed through green chemistry, that brings elegant and fresh natural floral notes to fragrances, highly appreciated by perfumers. In December, we launched Muguet Firgood, a 100% natural ingredient that combines our proprietary extraction technology with the vertical farming capabilities of our French partner start-up, Jungle. This innovative ingredient is a unique addition to our palette and reinforces our leadership in naturals.

In addition, to reinforce the development of our research and development strategy, we announced a new Scientific Advisory Board in May 2022. This Board, which includes leading independent scientists, helps us identify new business opportunities, by giving us world-class insights into developing fields of science, such as biotech, neuroscience, materials science, artificial intelligence, and health.

We keep accelerating our innovation in plant-based protein solutions. Last year we launched our latest set of SmartProteins innovations, accelerating the consumer diet transformation. In the rapidly growing plant-based dairy space, our solutions improve the creaminess and the mouthfeel of dairy products. In the key space of citrus, our Best-in-Class Lemon portfolio addresses the growing demand for clean label products, offering natural extract claims and organic certifications.

Leveraging our leading digital capabilities to support our creators, last year we announced Scentmate, our fragrance co-creation platform enabled by artificial intelligence to serve entrepreneurs and independent brands. We are now rolling out this platform into the growing category of Aromachology.

We continue to invest in high growth markets. In Taste and Beyond, we moved to majority equity ownership of our strategic partner ArtSci in China, in May 2022. This move will further strengthen Firmenich’s ability to serve the rapidly growing Chinese local market and extend its geographic reach across China.

In Fine Fragrance, we formed a strategic partnership with HARMAY, a leading new retail brand in China. We will work together with HARMAY to develop further the Fine Fragrance category in China, leveraging our respective capabilities to support new fragrance brands, concepts, experiences, and new business models.

In March 2022, the opening of a state-of-the-art regional hub at Dubai Science Park was an exciting milestone for our Perfumery and Ingredients and Taste and Beyond divisions. This advanced creation and sampling laboratory facility allows us to deliver high-quality and innovative ingredients for fine fragrances and consumer fragrances, as well as a variety of food and beverage flavours designed to delight consumers in this strategic region.

We take pride in being a trusted partner to our customers. The world economy is facing a challenging raw material and supply chain environment. Our industry is no exception, with inflationary pressures, raw material shortages, transportation disruption and logistics cost inflation.

We have chosen to prioritise security of supply and quality of service for our customers, to fulfil their growing demand despite these challenges. To do this, we have increased our safety inventories above our normal levels, while leveraging our vertical integration and diversifying our sources of supply.

Although this has had an impact on our free cash flow this year, we are confident it is the right choice in this environment, and we remain committed to preserving cash flow generation.

We are protecting our profitability by working with our customers to adjust our prices to account for the increase in the cost of raw materials and by focusing on a strict cost discipline.

We are proud to be leading our industry in ESG. Responsible business is a core part of our values and a source of trust and differentiation for our customers, our investors and our shareholders.

To reinforce our Company's commitment to sustainability and its governance, in March 2022 we have formally embedded ESG at the level of our Board of Directors, by creating a Governance and Sustainability Committee.

In December, we received a refreshed rating from Sustainalytics, with a score of 7.5, further improving on our already industry-leading score of last year. This not only places us as ESG leaders in our industry and the broader chemicals sector, but also in the global top 50 of nearly 15,000 companies in the world.

Firmenich is one of only two companies in the world to have received a triple-A rating from CDP, in climate, water and forests, for the fourth year in a row. This is a testament to our efforts to address environmental issues through our operations.

We also achieved a second consecutive platinum sustainability rating from EcoVadis, with an industry-leading score of 88 out of 100, which places us in the top 1% of all companies assessed worldwide.

Finally, we became one of only two companies in the world to be globally Living Wage certified by FairWage network, a first in our industry.

Let me now turn to our priorities for our fiscal year 2023.

In the coming year, we will continue to pursue profitable organic growth and market share gains, supported by breakthrough innovation in key segments, by our customer intimacy, and our strength in natural and renewable ingredients.

As raw material, transportation and energy cost inflation continues, we will continue to work with our customers to offset inflation on input costs through pricing in order to protect our profitability.

We will continue delivering breakthrough innovation, reinforcing our renewable portfolio with new proprietary fragrance and taste ingredients, as well as differentiated food solutions and we will keep leveraging our digital capabilities to accelerate our transformation.

In a challenging macro-economic context, we will continue to prioritise customer service and security of supply, while preserving healthy cash generation, in line with our commitment to a strong investment grade credit rating.

Now, I would like to hand it over to Benoit for the financial review of the past 12 months. Benoit, over to you.

Benoit Fouilland

Chief Financial Officer

Thank you, Gilbert, and good morning, everyone. It's a pleasure to give you an overview of our fiscal year 2022 results.

Firmenich delivered record revenue growth across the business, despite a challenging global environment with accelerating inflation on raw materials, transportation and energy costs as well as global supply chain disruption.

Revenue grew by 11.1% year-over-year, as we outperformed the industry on the back of improving customer demand, achieving double-digit revenue growth across both Perfumery and Ingredients and Taste and Beyond. Our Revenue benefited from positive volume, mix and pricing.

Acquisitions contributed CHF6 million, or 0.1 percentage points, to revenue growth. Foreign exchange had an unfavourable impact of negative CHF29 million or negative 0.7 percentage points, mainly due to the appreciation of the Swiss franc against key trading currencies, in particular the Euro. On a reported basis, revenue increased by 10.5% year-over-year.

Revenue grew across all geographies during 2022, continuing our strong momentum. In Europe, we grew revenue by 18.9%, driven by performance in Fine Fragrance. In India, we grew by 13.1% and we achieved 10.5% growth across the broader region of India, Middle East and Africa.

In China, we achieved 9.4% growth and in the entire North and East Asia region we delivered 10.1% growth. In North America, we delivered 5.1% growth, while Southeast Asia grew by 6.1% and Latin America by 6.2%.

This performance is testament to our global reach, the diversification of our geographic footprint and customer base as well as our focus on key high growth markets.

Let me now turn to our adjusted EBITDA, which reached CHF905 million in Fiscal Year ‘22, an increase of 10.9% year-over-year. This increase was driven by higher volume, favourable mix mainly linked to Fine Fragrance, and pricing, . Our pricing actions partly offset the increase in input costs, which accelerated in the second half of the year.

Excluding the impact of acquisitions and foreign exchange, adjusted EBITDA would have increased by 13.1%. Including the 12-month pro-forma impact of acquisitions, adjusted EBITDA would have been CHF916 million.

Adjusted EBITDA excludes the impact of CHF112 million of non-recurring expenses, mainly linked to the DSM-Firmenich merger.

Adjusted EBITDA margin, as a percentage of revenue, increased to 19.2%, up 10 basis points. Excluding the impact of acquisitions and foreign exchange, adjusted EBITDA margin would have increased by 30 basis points.

Let me now turn to the view by Division.

Looking first at Perfumery and Ingredients, revenue increased by 11.3%. This was driven by a record increase in Fine Fragrance and Ingredients, while Consumer Fragrances delivered low single-digit growth, outperforming competitors in the context of industry-wide softness.

Foreign exchange, in comparison to prior year rates, had an unfavourable impact of 1.3 percentage points on revenue growth. As a result, revenue increased by 10% year-over-year on a reported basis.

Adjusted EBITDA reached CHF588 million, up 7.0% year-over-year. Adjusted EBITDA margin as a percentage of revenue was 18.7%, a decrease of 50 basis points versus the prior year. This was driven by the unfavourable impact of foreign exchange, in addition to raw material and logistics cost inflation, partly offset by favourable product mix resulting from strong growth in Fine Fragrance and pricing. Foreign exchange, in comparison to prior year rates, had a negative impact of negative CHF25 million on adjusted EBITDA. Excluding the impact of foreign exchange, adjusted EBITDA margin would have been stable at 19.3%.

Moving now to Taste and Beyond, we delivered strong performance, with revenue growth continuing to outperform our key competitor, while also expanding profit margins. Revenue increased by 10.7% year-on-year, with double-digit revenue growth, across all business segments: Beverage, Sweet Goods and Savoury, and with our innovation portfolio and e-commerce channel.

This is the result of our strategy of innovation in the categories that are driving industry expansion, guided by our insights into consumers' evolving needs and diet transformation, as well as our focused commercial approach with partner customers.

Adjusted EBITDA reached CHF316 million, an increase of 18.8% year-over-year. This was driven by the favourable impact from volume growth, which more than offset the negative impact of raw materials and logistics cost inflation.

Adjusted EBITDA margin as a percentage of revenue was 20%, an increase of 1.2 percentage points. Foreign exchange and acquisitions had a favourable impact of CHF7 million. Excluding these impacts, adjusted EBITDA would have increased by 17.0% year-over-year.

Turning now to cash generation, free cash flow reached CHF414 million for the year. We delivered strong free cash flow generation, reaching an EBITDA to Free Cash Flow conversion ratio of 51.8%, while prioritising customer service levels and security of supply.

Free Cash Flow decreased by 19.1% year-over-year. On a comparable basis, excluding the CHF72 million positive impact of non-recurring items recorded in the prior year, free cash flow decreased by 5.9% year-over-year.

We achieved a net profit before tax of CHF480 million for the year, which was offset by the working capital impact of an additional CHF242 million change in inventory, compared to the same period last year. This is linked to our choice to protect customer service levels.

Other elements of change in working capital had a positive effect on free cash flow, as a result of our discipline in working capital management in this challenging context.

Non-cash items of CHF329 million relate primarily to depreciation and net interest.

We are committed to maintaining strong cash generation, while protecting security of supply for our customers.

And this leads me to my final slide. You can see here our leverage, using our estimate of the Standard & Poor's methodology. At the end of June 2022, our leverage ratio was 2.6x, which compares to 3.0x at the end of December 2021, and 3.2x at the end of June 2021.

This steady deleveraging is explained by the following factors.

Firstly, a decrease of CHF226 million in the value of bond debt, linked to favourable exchange fluctuations against the Euro. This also had a negative CHF38 million impact on the equity credit of the hybrid bond.

Other debt increased by CHF137 million, linked to bank loans related to M&A.

Cash on hand decreased by CHF47 million as a result of acquisitions and dividend payments.

Leases and pensions liability decreased by of CHF214 million, mainly linked to the evolution of Swiss long-term interest rates.

Finally, adjusted EBITDA increased by CHF100 million, including the 12-month pro-forma impact of acquisitions.

As we stated previously, we are fully committed to retaining a strong investment grade credit rating, as demonstrated in the continuous favourable evolution of our leverage ratio.

Furthermore, as you know, in the context of the merger announcement, Standard and Poor's has moved our debt to positive credit watch.

I will now hand back to Gilbert for a few closing remarks.

Gilbert Ghostine

Chief Executive Officer

Thank you, Benoit. Before we open for Q&A, I would like to leave you with the following key messages.

We finished fiscal '22 strongly, with double-digit revenue and adjusted EBITDA growth, despite ongoing challenges in raw materials, energy, supply chain and logistics.

We are achieving our ambitions, accelerating profitable growth, gaining share with our customers and winning with the winners through focused innovation, intimacy, and superior service. All the while, we continue to lead the industry in responsible business.

We are seeing the success of our strategy of continued investment in our business, focusing on segments with high profitable growth potential, sharpening our commercial focus and accelerating our digital transformation.

Looking ahead, although we know that we will continue to face headwinds from the raw materials and supply chain environment in the first half of the new year, we are encouraged by our industry-leading growth so far. We will strive to continue delivering organic growth and share gains, passing through cost inflation through pricing to protect profitability, while bringing more innovation to market, and balancing customer service with our commitment to deliver strong cash generation.

Thank you again for your interest in Firmenich and for your support. Benoit and I will be very happy to take your questions.

Q&A Session

Diego Chantrain

Let us start with the first question that we have received from Schroders on the webcast. What balance sheet policy do you plan post DSM merger? Which, if any, of existing Firmenich bonds will remain in place?

Benoit Fouilland

Thank you very much for the question. This is Benoit Fouilland speaking. As we've mentioned in the introduction of the call, we will not take questions about the DSM merger in this call. We will talk specifically about the performance of financial year '22. Obviously, the balance sheet policy will be decided post-closing by the new DSM-Firmenich.

Diego Chantrain

We have another question coming on the webcast from [inaudible]. (1) You mentioned market share gains, could you provide an indication of where you stand on global market shares? (2) Could you quantify raw material price inflation and the extent to which this has been passed on and what the average time lag is? This is from Generali Investments.

Gilbert Ghostine

Thank you very much for your questions. Let me start with your question around cost inflation. So far we have passed on the vast majority of the cost increase already this year. But as you know, the way our industry operates there is always a lag effect on pricing and the lag effect should be around six months. We will continue taking prices in collaboration with our customers if the raw material cost inflation will continue going up.

Regarding your question on market shares, the way we look into this one is the following. If we look into Perfumery and Ingredients, we are a global co-leader in Perfumery and Ingredients, alongside Givaudan. In the key markets like in India we are number 1, in China we are number 2, in the US we are number 2. If you look into our

Taste and Beyond business, we would be number 4 or number 5 player in the nutrition business.

Diego Chantrain

The next question we have is from [Davey]. What is your outlook for EBITDA margin for the next 12 months?

Gilbert Ghostine

I want to thank you for this question. As you know, we don’t give short term outlook. What we have done when we have announced our intention to merge with DSM on 31 May and we have reinforced the same message during our Capital Markets Day in Paris on 13 June, we have given mid-term guidance. Our mid-term guidance is maintained today and our mid-term guidance is about top line of mid-single-digit and a bottom line - an EBITDA of over 21%. We are maintaining this mid-term guidance today.

Diego Chantrain

Next question that we have on the webcast is from [Jean Feldt]. What was the volume growth?

Benoit Fouilland

If you look at the mix of our growth, you will see 11% growth that we delivered in financial year ’22. A simple way to look at it is approximately 30% of the growth was coming from price and the rest, 70%, was coming from volume and mix. Obviously, this is for the entire year. As you move towards the second part of the year the contribution of price to the overall growth has been increased.

Diego Chantrain

The next question from Exane is what is your view on customer inventory levels?

Gilbert Ghostine

This is a very good question and it will vary from customer to customer. I would say on the Fine Fragrance side customer inventory is low. I would say the same also around Consumer Fragrance. Ingredients, customer inventory might be a little bit higher, maybe 20% higher than usual, and on the Nutrition and Taste and Beyond side, this is normal level inventory.

Diego Chantrain

It seems we have no more questions. So on behalf of the Firmenich team I would like to thank you for your time this morning and obviously if you have any questions during the coming hours please do not hesitate to reach out to our IR team.

Gilbert Ghostine

Thank you very much. Have a good day and have a great summer.

Benoit Fouilland

Thank you very much.

[End]